

OFFICIAL STATEMENT DATED JUNE 28, 2016

NEW ISSUES - Book-Entry-Only

Ratings: Fitch "AAA"; Moody's "Aaa"; S&P "AAA"
See "OTHER INFORMATION-Ratings"

In the opinion of Bond Counsel, under existing law, interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes and the Tax-Exempt Bonds are not "private activity bonds." See "TAX MATTERS – TAX-EXEMPT BONDS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations. Additionally, see "THE VARIABLE RATE BONDS – Conversion of Interest Rate Modes" identifying circumstances when an opinion of nationally recognized Bond Counsel is required as a condition for an interest rate mode conversion. Interest on the Taxable Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS – TAXABLE BONDS" herein.



\$149,540,000
STATE OF TEXAS
GENERAL OBLIGATION BONDS

\$107,865,000
State of Texas
Water Financial Assistance
and Refunding Bonds,
Series 2016B

\$30,125,000
State of Texas
Water Financial Assistance
Refunding Bonds,
Series 2016C

\$11,550,000
State of Texas
Water Financial Assistance
Refunding Bonds,
Series 2016D

(Economically Distressed Areas Program) (State Participation Program)

| | | | | |
|---------------------|---------------------|---------------------|---------------------|--------------------|
| \$58,555,000 | \$30,360,000 | \$18,950,000 | \$28,815,000 | \$1,310,000 |
| Subseries | Subseries | Subseries | Subseries | Subseries |
| 2016B-1 | 2016B-2 | 2016B-3 | 2016C-1 | 2016C-2 |
| (Variable Rate) | (Taxable) | (Taxable) | (Taxable) | (Taxable) |

Dated Date: Date of Delivery

Due: August 1, as shown on pages i through vi herein

The Bonds. The State of Texas (i) Water Financial Assistance and Refunding Bonds, Series 2016B (the "Series 2016B Bonds"), including the portions of the Series 2016B Bonds designated and issued as tax-exempt bonds (the "Subseries 2016B-1 Bonds"), tax-exempt variable rate bonds (the "Subseries 2016B-2 (Variable Rate) Bonds") and taxable bonds (the "Subseries 2016B-3 (Taxable) Bonds"), (ii) Water Financial Assistance Refunding Bonds, Series 2016C (Economically Distressed Areas Program) (the "Series 2016C Bonds"), including the portions of the Series 2016C Bonds designated and issued as tax-exempt bonds (the "Subseries 2016C-1 Bonds") and taxable bonds (the "Subseries 2016C-2 (Taxable) Bonds") and (iii) Water Financial Assistance Refunding Bonds, Series 2016D (State Participation Program) (the "Series 2016D Bonds") (the Series 2016B Bonds, Series 2016C Bonds and Series 2016D Bonds being collectively referred to as the "Bonds") are general obligations of the State of Texas (the "State") and are issued by the Texas Water Development Board (the "Board") under the authority of the Constitution and laws of the State.

The Bonds are initially issued in fully-registered form only, without coupons, in denominations of \$5,000 (or any integral multiple thereof) (see "THE FIXED RATE BONDS – General Provisions" and "THE VARIABLE RATE BONDS – General Provisions" herein). No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds is payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent/registrar, to Cede & Co., which makes distribution of the amounts so paid to the beneficial owners of the Bonds (see "APPENDIX E – BOOK-ENTRY-ONLY SYSTEM" herein).

Interest. Interest on the Subseries 2016B-1 Bonds, Subseries 2016B-3 Bonds, Series 2016C Bonds and Series 2016D Bonds (collectively, the "Fixed Rate Bonds") will accrue from the Date of Delivery (as defined below) at the fixed rates of interest shown on the inside cover pages hereof and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Fixed Rate Bonds will be payable on February 1, 2017 and on each August 1 and February 1 thereafter until maturity or prior redemption.

The Subseries 2016B-2 (Variable Rate) Bonds (the "Variable Rate Bonds") are variable rate bonds, initially issued in an initial rate period of specified duration (the "Initial Rate Period"), effective the Date of Delivery and ending July 31, 2019. Upon conclusion of the Initial Rate Period, the Variable Rate Bonds will be remarketed into a Term Rate (defined herein) interest period of a to-be-determined duration or converted to a fixed rate. During the Initial Rate Period, interest on the Variable Rate Bonds will accrue from the Date of Delivery and will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable commencing on February 1, 2017 and each August 1 and February 1 thereafter. See the table appearing on page ii of this Official Statement for a description of the ending date of the Initial Rate Period, mandatory tender date, initial rate, Stepped Rate (defined herein) and CUSIP Number applicable to the Variable Rate Bonds during the Initial Rate Period.

Redemption of Fixed Rate Bonds. The Fixed Rate Bonds are subject to redemption prior to stated maturity as provided herein. See "THE FIXED RATE BONDS – Redemption Provisions."

Redemption of Variable Rate Bonds. During their Initial Rate Period, the Variable Rate Bonds are subject to optional redemption; as provided herein. See "THE VARIABLE RATE BONDS – Redemption Provisions."

Tender, Remarketing and Conversion of the Variable Rate Bonds. The Variable Rate Bonds are not subject to optional tender during the Initial Rate Period. **The Board has not entered into a standby bond purchase agreement, liquidity facility or similar agreement providing liquidity support for the Variable Rate Bonds nor is one currently contemplated to be entered into in the future.** The resolution authorizing the issuance of the Series 2016B Bonds (the "*Series 2016B Resolution*") obligates the Board to cause the Variable Rate Bonds to be converted from the Initial Rate Period to a different rate period immediately following the last day of the Initial Rate Period. The Variable Rate Bonds are subject to mandatory tender on the Conversion Date (defined herein) immediately following the end of the Initial Rate Period without right of retention by the Owner at the Purchase Price (defined herein). See "**THE VARIABLE RATE BONDS – Tender Provisions.**" **In the event that all of the Variable Rate Bonds are not successfully converted into one or more rate periods and remarketed to new purchasers on the Conversion Date for such Variable Rate Bonds, neither the Remarketing Agent nor the Board will have any obligation to purchase any of such Variable Rate Bonds tendered on such date, and the mandatory tender will be deemed to be rescinded for that date with respect to all of the Variable Rate Bonds of such subseries.** The occurrence of the foregoing will not result in an event of default under the Series 2016B Resolution or the Variable Rate Bonds. Until such time as the Board redeems or remarkets Variable Rate Bonds that have not been successfully remarketed as described above, such Variable Rate Bonds shall bear interest at the "Stepped Rate" for the duration of the Stepped Rate Period (defined herein). The Stepped Rate for the Variable Rate Bonds is a per annum rate of interest then applicable to such unremarketed Variable Rate Bonds as specified on page ii (see "**THE VARIABLE RATE BONDS – Rate Period Changes**" and "**– Tender Provisions**" herein).

All tenders of Variable Rate Bonds must be made to The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as tender agent for the Variable Rate Bonds (the "*Tender Agent*"). In the Series 2016B Resolution, the Board has covenanted to identify and enter into a contract with a remarketing agent (the "*Remarketing Agent*") for Variable Rate Bonds prior to the commencement of the remarketing period for the Variable Rate Bonds. Variable Rate Bonds tendered for purchase will be bought from the proceeds derived from the remarketing of such Variable Rate Bonds, if any; provided, however, that should the date for tender of the Variable Rate Bonds occur on an interest payment date the accrued interest portion of the Purchase Price (defined herein) will be paid by the Board.

Security. THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE OF TEXAS, AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE OF TEXAS. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Authority. The Bonds are issued pursuant to three separate resolutions adopted on June 1, 2016 (the Series 2016B Resolution, "*Series 2016C Resolution*" and "*Series 2016D Resolution*," and collectively, the "*Bond Resolutions*"), in which the Board delegated to certain designated officials the authority to establish and approve the final terms of sale of the Bonds through the execution of three separate Approval Certificates (defined herein) (the Bond Resolutions and Approval Certificates are collectively referred to herein as the "*Resolutions*"). The Bonds are being issued pursuant to the Resolutions, the Constitution and laws of the State, including particularly Article III, Sections 49-d-8, 49-d-9, 49-d-10 and 49-d-11, Texas Constitution, Subchapter L of Chapter 17 of the Texas Water Code, as amended (the "*Act*"), Chapter 1207, Texas Government Code, as amended ("*Chapter 1207*") and Chapter 1371, Texas Government Code, as amended ("*Chapter 1371*"), in order to (i) with respect to a portion of the Series 2016B Bonds, provide funds for the Financial Assistance Account for Water Assistance Projects, as defined herein, (ii) refund certain outstanding obligations of the Board as provided on "**SCHEDULE I – SCHEDULE OF REFUNDED BONDS**" (the "*Refunded Bonds*") and (iii) pay expenses arising from the issuance of the Bonds.

SEE INSIDE COVER PAGES HEREIN FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, STEPPED RATES (AS APPLICABLE), INITIAL YIELDS, CUSIP NUMBERS, MANDATORY TENDER DATES (AS APPLICABLE) AND REDEMPTION PROVISIONS FOR EACH SUBSERIES OF BONDS

The Bonds are offered for delivery when, as and if issued and accepted by the underwriters listed below (the "Underwriters"), subject to prior sale, withdrawal or modification of the offer without notice and are subject to the approval as to legality by the Attorney General of the State and the approval of certain legal matters by Bracewell LLP, Bond Counsel. Certain additional matters will be passed upon for the Board by its Disclosure Counsel, Mahomes Bolden PC, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. See "LEGAL MATTERS." It is expected that the Bonds will be available for delivery, through the facilities of DTC, on or about July 14, 2016 (the "Date of Delivery").

J.P. MORGAN

COASTAL SECURITIES, INC.

FROST BANK

GOLDMAN, SACHS & Co.

**STIFEL, NICOLAUS & COMPANY,
INCORPORATED**

\$107,865,000
STATE OF TEXAS
Water Financial Assistance
and Refunding Bonds,
Series 2016B

\$58,555,000
Subseries 2016B-1

\$53,385,000 Serial Bonds

| Maturity (August 1)⁽¹⁾⁽²⁾ | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP⁽³⁾ |
|---|----------------------------------|------------------------------|------------------------------|----------------------------|
| 2017 | 5,490,000 | 4.000 | 0.570 | 882723Y29 |
| 2018 | 5,135,000 | 5.000 | 0.670 | 882723Y37 |
| 2019 | 8,345,000 | 5.000 | 0.760 | 882723Y45 |
| 2020 | 2,345,000 | 5.000 | 0.890 | 882723Y52 |
| 2021 | 2,465,000 | 5.000 | 1.010 | 882723Y60 |
| 2022 | 2,375,000 | 5.000 | 1.130 | 882723Y78 |
| 2023 | 2,260,000 | 5.000 | 1.220 | 882723Y86 |
| 2024 | 2,130,000 | 5.000 | 1.320 | 882723Y94 |
| 2025 | 3,190,000 | 5.000 | 1.410 | 882723Z28 |
| 2026 | 4,480,000 | 5.000 | 1.510 | 882723Z36 |
| 2027 | 2,330,000 | 5.000 | 1.630 ⁽⁴⁾ | 882723Z44 |
| 2028 | 1,210,000 | 4.000 | 1.770 ⁽⁴⁾ | 882723Z51 |
| 2029 | 1,265,000 | 4.000 | 1.880 ⁽⁴⁾ | 882723Z69 |
| 2030 | 1,315,000 | 4.000 | 1.970 ⁽⁴⁾ | 882723Z77 |
| 2031 | 1,365,000 | 4.000 | 2.050 ⁽⁴⁾ | 882723Z85 |
| 2032 | 1,420,000 | 4.000 | 2.130 ⁽⁴⁾ | 882723Z93 |
| 2033 | 1,475,000 | 4.000 | 2.220 ⁽⁴⁾ | 882723ZA6 |
| 2034 | 1,530,000 | 4.000 | 2.270 ⁽⁴⁾ | 882723ZB4 |
| 2035 | 1,595,000 | 4.000 | 2.310 ⁽⁴⁾ | 882723ZC2 |
| 2036 | 1,665,000 | 4.000 | 2.350 ⁽⁴⁾ | 882723ZD0 |

\$5,170,000 Term Bonds

\$2,640,000 4.000% Term Bonds maturing August 1, 2041⁽¹⁾⁽²⁾, yield 2.450%⁽⁴⁾; CUSIP No. 882723ZF5⁽³⁾.

\$2,530,000 4.000% Term Bonds maturing August 1, 2045⁽¹⁾⁽²⁾, yield 2.490%⁽⁴⁾; CUSIP No. 882723ZE8⁽³⁾.

(Interest to accrue from the Date of Delivery)

⁽¹⁾ *Optional Redemption and Mandatory Sinking Fund Redemption.* The Subseries 2016B-1 Bonds having stated maturities on and after August 1, 2027, are subject to redemption at the option of the Board, in whole or from time to time in part, on August 1, 2026 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Subseries 2016B-1 Term Bonds are subject to mandatory sinking fund redemption. See "THE FIXED RATE BONDS – Redemption Provisions."

⁽²⁾ *Extraordinary Mandatory Redemption.* The Subseries 2016B-1 Bonds are subject to extraordinary mandatory redemption prior to maturity as described under "THE FIXED RATE BONDS – Redemption Provisions – Extraordinary Mandatory Redemption."

⁽³⁾ CUSIP[®] is a registered trademark of the American Bankers Association, CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the State, the Board, the Financial Advisor (as defined below), or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽⁴⁾ Yield calculated to the earlier of maturity or the first optional call date at par, August 1, 2026.

\$107,865,000
STATE OF TEXAS
Water Financial Assistance
and Refunding Bonds,
Series 2016B

\$30,360,000
Subseries 2016B-2
(Variable Rate)

INITIAL RATE MODE INFORMATION

| Initial Rate Period Expiration | Mandatory Tender Date | Initial Rate (%) | Initial Yield (%) | Stepped Rate(%) | CUSIP⁽¹⁾ |
|---|----------------------------------|-----------------------------|------------------------------|----------------------------|----------------------------|
| July 31, 2019 | August 1, 2019 | 2.000 | 0.950 | 6.500 | 8827232G3 |

(Interest to accrue from the Date of Delivery)

Optional Redemption and Mandatory Sinking Fund Redemption. The Subseries 2016B-2 (Variable Rate) Bonds have a stated maturity date of August 1, 2025. The Subseries 2016B-2 (Variable Rate) Bonds are subject to redemption prior to maturity, at the option of the Board, in whole or from time to time in part, on August 1, 2017, or any day thereafter at the redemption price equal to par plus accrued interest to the redemption date. The Subseries 2016B-2 (Variable Rate) Bonds bearing interest at a Stepped Rate are subject to optional redemption on any date at a redemption price equal to par plus accrued interest to the redemption date. In addition, the Subseries 2016B-2 Bonds are subject to mandatory sinking fund redemption in the amounts and at the times provided in the Series 2016B Bond Resolution and as described herein under the subcaption "**THE VARIABLE RATE BONDS – Redemption Provisions.**"

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\$107,860,000
STATE OF TEXAS
Water Financial Assistance
and Refunding Bonds,
Series 2016B

\$18,950,000
Subseries 2016B-3
(Taxable)

| Maturity (August 1)⁽¹⁾ | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP⁽²⁾ |
|--|----------------------------------|------------------------------|------------------------------|----------------------------|
| 2017 | 2,660,000 | 0.718 | 0.718 | 8827233F4 |
| 2018 | 1,965,000 | 0.863 | 0.863 | 8827233G2 |
| 2019 | 2,230,000 | 1.062 | 1.062 | 8827233H0 |
| 2020 | 2,255,000 | 1.305 | 1.305 | 8827233J6 |
| 2021 | 1,725,000 | 1.505 | 1.505 | 8827233K3 |
| 2022 | 1,750,000 | 1.737 | 1.737 | 8827233L1 |
| 2023 | 1,790,000 | 1.937 | 1.937 | 8827233M9 |
| 2024 | 1,105,000 | 2.185 | 2.185 | 8827233N7 |
| 2025 | 1,125,000 | 2.365 | 2.365 | 8827233P2 |
| 2026 | 1,160,000 | 2.465 | 2.465 | 8827233Q0 |
| 2027 | 1,185,000 | 2.645 | 2.645 | 8827233R8 |

(Interest to accrue from the Date of Delivery)

⁽¹⁾ *Optional Redemption.* The Subseries 2016B-3 (Taxable) Bonds having stated maturities on and after August 1, 2023, are subject to redemption at the option of the Board, in whole or from time to time in part, on August 1, 2022, or any day thereafter, at par value thereof plus accrued interest to the date of redemption. See "**THE FIXED RATE BONDS – Redemption Provisions.**"

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\$30,125,000
STATE OF TEXAS
Water Financial Assistance Refunding Bonds
Series 2016C
(Economically Distressed Areas Program)

\$28,815,000
Subseries 2016C-1

| Maturity (August 1)⁽¹⁾ | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP⁽²⁾ |
|--|----------------------------------|------------------------------|------------------------------|----------------------------|
| 2017 | 2,505,000 | 4.000 | 0.570 | 8827232H1 |
| 2018 | 2,615,000 | 5.000 | 0.670 | 8827232J7 |
| 2019 | 2,815,000 | 5.000 | 0.760 | 8827232K4 |
| 2020 | 5,450,000 | 5.000 | 0.890 | 8827232L2 |
| 2021 | 4,325,000 | 5.000 | 1.010 | 8827232M0 |
| 2022 | 4,240,000 | 5.000 | 1.130 | 8827232N8 |
| 2023 | 3,095,000 | 5.000 | 1.220 | 8827232P3 |
| 2024 | 2,530,000 | 5.000 | 1.320 | 8827232Q1 |
| 2025 | 1,240,000 | 5.000 | 1.410 | 8827232R9 |

(Interest to accrue from the Date of Delivery)

⁽¹⁾ *Optional Redemption.* The Subseries 2016C-1 Bonds are not subject to redemption prior to stated maturity. See "**THE FIXED RATE BONDS – Redemption Provisions.**"

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\$30,125,000
STATE OF TEXAS
Water Financial Assistance Refunding Bonds
Series 2016C
(Economically Distressed Areas Program)

\$1,310,000
Subseries 2016C-2
(Taxable)

| Maturity (August 1)⁽¹⁾ | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP⁽²⁾ |
|--|----------------------------------|------------------------------|------------------------------|----------------------------|
| 2017 | 140,000 | 0.718 | 0.718 | 8827233S6 |
| 2018 | 145,000 | 0.863 | 0.863 | 8827233T4 |
| 2019 | 150,000 | 1.062 | 1.062 | 8827233U1 |
| 2020 | 245,000 | 1.305 | 1.305 | 8827233V9 |
| 2021 | 195,000 | 1.505 | 1.505 | 8827233W7 |
| 2022 | 185,000 | 1.737 | 1.737 | 8827233X5 |
| 2023 | 140,000 | 1.967 | 1.967 | 8827233Y3 |
| 2024 | 110,000 | 2.165 | 2.165 | 8827233Z0 |

(Interest to accrue from the Date of Delivery)

⁽¹⁾ *Optional Redemption.* The Subseries 2016C-2 (Taxable) Bonds are not subject to redemption prior to stated maturity. See "THE FIXED RATE BONDS – Redemption Provisions."

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\$11,550,000
STATE OF TEXAS
Water Financial Assistance Refunding Bonds
Series 2016D
(State Participation Program)

| Maturity (August 1)⁽¹⁾ | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP⁽²⁾ |
|--|----------------------------------|------------------------------|------------------------------|----------------------------|
| 2023 | 510,000 | 5.000 | 1.220 ⁽³⁾ | 8827232S7 |
| 2024 | 540,000 | 5.000 | 1.260 ⁽³⁾ | 8827232T5 |
| 2025 | 565,000 | 5.000 | 1.300 ⁽³⁾ | 8827232U2 |
| 2026 | 600,000 | 5.000 | 1.340 ⁽³⁾ | 8827232V0 |
| 2027 | 620,000 | 5.000 | 1.390 ⁽³⁾ | 8827232W8 |
| 2028 | 660,000 | 5.000 | 1.420 ⁽³⁾ | 8827232X6 |
| 2029 | 690,000 | 5.000 | 1.440 ⁽³⁾ | 8827232Y4 |
| 2030 | 725,000 | 5.000 | 1.500 ⁽³⁾ | 8827232Z1 |
| 2031 | 1,290,000 | 5.000 | 1.550 ⁽³⁾ | 8827233A5 |
| 2032 | 1,325,000 | 5.000 | 1.600 ⁽³⁾ | 8827233B3 |
| 2033 | 1,365,000 | 5.000 | 1.650 ⁽³⁾ | 8827233C1 |
| 2034 | 1,420,000 | 5.000 | 1.700 ⁽³⁾ | 8827233D9 |
| 2035 | 1,240,000 | 5.000 | 1.740 ⁽³⁾ | 8827233E7 |

(Interest to accrue from the Date of Delivery)

⁽¹⁾ *Optional Redemption.* The Series 2016D Bonds having stated maturities on and after August 1, 2023, are subject to redemption at the option of the Board, in whole or from the time to time in part, on August 1, 2022 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "**THE FIXED RATE BONDS – Redemption Provisions.**"

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⁽³⁾ Yield calculated to first optional call date at par, August 1, 2022.

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SALE AND DISTRIBUTION OF THE BONDS

This Official Statement, which includes the cover page, maturity schedules and the Appendices attached hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Board or the Underwriters to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create the implication that there has been no change in the affairs of the Board or the State of Texas (the "State") since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and in no instance may this Official Statement be reproduced or used for any other purpose.

The Subseries 2016B-1 Bonds, Subseries 2016B-2 (Variable Rate) Bonds, Subseries 2016B-3 (Taxable) Bonds, Subseries 2016C-1 Bonds, Subseries 2016C-2 (Taxable) Bonds and Series 2016D Bonds are separate and distinct securities offered, issued and sold independently, except for use of this common Official Statement in connection with such offering and sale. While the Bonds share certain common attributes, each issue is separate from the other and each issue should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, and the rights of the holders.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED. See "**CONTINUING DISCLOSURE OF INFORMATION**" for a description of the undertakings of the Board and the Comptroller of Public Accounts of the State, respectively, to provide certain information on a continuing basis. No representation is made by the Board or the Underwriters regarding the use, presentation and interpretation of the financial information of the State or the Board made by third parties, including, without limitation, the Municipal Securities Rulemaking Board (the "*MSRB*").

NONE OF THE STATE, THE BOARD, ITS FINANCIAL ADVISOR NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("*DTC*") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY DTC.

Marketability

THE BONDS ARE BEING OFFERED FOR SALE TO THE PUBLIC AT THE PRICES SHOWN ON THE INSIDE COVER PAGES HEREOF. THE UNDERWRITERS RESERVE THE RIGHT TO LOWER SUCH INITIAL OFFERING PRICES AS THEY DEEM NECESSARY IN CONNECTION WITH THE MARKETING OF THE BONDS. THE UNDERWRITERS RESERVE THE RIGHT TO JOIN WITH DEALERS AND OTHER UNDERWRITERS IN OFFERING THE BONDS TO THE PUBLIC. THE OBLIGATION OF THE UNDERWRITERS TO ACCEPT DELIVERY OF THE BONDS IS SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THE BOND PURCHASE AGREEMENT, THE APPROVAL OF LEGAL MATTERS BY COUNSEL AND OTHER CONDITIONS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. See "**OTHER INFORMATION – Underwriting**" herein.

Securities Laws

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions. See "**LEGAL MATTERS – Registration and Qualification of Bonds for Sale**" herein.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES DESCRIBED IN THIS OFFICIAL STATEMENT OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21e OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. See "**OTHER INFORMATION – Forward Looking Statements**" herein.

References to web site addresses herein are for informational purposes only and may be in the form of hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for the purposes of, and as that term is defined in, Rule 15c2-12, as amended, of the United States Securities and Exchange Commission.

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TEXAS WATER DEVELOPMENT BOARD

| Member | Term Expiration |
|--------------------------|------------------------|
| Bech K. Bruun, Chairman | February 1, 2019 |
| Kathleen Jackson, Member | February 1, 2017 |
| Peter M. Lake, Member | February 1, 2021 |

KEY STAFF MEMBERS

| | |
|--------------|---|
| Jeff Walker | Executive Administrator |
| Cindy Demers | Chief Financial Officer and Development Fund Manager |
| Les Trobman | General Counsel |

BOND COUNSEL

Bracewell LLP
Houston, Texas

FINANCIAL ADVISOR

First Southwest, a Division of
Hilltop Securities Inc.
Austin, Dallas and San Antonio, Texas

DISCLOSURE COUNSEL

Mahomes Bolden PC
Dallas, Texas

**PAYING AGENT/REGISTRAR and
TENDER AGENT**

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

Questions regarding this Official Statement may be directed to Cindy Demers, Chief Financial Officer and Development Fund Manager, Texas Water Development Board, 1700 North Congress Avenue, Suite 610I, Austin, Texas 78701; Telephone: (512) 936-0809; Electronic Mail: cindy.demers@twdb.texas.gov.

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OFFICIAL STATEMENT

relating to

\$149,540,000

STATE OF TEXAS
GENERAL OBLIGATION BONDS

| \$107,865,000 State of Texas Water Financial Assistance and Refunding Bonds, Series 2016B | | \$30,125,000 State of Texas Water Financial Assistance Refunding Bonds, Series 2016C (Economically Distressed Areas Program) | | \$11,550,000 State of Texas Water Financial Assistance Refunding Bonds, Series 2016D (State Participation Program) |
|---|---|---|--------------------------------------|---|
| \$58,555,000 Subseries 2016B-1 | \$30,360,000 Subseries 2016B-2 (Variable Rate) | \$18,950,000 Subseries 2016B-3 (Taxable) | \$28,815,000 Subseries 2016C-1 | \$1,310,000 Subseries 2016C-2 (Taxable) |

INTRODUCTION

The general obligation bonds of the State of Texas (the "State") offered by the Texas Water Development Board (the "Board" or "TWDB") hereby, acting on behalf of the State, are the State of Texas (i) Water Financial Assistance and Refunding Bonds, Series 2016B (the "Series 2016B Bonds") including the portions of the Series 2016B Bonds designated and issued as tax-exempt bonds (the "Subseries 2016B-1 Bonds"), tax-exempt variable rate bonds (the "Subseries 2016B-2 (Variable Rate) Bonds") and taxable bonds (the "Subseries 2016B-3 (Taxable) Bonds"), (ii) Water Financial Assistance Refunding Bonds, Series 2016C (Economically Distressed Areas Program) (the "Series 2016C Bonds") including the portions of the Series 2016C Bonds designated and issued as tax-exempt bonds (the "Subseries 2016C-1 Bonds") and taxable bonds (the "Subseries 2016C-2 (Taxable) Bonds") and (iii) Water Financial Assistance Refunding Bonds, Series 2016D (State Participation Program) (the "Series 2016D Bonds") (the Series 2016B Bonds, Series 2016C Bonds, and Series 2016D Bonds being collectively referred to as the "Bonds"). The Bonds, together with other general obligation bonds heretofore issued or to be issued in the future pursuant to Article III, Sections 49-d-8 ("Section 49-d-8"), 49-d-9 ("Section 49-d-9"), 49-d-10 ("Section 49-d-10") and 49-d-11 ("Section 49-d-11") of the Texas Constitution (the "Constitution") to augment the funding of the Texas Water Development Fund II, a fund within the State Treasury ("Development Fund II"), are hereinafter referred to collectively sometimes as the "Water Assistance Bonds." The Series 2016B Bonds, together with other Water Assistance Bonds heretofore issued or to be issued in the future for the Financial Assistance Account of Development Fund II (the "Financial Assistance Account"), are hereinafter referred to sometimes as the "Financial Assistance Bonds." The Series 2016C Bonds, together with other Water Assistance Bonds heretofore issued or to be issued in the future for the Economically Distressed Areas Program Account of Development Fund II (the "EDAP Account"), are hereinafter referred to sometimes as the "EDAP Bonds." The Series 2016D Bonds, together with other Water Assistance Bonds heretofore issued or to be issued in the future for the State Participation Account of Development Fund II (the "State Participation Account"), are hereinafter referred to sometimes as the "State Participation Bonds." The debt service schedules for the Financial Assistance Bonds, EDAP Bonds and State Participation Bonds that will be outstanding upon the issuance of the Bonds is attached hereto as **APPENDIX D**.

The Subseries 2016B-1 Bonds, Subseries 2016B-2 (Variable Rate) Bonds, Subseries 2016C-1 Bonds and the Series 2016D Bonds, designated and issued as tax-exempt bonds, are hereinafter referred to sometimes as the "Tax-Exempt Bonds." See "**TAX MATTERS – TAX-EXEMPT BONDS**." The Subseries 2016B-3 (Taxable) Bonds and Subseries 2016C-2 (Taxable) Bonds, designated and issued as taxable bonds, are hereinafter referred to sometimes as the "Taxable Bonds." See "**TAX MATTERS – TAXABLE BONDS**." The Subseries 2016B-1 Bonds, Subseries 2016B-3 (Taxable) Bonds, Subseries 2016C-1 Bonds, Subseries 2016C-2 (Taxable) Bonds and the Series 2016D Bonds, designated and issued as fixed rate bonds, are hereinafter referred to sometimes as the "Fixed Rate Bonds." See "**THE FIXED RATE BONDS**." The Subseries 2016B-2 (Variable Rate) Bonds designated and issued as variable rate bonds, are hereinafter referred to sometimes as the "Variable Rate Bonds." See "**THE VARIABLE RATE BONDS**."

The Bonds are being issued pursuant to three separate resolutions adopted on June 1, 2016 (the "*Series 2016B Resolution*," the "*Series 2016C Resolution*" and the "*Series 2016D Resolution*," respectively, and the "*Bond Resolutions*" collectively) under authority of the Constitution and laws of the State, including particularly Section 49-d-8, 49-d-9, 49-d-10 and 49-d-11, Subchapter L of Chapter 17 of the Texas Water Code, as amended (the "*Act*"), Chapter 1207, Texas Government Code, as amended ("*Chapter 1207*") and Chapter 1371, Texas Government Code, as amended ("*Chapter 1371*"). The Bond Resolutions delegated to an authorized representative of the Board authority to complete the sale of the Bonds pursuant to the terms of three separate approval certificates (each an "*Approval Certificate*" and together with the Bond Resolution, the "*Resolution*") and a bond purchase agreement entered into with respect to the Bonds, (each a "*Purchase Agreement*") between the Board and the underwriters listed on the cover page hereto (the "*Underwriters*"). Capitalized terms not otherwise defined herein have the meaning given to said term in the Resolution.

THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE STATE AND THE FULL FAITH AND CREDIT OF THE STATE IS PLEDGED FOR THE FAITHFUL PERFORMANCE IN PROPER TIME AND MANNER OF EACH OFFICIAL OR OTHER ACT REQUIRED OR NECESSARY TO PROVIDE FOR PROMPT PAYMENT OF THE BONDS. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.**"

PLAN OF FINANCE

Background

Section 49-d-8 created the Development Fund II as a separate account within the State Treasury. Section 49-d-9 authorizes the Board to issue general obligation bonds in an amount not to exceed \$2 billion to augment Development Fund II. In November 2007, Section 49-d-10 was added to Article III of the Constitution, authorizing the issuance of up to \$250 million in additional general obligation bonds to augment the EDAP Account of Development Fund II. The Series 2016B Bonds are being issued as Financial Assistance Bonds pursuant to the constitutional authority provided by Sections 49-d-8, 49-d-9 and 49-d-11. The Series 2016C Bonds are being issued as EDAP Bonds pursuant to the constitutional authority provided by Section 49-d-8 and Section 49-d-10. The Series 2016D Bonds are being issued as State Participation Bonds pursuant to the constitutional authority provided by Section 49-d-8 and Section 49-d-9.

On November 8, 2011, voters approved Proposition 2, which added Section 49-d-11, and authorizes the Board to issue additional general obligation bonds for one or more accounts of Development Fund II in amounts such that the aggregate principal amount of bonds issued under Section 49-d-11 that are outstanding at any time does not exceed \$6 billion. A portion of the Series 2016B Bonds are being issued pursuant to Section 49-d-11.

For a general discussion of Development Fund II and the Bonds authorized to be issued to augment such fund see "**WATER ASSISTANCE BOND PROGRAM – Development Fund II**" and "**TABLE 1: WATER ASSISTANCE BONDS**" below.

The Bonds

A portion of the Series 2016B Bonds are being issued to provide funds for the Financial Assistance Account for Water Assistance Projects and to pay the costs of issuance of such portion of Series 2016B Bonds. A portion of the Series 2016B Bonds are being issued to refund bonds issued pursuant to the constitutional authority provided by Sections 49-d-8 and 49-d-9 as Financial Assistance Bonds and pay the costs of issuance of such portion Series 2016B Bonds. The Series 2016C Bonds are being issued to refund bonds issued pursuant to the constitutional authority provided by Sections 49-d-8 and 49-d-10 as EDAP Bonds and to pay the costs of issuance of such Series 2016C Bonds. The Series 2016D Bonds are being issued to refund bonds issued pursuant to the constitutional authority provided by Section 49-d-8 as State Participation Bonds and to pay the costs of issuance of such Series 2016D Bonds. The Series 2016B Bond Resolution authorized the issuance of the Series 2016B Bonds in a maximum aggregate principal amount of \$100,820,000 for new money projects and \$65,195,000 for refunding purposes. The Series 2016C Bond Resolution authorized the issuance of the Series 2016C Bonds in a maximum aggregate principal amount of \$35,210,000. The Series 2016D Bond Resolution authorized the issuance of the Series 2016D Bonds in a maximum aggregate principal amount of \$13,775,000. The authority to issue the Bonds under the terms of the Resolutions expires on May 31, 2017.

Payment of Refunded Bonds

The bonds described in Schedule I to this Official Statement (the "*Refunded Bonds*"), and interest due thereon, are anticipated to be paid on the date or dates described in Schedule I to this Official Statement (each a "*Redemption Date*") from funds to be deposited pursuant to the terms of an escrow agreement (the "*Escrow Agreement*") between the Board and The Bank of New York Trust Company, N.A., Dallas, Texas, the paying agent for the Refunded Bonds (the "*Bank*"). A portion of the proceeds of the sale of the Bonds, together with other lawfully available funds, if any, will be deposited with the Bank in an amount necessary, without further investment, to accomplish the discharge and final payment of the applicable series of Refunded Bonds on the Redemption Date.

Such funds will be held by the Bank for the payment of the principal of and interest on the applicable series of Refunded Bonds. See "**SCHEDULE I – SCHEDULE OF REFUNDED BONDS.**"

By the deposit of cash with the Bank pursuant to the Escrow Agreement, the Board will have entered into firm banking and financing arrangements for the discharge and final payment of the Refunded Bonds in accordance with applicable law. As a result of such firm banking and financial arrangements and in reliance on a certificate of sufficiency from the Bank verifying the sufficiency of the deposit made under the Escrow Agreement, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds held by the Bank in accordance with the Escrow Agreement.

Anticipated Issuance of Additional Bonds

Various State entities, including the Board, have issued and are authorized to issue general obligation bonds or other obligations of the State. In addition, by constitutional amendment, the voters of the State may authorize the issuance of additional general obligation bonds or other indebtedness for which the full faith, credit and taxing power of the State are pledged. See "**APPENDIX A – THE STATE OF TEXAS.**"

SOURCES AND USES OF FUNDS

Series 2016B Bonds

The proceeds from the sale of the Series 2016B Bonds will be applied approximately as follows:

| Sources | |
|--|-----------------------|
| Principal Amount | \$ 107,865,000 |
| Premium | 10,632,490 |
| Current Overmatch ⁽¹⁾ | 168,000 |
| State Appropriation Contributed ⁽²⁾ | 2,336,171 |
| Transfers from Debt Service Funds | 1,627,924 |
| Board Cash Contribution | 116,450 |
| Total | <u>\$ 122,746,035</u> |
| Uses | |
| Deposit to Water Financial Assistance Account ⁽³⁾ | \$ 55,244,400 |
| Deposit for Redemption of Refunded Bonds | 66,822,925 |
| Costs of Issuance | 294,918 |
| Underwriters' Discount | 379,053 |
| Additional Proceeds | 4,739 |
| Total | <u>\$ 122,746,035</u> |

⁽¹⁾ Represents funds previously contributed as State matching funds in connection with DWSRF Capitalization Grants (defined herein) that were determined to be in excess of the contributions then required and are available for use this year.
⁽²⁾ Represents annual appropriation made by State Legislature as a contribution toward the State's obligation to provide State matching funds for DWSRF Capitalization Grants. See "OTHER FINANCIAL ASSISTANCE PROGRAMS OF THE BOARD — Drinking Water State Revolving Fund." Such state matching funds are paid out of the Water Financial Assistance Account.
⁽³⁾ The deposit to the Water Financial Assistance Account includes \$2,504,171 consisting of Current Overmatch and State Appropriation Contributed.

Series 2016C Bonds

The proceeds from the sale of the Series 2016C Bonds will be applied approximately as follows:

| Sources | |
|--|----------------------|
| Principal Amount | \$ 30,125,000 |
| Premium | 5,243,193 |
| Transfers from Debt Service Funds | 880,250 |
| Board Cash Contribution | 8,152 |
| Total | <u>\$ 36,256,595</u> |
| Uses | |
| Deposit for Redemption of Refunded Bonds | \$ 36,090,250 |
| Costs of Issuance | 79,573 |
| Underwriters' Discount | 86,280 |
| Additional Proceeds | 492 |
| Total | <u>\$ 36,256,595</u> |

Series 2016D Bonds

The proceeds from the sale of the Series 2016D Bonds will be applied approximately as follows:

| Sources | |
|-----------------------------------|----------------------|
| Principal Amount | \$ 11,550,000 |
| Premium | 2,307,358 |
| Transfers from Debt Service Funds | 378,756 |
| Total | <u>\$ 14,236,114</u> |

| Uses | |
|--|----------------------|
| Deposit for Redemption of Refunded Bonds | \$ 14,153,756 |
| Costs of Issuance | 30,508 |
| Underwriters' Discount | 47,371 |
| Additional Proceeds | 4,479 |
| Total | <u>\$ 14,236,114</u> |

THE FIXED RATE BONDS

General Provisions

The Fixed Rate Bonds (being the Subseries 2016B-1 Bonds, Subseries 2016B-3 (Taxable) Bonds, Series 2016C Bonds and Series 2016D Bonds) will be issued only as fully registered bonds, in any integral multiple of \$5,000 within a maturity. Interest on the Fixed Rate Bonds will accrue from the Date of Delivery at the respective per annum rates for each maturity of Fixed Rate Bonds as shown on the inside cover pages hereof and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Fixed Rate Bonds will be payable on February 1, 2017, and on each August 1 and February 1 thereafter until maturity or prior redemption. The Fixed Rate Bonds mature on August 1 in the years and in the principal amounts set forth on the inside cover pages hereof.

The Board initially will issue the Fixed Rate Bonds registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described in **APPENDIX E** to this Official Statement. Beneficial ownership of the Fixed Rate Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof within a maturity. No physical delivery of the Fixed Rate Bonds will be made to the Beneficial Owners (as defined in **APPENDIX E**) thereof. Principal of and interest on the Fixed Rate Bonds will be payable to Cede & Co., which will make distributions of the payments to the participating members of DTC for subsequent remittance to the Beneficial Owners.

Payment of principal of the Fixed Rate Bonds will be made to the registered owner upon maturity or redemption prior to maturity only upon presentation and surrender of such Fixed Rate Bonds at the Designated Payment/Transfer Office of the Paying Agent/Registrar (hereinafter defined); *provided, however*, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Fixed Rate Bonds, all payments will be made as described in **APPENDIX E** to this Official Statement. See "**THE FIXED RATE BONDS – Transfer, Exchange and Registration.**" When the Fixed Rate Bonds are not in the book-entry-only system, interest on the Fixed Rate Bonds will be paid to registered owners shown on the registration books kept by the Paying Agent/Registrar at the close of business on the fifteenth calendar day of the month next preceding such interest payment date (the "*Record Date*").

In the event that any date for payment of the principal of or interest on the Fixed Rate Bonds is a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due. Notwithstanding the foregoing, during any period in which ownership of the Fixed Rate Bonds is determined only by a book-entry at a securities depository for the Fixed Rate Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the Board and the securities depository.

Redemption Provisions

Subseries 2016B-1 Bonds

Optional Redemption. The Subseries 2016B-1 Bonds having stated maturities on and after August 1, 2027, are subject to redemption at the option of the Board, in whole or from time to time in part, on August 1, 2026 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Subseries 2016B-1 Bonds maturing on August 1, 2041 and August 1, 2045 (the "*Term Bonds*") are subject to mandatory sinking fund redemption. The Term Bonds must be redeemed by the Paying Agent/Registrar in part to maturity at the redemption price of par plus interest accrued to the date of redemption, and without premium, on the date and in the principal amount as set forth in the following schedule:

\$2,640,000 Term Bonds Due on August 1, 2041

| <u>Redemption Date</u> | <u>Principal Amount (\$)</u> |
|------------------------|------------------------------|
| August 1, 2037 | 490,000 |
| August 1, 2038 | 505,000 |
| August 1, 2039 | 525,000 |
| August 1, 2040 | 550,000 |
| August 1, 2041* | 570,000 |

*Stated Maturity

\$2,530,000 Term Bonds Due on August 1, 2045

| <u>Redemption Date</u> | <u>Principal Amount (\$)</u> |
|------------------------|------------------------------|
| August 1, 2042 | 595,000 |
| August 1, 2043 | 620,000 |
| August 1, 2044 | 645,000 |
| August 1, 2045* | 670,000 |

*Stated Maturity

To the extent that Term Bonds required to be redeemed on any such redemption date have been previously purchased for cancellation or redeemed other than pursuant to a sinking fund redemption payment, each principal amount for such Term Bonds remaining outstanding shall be reduced in the manner determined by the Board by notice in the manner described under the subcaption below entitled "Notice of Redemption."

Subseries 2016B-3 (Taxable) Bonds

Optional Redemption. The Subseries 2016B-3 (Taxable) Bonds having stated maturities on and after August 1, 2023, are subject to redemption at the option of the Board, in whole or from time to time in part, on August 1, 2022 or any date thereafter, at par value thereof plus accrued interest to the date of redemption.

Subseries 2016C-1 Bonds

Optional Redemption. The Subseries 2016C-1 Bonds are not subject to optional redemption prior to stated maturity.

Subseries 2016C-2 Taxable Bonds

Optional Redemption. The Subseries 2016C-2 Bonds are not subject to optional redemption prior to stated maturity.

Subseries 2016D Bonds

Optional Redemption. The Subseries 2016D Bonds having stated maturities on and after August 1, 2023, are subject to redemption at the option of the Board, in whole or from time to time in part, on August 1, 2022 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

Selection of Tax-Exempt Fixed Rate Bonds to be Redeemed

If fewer than all of the Subseries 2016B-1 Bonds and Series 2016D Bonds (the "*Tax-Exempt Fixed Rate Bonds*") of a particular series are called for redemption, the maturities (or mandatory sinking fund redemption amounts within a maturity) to be redeemed will be selected by the Board, and such Tax-Exempt Fixed Rate Bonds to be redeemed within any one maturity will be selected by the Paying Agent/Registrar by lot (or in such other manner as the Paying Agent/Registrar may determine) in integral multiples of \$5,000; *provided, however*, that during any period in which ownership of such Tax-Exempt Fixed Rate Bonds to be redeemed is determined only by a book-entry at DTC, or a successor securities depository, if fewer than all of such Tax-Exempt Fixed Rate Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Tax-Exempt Fixed Rate Bonds of such maturity and bearing such interest rate will be selected in accordance with the arrangements between the Board and DTC or successor securities depository.

Selection of Taxable Fixed Rate Bonds to be Redeemed

If the Subseries 2016B-3 (Taxable) Bonds and Subseries 2016C-2 (Taxable) Bonds (the "*Taxable Fixed Rate Bonds*") are no longer registered to DTC or its nominee, any redemption of less than all of a maturity of the Taxable Fixed Rate Bonds of a particular subseries shall be effected by the Paying Agent/Registrar among owners on a pro-rata basis subject to minimum authorized denominations. The particular Taxable Fixed Rate Bonds or portions thereof to be redeemed shall be determined by the Paying Agent/Registrar, using such method as it shall deem fair and appropriate. If the Taxable Fixed Rate Bonds of a particular subseries are registered in book-entry only form and so long as DTC, or a successor securities depository, is the sole registered owner of such Taxable Fixed Rate Bonds and if less than all of the Taxable Fixed Rate Bonds of a maturity are called for prior redemption, the particular Taxable Fixed Rate Bonds or portions thereof to be redeemed shall be selected on a "*Pro Rata Pass-Through Distribution of Principal*" basis in accordance with DTC procedures. However, so long as the Taxable Fixed Rate Bonds of a particular subseries are registered in book-entry form, the selection for redemption of such Taxable Fixed Rate Bonds shall be made in accordance with the operational arrangements of DTC then in effect. It is the Board's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Board and the Beneficial Owners be made on a "*Pro Rata Pass-Through Distribution of Principal*" basis as described above. However, the Board can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Taxable Fixed Rate Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the Taxable Fixed Rate Bonds will be selected for redemption in accordance with DTC procedures by lot. **The Board can provide no assurance that DTC, its participants or any other intermediaries, will allocate redemptions of the Taxable Fixed Rate Bonds of a particular maturity among the Beneficial Owners on such a proportional basis.**

Extraordinary Mandatory Redemption

General. Section 149(f) of the Internal Revenue Code of 1986 (the "*Code*") imposes certain requirements on bonds issued by state and local governments for pooled financing programs, such as the Subseries 2016B-1 Bonds, in order for the interest to be and remain exempt from federal income taxation. One such requirement mandates the redemption of bonds in circumstances in which the bond proceeds are not used to make loans within certain prescribed periods. In particular, section 149(f) of the Code requires the following: the issuer (i) must reasonably expect that, within the one-year period beginning on the date of issue, at least 30 percent of the net proceeds of the issue will be used directly or indirectly to make loans (the "*One-Year Computation Period*"); and (ii) must redeem outstanding bonds within 90 days after the end of such one-year period to the extent of, and in an amount equal to the unused proceeds, *i.e.*, the difference between the amount actually used and an amount equal to 30 percent of the net proceeds of the issue; and the issuer (i) must reasonably expect that within the three-year period beginning on the date of issue, at least 95 percent of the net proceeds of the issue will be used directly or indirectly to make loans (the "*Three-Year Computation Period*"); and (ii) must redeem outstanding bonds within 90 days after the end of such three-year period to the extent of, and in an amount equal to the unused proceeds, *i.e.*, the difference between the amount actually used and an amount equal to 95 percent of the net proceeds of the issue.

At the date of issuance of the Subseries 2016B-1 Bonds, a portion of the Subseries 2016B-1 Bond proceeds will be held by the Board and applied from time to time after the issuance of the Subseries 2016B-1 Bonds to fund loans for Financial Assistance Projects. See "**SOURCES AND USES OF FUNDS.**" The Board reasonably expects to expend more than 30 percent and 95 percent of such proceeds, during the one-year and three-year periods, respectively. To comply with the foregoing requirement in the event these expectations are not achieved by the Board, the Subseries 2016B-1 Bonds are subject to extraordinary mandatory redemption at the end of the one-year and three-year periods as required by section 149(f) of the Code. To the extent proceeds of the Subseries 2016B-1 Bonds are held by the Board to fund loans and are not expended within such one-year or three-year periods, any such unexpended proceeds will be used to redeem the Tax-Exempt Fixed Rate Bonds as further described below. In accordance with section 149(f)(7) of the Code, only the portion of the proceeds of the Tax-Exempt Bonds that is reasonably expected, as of the issue date of the Tax-Exempt Bonds, to be used to originate loans to political subdivisions is subject to the redemption requirements set forth in section 149(f) of the Code.

Previously Issued Pooled Financing Bonds. The State of Texas Water Financial Assistance Bonds described below (collectively, the "*Pooled Financing Bonds*") were issued subject to the requirements described in the previous paragraph.

| <u>Bond Series</u> | <u>Par Amount</u> | <u>Delivery Date</u> | <u>Attainment of 1-year/30% requirement</u> | <u>Attainment of 3-year/95% requirement</u> |
|---|-------------------|----------------------|---|---|
| 2008A (Water Infrastructure Fund) | \$112,920,000 | 05/22/08 | 07/24/08 | 03/30/09 |
| 2009A (Water Infrastructure Fund) | \$144,995,000 | 03/10/09 | 03/30/09 | 04/29/09 |
| 2009B (Water Infrastructure Fund) | \$157,240,000 | 05/28/09 | 09/22/09 | 01/15/10 |
| 2009C-1 | \$225,385,000 | 06/30/09 | 07/06/09 | 03/24/11 |
| 2009E (Water Infrastructure Fund) | \$101,400,000 | 12/15/09 | 12/29/09 | 10/14/10 |
| 2009F (Economically Distressed Areas Program) | \$24,540,000 | 12/15/09 | 12/29/09 | 01/11/11 |
| 2010B (Water Infrastructure Fund) | \$143,225,000 | 05/11/10 | 06/22/10 | 12/02/10 |
| 2010C (State Participation Program) | \$42,280,000 | 05/11/10 | 05/28/10 | 05/28/10 |
| 2011A (Water Infrastructure Fund) | \$129,540,000 | 06/14/11 | 08/23/11 | 08/23/11 |
| 2011B | \$92,255,000 | 10/04/11 | 12/14/11 | 06/08/12 |
| 2012A (Water Infrastructure Fund) | \$39,930,000 | 02/07/12 | 03/29/12 | 04/04/12 |
| 2012B (Economically Distressed Areas Program) | \$14,955,000 | 02/07/12 | 09/11/12 | 11/01/12 |
| 2012C | \$149,645,000 | 04/10/12 | 06/08/12 | 06/08/12 |
| 2012F (Economically Distressed Areas Program) | \$29,385,000 | 09/05/12 | 11/01/12 | 03/05/13 |
| 2012G | \$156,065,000 | 10/02/12 | 11/21/12 | 11/21/12 |
| 2013A (Water Infrastructure Fund) | \$42,470,000 | 02/12/13 | 05/07/13 | 05/07/13 |
| 2013B | \$56,515,000 | 08/01/13 | 09/25/13 | 12/18/14 |
| 2015E (Economically Distressed Areas Program) | \$43,715,000 | 06/18/15 | 06/26/15 | 10/28/15 |
| 2015F | \$37,790,000 | 06/18/15 | 06/26/15 | 10/28/15 |
| 2016A (Economically Distressed Areas Program) | \$45,735,000 | 04/19/16 | | |

As described in the foregoing table, all of the proceeds of the Pooled Financing Bonds have been used to make loans prior to the expiration of the periods prescribed by section 149(f) of the Code. The information provided regarding the previously issued Pooled Financing Bonds is provided as a reference and should not be used to project future performance by the Board with regard to the Bonds. Results may differ in connection with the use of proceeds of the Bonds.

Extraordinary Mandatory Redemption. The Subseries 2016B-1 Bonds maturing on and after August 1, 2018, are subject to extraordinary mandatory redemption prior to their scheduled maturities on September 19, 2017 (the "*One-Year Extraordinary Mandatory Redemption*"), in an amount equal to the Computation Amount (as hereinafter defined) applicable to the One-Year Computation Period for the Subseries 2016B-1 Bonds, plus accrued interest to the date of such extraordinary redemption at the redemption prices set forth below (approximately 102% of the accreted value or amortized issue price for each maturity of the Subseries 2016B-1 Bonds), expressed as percentages of the principal amount of each maturity of the Bonds so redeemed. The Subseries 2016B-1 Bonds maturing on and after August 1, 2020, are subject to extraordinary mandatory redemption prior to their scheduled maturities on, September 19, 2019 (the "*Three-Year Extraordinary Mandatory Redemption*"), in an amount equal to the Computation Amount applicable to the Three-Year Computation Period for the Subseries 2016B-1 Bonds, plus accrued interest to the date of such extraordinary redemption at the redemption prices set forth below (approximately 102% of the accreted value or amortized issue price for each maturity of the Subseries 2016B-1 Bonds), expressed as percentages of the principal amount of each maturity of the Subseries 2016B-1 Bonds so redeemed.

| <u>Maturity (August 1)</u> | <u>Extraordinary Mandatory Redemption Price (%)</u> | | <u>CUSIP</u> |
|----------------------------|---|------------------------------|--------------|
| | <u>On September 19, 2017</u> | <u>On September 19, 2019</u> | |
| 2017 | — | — | — |
| 2018 | 105.809 | — | 882723Y37 |
| 2019 | 110.000 | — | 882723Y45 |
| 2020 | 113.838 | 105.610 | 882723Y52 |
| 2021 | 117.394 | 109.505 | 882723Y60 |
| 2022 | 120.638 | 113.102 | 882723Y78 |
| 2023 | 123.763 | 116.517 | 882723Y86 |
| 2024 | 126.562 | 119.635 | 882723Y94 |
| 2025 | 129.173 | 122.547 | 882723Z28 |
| 2026 | 131.436 | 125.135 | 882723Z36 |
| 2027 | 121.880 | 117.642 | 882723Z44 |
| 2028 | 120.587 | 116.644 | 882723Z51 |
| 2029 | 119.583 | 115.867 | 882723Z69 |
| 2030 | 118.768 | 115.236 | 882723Z77 |
| 2031 | 118.049 | 114.678 | 882723Z85 |
| 2032 | 117.335 | 114.123 | 882723Z93 |
| 2033 | 116.537 | 113.502 | 882723Z2A6 |
| 2034 | 116.097 | 113.159 | 882723Z2B4 |
| 2035 | 115.747 | 112.885 | 882723Z2C2 |
| 2036 | 115.397 | 112.612 | 882723Z2D0 |
| 2041 ⁽¹⁾ | 114.529 | 111.934 | 882723Z2F5 |
| 2045 ⁽¹⁾ | 114.183 | 111.663 | 882723Z2E8 |

⁽¹⁾Term Bonds.

The Series 2016B Resolution defines "*Computation Amount*" as surplus proceeds (rounded to the next higher \$5,000 denomination) equal to the remainder of (A) thirty percent (30%) of the net proceeds less proceeds of the Subseries 2016B-1 Bonds of a particular series directly or indirectly used to make loans to political subdivisions as of the last day of the One-Year Computation Period (but not less than zero) or (B) ninety-five percent (95%) of the net proceeds less the proceeds of the Subseries 2016B-1 Bonds directly or indirectly used to make loans to political subdivisions as of the last day of the Three-Year Computation Period (but not less than zero).

Following the earlier of (i) the 90th day after the Three-Year Computation Period for the Subseries 2016B-1 Bonds and (ii) the date on which 95 percent of the proceeds of the Subseries 2016B-1 Bonds of a particular series have been used to make loans, if such date occurs prior to the end of the Three-Year Computation Period for the particular series of Subseries 2016B-1 Bonds, such series of Subseries 2016B-1 Bonds shall not be subject to extraordinary redemption.

The foregoing notwithstanding, the Subseries 2016B-1 Bonds of a particular series are not subject to such extraordinary mandatory redemption if the Board obtains an opinion of nationally-recognized bond counsel to the effect that, if the Board does not cause the extraordinary mandatory redemption to occur, it will not adversely affect the excludability of interest on such Subseries 2016B-1 Bonds from gross income for federal income tax purposes.

For purposes of the One-Year Extraordinary Mandatory Redemption and the Three-Year Extraordinary Mandatory Redemption, as the case may be, the Subseries 2016B-1 Bonds that are subject to such redemption will be selected on a "Pro Rata Basis" (defined below); provided, that if any amount required to be redeemed remains after such selection, such remaining amount will be applied to the redemption of \$5,000 principal amount of each maturity of the Subseries 2016B-1 Bonds of a particular series in inverse order of maturity. The term "*Pro Rata Basis*" means that the principal amount of a particular maturity will be determined by multiplying the Computation Amount by the ratio which the principal amount of Subseries 2016B-1 Bonds of such maturity then outstanding bears to the aggregate principal amount of Subseries 2016B-1 Bonds of such series then outstanding and subject to redemption.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption, (a) a written notice of such redemption will be given to the registered owner of each Fixed Rate Bond, or portion thereof, that is being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such registered owner at such owner's address shown on the registration books of the Paying Agent/Registrar. Notice of such redemption may (but will not as a condition to such redemption) be published one time in, or posted electronically on the website of, a financial journal or publication of general circulation in the United States of America or the State carrying as a regular feature notices of municipal bonds called for redemption. The failure to send, mail, or receive such notice described in clause (a) above, or any defect therein or in the sending or mailing thereof, will not affect

the validity or effectiveness of the proceedings for the redemption of any Fixed Rate Bond. By the date fixed for any such redemption, due provision will be made by the Board with the Paying Agent/Registrar for the payment of the required redemption price for Fixed Rate Bonds or the portion thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption.

The Board reserves the right to give notice of its election to optionally redeem Series 2016B Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of monies and/or Defeasance Securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the Board retains the right to rescind such notice at any time prior to the scheduled redemption date if the Board delivers a certificate or other direction to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice of redemption shall be of no effect if such monies and/or Defeasance Securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall not constitute an event of default and shall remain outstanding.

SHOULD NOTICE TO CALL A PARTICULAR SUBSERIES OF FIXED RATE BONDS FOR REDEMPTION AT THE OPTION OF THE BOARD BE GIVEN IN THE MANNER PROVIDED ABOVE, BUT THE BOARD SHALL NOT BE ABLE TO PROVIDE THE PAYING AGENT/REGISTRAR WITH AMOUNTS SUFFICIENT TO AFFECT ON THE DATE FIXED FOR REDEMPTION THE PAYMENT OF THE ENTIRE REDEMPTION PRICE OF THE PARTICULAR SUBSERIES OF FIXED RATE BONDS SO CALLED FOR REDEMPTION, NO SUCH FIXED RATE BONDS SHALL BE REDEEMED ON THE DATE FIXED FOR REDEMPTION, AND THE NOTICE OF REDEMPTION FOR SUCH FIXED RATE BONDS SHALL BE NULL AND VOID.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Fixed Rate Bonds is The Bank of New York Mellon Trust Company, N.A. In each Resolution, the Board retains the right to replace the Paying Agent/Registrar. The Board covenants in the Resolutions to maintain and provide a Paying Agent/Registrar for the Fixed Rate Bonds at all times while the Fixed Rate Bonds are outstanding and any successor Paying Agent/Registrar is required to be a competent and legally qualified bank or trust company which shall be a corporation organized and doing business under the laws of the United States of America or any state, authorized under such laws to exercise trust powers and subject to supervision by federal or state authority. Upon any change in the Paying Agent/Registrar for the Fixed Rate Bonds, the Board agrees to promptly cause a written notice thereof to be sent by the new Paying Agent/Registrar for the Fixed Rate Bonds to each registered owner of the affected Fixed Rate Bonds by United States mail, first-class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the use of the Book-Entry-Only System should be discontinued, the Fixed Rate Bonds will be printed and delivered to the beneficial owners thereof and, thereafter, the Fixed Rate Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar for the Fixed Rate Bonds only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated corporate trust office, currently the Paying Agent/Registrar's corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"). Such transfer or exchange will be at the expense of the registered owner of any Fixed Rate Bond requesting any exchange, in addition to any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer; except, however, that in the case of the exchange of an assigned and transferred Fixed Rate Bond or any portion thereof in any authorized denominations, and in the case of the exchange of the unredeemed portion of a Fixed Rate Bond which has been redeemed in part prior to maturity, such fees and charges will be paid by the Board. A Fixed Rate Bond may be assigned by the execution of an assignment form on the Fixed Rate Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar for the Fixed Rate Bonds. A new Fixed Rate Bond or Fixed Rate Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Fixed Rate Bond or Fixed Rate Bonds being transferred or exchanged, at the designated corporate trust office of the Paying Agent/Registrar. New Fixed Rate Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Fixed Rate Bond or Fixed Rate Bonds surrendered for exchange or transfer.

See "**APPENDIX E – Book-Entry-Only System**" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Fixed Rate Bonds.

Limitation on Transfer of Fixed Rate Bonds Called for Redemption

Neither the Board, the State, nor the Paying Agent/Registrar for the Fixed Rate Bonds will be required (a) to issue, transfer, or exchange any Fixed Rate Bond subject to redemption during a period beginning at the opening of business thirty (30) days before the day of the first mailing of a notice of redemption of the Fixed Rate Bonds and ending at the close of business on the day of such mailing or (b) to transfer or exchange any Fixed Rate Bond after it is

selected for redemption in whole or in part, prior to the redemption date; except that at the option of the registered owner of at least \$1,000,000 in principal amount of Fixed Rate Bonds, the Paying Agent/Registrar is required to transfer or exchange any Fixed Rate Bond which has been selected in whole or in part for redemption upon surrender thereof. In such event, the Paying Agent/Registrar may make such arrangements as it deems appropriate for notation on each new Fixed Rate Bond issued in exchange for or upon transfer of the Fixed Rate Bond so selected for redemption of an appropriate legend to the effect that such new Fixed Rate Bond has been so selected for redemption.

THE VARIABLE RATE BONDS

General Provisions

The Variable Rate Bonds (being the Subseries 2016B-2 (Variable Rate) Bonds), are dated the Date of Delivery and have a stated maturity of August 1, 2025. The Variable Rate Bonds are variable rate bonds, initially bearing interest at the Initial Rate for a period effective on the Date of Delivery and concluding on the date indicated in the table relating to the Variable Rate Bonds on the inside cover page ii hereof (such initial period applicable to the Variable Rate Bonds an "*Initial Rate Period*").

THE VARIABLE RATE BONDS ARE SUBJECT TO CONVERSION TO OTHER INTEREST RATE MODES AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE SERIES 2016B RESOLUTION FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH VARIABLE RATE BONDS. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE VARIABLE RATE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD. PURCHASERS OF THE VARIABLE RATE BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING ANY OTHER INTEREST RATE MODE OR INTEREST PERIOD FOR THE VARIABLE RATE BONDS OTHER THAN THE INITIAL RATE PERIOD.

The Board initially will issue the Variable Rate Bonds registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("*DTC*"), pursuant to the book-entry-only system described in **APPENDIX E** to this Official Statement. Beneficial ownership of the Variable Rate Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof within a maturity. No physical delivery of the Variable Rate Bonds will be made to the Beneficial Owners (as defined in **APPENDIX E**) thereof. Principal of and interest on the Variable Rate Bonds will be payable to Cede & Co., which will make distributions of the payments to the participating members of DTC for subsequent remittance to the Beneficial Owners.

Payment of principal of the Variable Rate Bonds will be made to the registered owner upon maturity or redemption prior to maturity only upon presentation and surrender of such Variable Rate Bonds at the Designated Payment/Transfer Office of the Paying Agent/Registrar (hereinafter defined); *provided, however*, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Variable Rate Bonds, all payments will be made as described in **APPENDIX E** to this Official Statement. See "**THE VARIABLE RATE BONDS – Transfer, Exchange and Registration.**" When the Variable Rate Bonds are not in the book-entry-only system, interest on the Variable Rate Bonds will be paid to registered owners shown on the registration books kept by the Paying Agent/Registrar at the close of business on the fifteenth calendar day of the month next preceding such interest payment date (the "*Record Date*").

In the event that any date for payment of the principal of or interest on the Variable Rate Bonds is a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due. Notwithstanding the foregoing, during any period in which ownership of the Variable Rate Bonds is determined only by a book-entry at a securities depository for the Variable Rate Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the Board and the securities depository.

Interest During the Initial Rate Period

During the Initial Rate Period, the Variable Rate Bonds will bear interest at the per annum rate identified in the table appearing on inside cover page ii hereof; thereafter, the Variable Rate Bonds will bear interest at the rate or rates and in the manner and for the duration specified in the Series 2016B Resolution authorizing such interest rate mode conversions. See "**THE VARIABLE RATE BONDS – Rate Period Changes**" herein.

During the Initial Rate Period, interest on such Variable Rate Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest accruing on Variable Rate Bonds during the Initial Rate Period will be payable semi-annually on the dates August 1 and February 1 of each year, commencing February 1, 2017. Interest due on each interest payment date will include interest accrued through the preceding day.

In the event that all of the Variable Rate Bonds are not converted into one or more rate periods and remarketed to new purchasers on the Conversion Date (as defined herein) for the Variable Rate Bonds, all the Variable Rate Bonds will bear interest at the Stepped Rate until all such Variable Rate Bonds are subsequently converted and remarketed by the Remarketing Agent or redeemed by the Board (such period, the "Stepped Rate Period"). See "THE VARIABLE RATE BONDS – Rate Period Changes" and "– Tender Provisions – No Initial Liquidity Support for Variable Rate Bonds; Stepped Rate."

Record Date During the Initial Rate Period

During the Initial Rate Period and while the Variable Rate Bonds are bearing interest at the Initial Rate, the record date for determining the party to whom interest on the Variable Rate Bonds is payable on any interest payment date (the "*Record Date*") is the close of business on the fifteenth day of the preceding calendar month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "*Special Record Date*") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Board. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("*Special Payment Date*," which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Variable Rate Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Rate Period Changes

The 2016B Resolution obligates the Board to cause the Variable Rate Bonds to be converted from the Initial Rate Period to a different Rate Period (as defined herein) immediately following the last day of the Initial Rate Period. On the Conversion Date for the Variable Rate Bonds, the Variable Rate Bonds are subject to mandatory tender for purchase, without right of retention by the holders thereof, and are to be converted from the respective Initial Rate Period to one or more term rate periods or fixed rate periods established under the Series 2016B Resolution. See "**THE BONDS – Tender Provisions – Mandatory Tender.**"

The Series 2016B Resolution does not obligate the Board to obtain a liquidity facility providing liquidity support for the Bonds upon the conversion thereof from the Initial Rate Period to a term rate period or the fixed rate period, and the Board has not entered into a standby bond purchase agreement, liquidity facility or similar agreement providing liquidity support for the Variable Rate Bonds nor is one currently contemplated to be entered into in the future.

The Board may elect to convert the Variable Rate Bonds from the Initial Rate Period to one or more new rate periods by notice given to the Paying Agent/Registrar and certain other notice parties at least 45 days prior to the Conversion Date. Such notice shall specify the proposed Conversion Date and the rate Period to which the conversion will be made, and in the case of conversion to a term rate period, the duration of the term rate period. Not less than 30 days prior to the Conversion Date, the Paying Agent/Registrar shall send a written notice of the conversion and the mandatory tender of the Bonds to the registered owners thereof. See "**THE VARIABLE RATE BONDS – Tender Provisions – Mandatory Tender.**" While the Bonds are in book-entry form, registered to DTC, such notice will be given only to DTC.

Any conversion of a Tax-Exempt Bond from the Initial Rate Period to any other rate period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not have an adverse effect on the exclusion from federal income tax of interest on the Tax-Exempt Bond and is in compliance with State law.

Following the Initial Rate Period, the interest rate determined for the rate period (other than the Stepped Rate Period) shall be the lowest rate of interest which in the judgment of the Remarketing Agent would cause the Bonds to have a price equal to not less than 100% of the principal amount thereof plus accrued interest thereon under prevailing market conditions as of the date such interest rate is determined.

In no event will the interest rate borne while the Bonds are in any Rate Period exceed the "Highest Rate," which is the lesser of (a) 6.50% per annum or (b) the maximum net effective interest rate permitted by law to be paid thereon as provided by Code, Section 1204.006, Texas Government Code, as amended.

Remarketing Agent

No Remarketing Agent will be appointed for the Variable Rate Bonds during the Initial Rate Period. The Board will identify the Remarketing Agent for the Variable Rate Bonds in a resolution authorizing the conversion from the Initial Rate Period to a new rate period and subsequent conversions. At such times, the Board will execute a Remarketing Agreement that relates to the Variable Rate Bonds evidencing the Remarketing Agent's agreement to serve in such capacity. No resignation or removal of the Remarketing Agent (if required to be maintained) shall become effective until a successor has been appointed and accepted such appointment. Promptly upon each change in the entity serving as Remarketing Agent, the Board will cause notice of such change to be sent to each Owner by first-class mail.

Tender Provisions

Tender Provisions Generally. The Variable Rate Bonds are not subject to optional tender during the Initial Rate Period. The Variable Rate Bonds are, however, subject to mandatory tender (without right of retention) on the Conversion Date (defined herein) after the conclusion of the Initial Rate Period. See "**THE VARIABLE RATE BONDS – Tender Provision – Mandatory Tender.**"

Mandatory Tender. On the first Business Day after the conclusion of the Initial Rate Period, as evidenced in the table appearing on inside cover page ii hereof (the "*Conversion Date*," as further defined in the Series 2016B Resolution), the Variable Rate Bonds are subject to mandatory tender without right of retention. Each owner of Variable Rate Bonds will be required to tender, and in any event will be deemed to have tendered, such Variable Rate Bonds (or the applicable portion thereof described below) to the Tender Agent for purchase at a purchase price equal to 100% of the principal amount plus accrued interest, if any.

The Paying Agent/Registrar is required to give notice of mandatory tender to each registered owner of the Variable Rate Bonds affected thereby by mail, first class postage prepaid, not less than 30 days prior to the Conversion Date. While the Variable Rate Bonds are registered in the name of Cede & Co., only Cede & Co. will receive such notice from the Tender Agent. See **APPENDIX E** herein.

In the event that all Variable Rate Bonds are not converted and remarketed to new purchasers on the Conversion Date occurring immediately after the conclusion of the Initial Rate Period, the Board shall have no obligation to purchase the Variable Rate Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Series 2016B Resolution or such Variable Rate Bonds, the notice of mandatory tender will be deemed to have been rescinded for that date with respect to those Variable Rate Bonds, and such Variable Rate Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Variable Rate Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption on any date during the Stepped Rate Period or mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which, in either event and notwithstanding any provisions of the 2016B Resolution to the contrary, shall occur at the Board's discretion upon delivery of at least one day's notice to the Holders thereof) and (v) will be deemed to continue in an Initial Rate Period for all other purposes of the Series 2016B Resolution, though bearing interest during such time at the Stepped Rate, until remarketed (in such interest rate mode or modes as the Board shall direct) or redeemed in accordance with the terms of the Series 2016B Resolution. In the event of a failed conversion and remarketing as described above, the Board will cause the Variable Rate Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be remarketed at par plus accrued interest, in such interest rate mode or modes as the Board directs, at a rate not exceeding the Highest Rate.

No Initial Liquidity Support for Variable Rate Bonds; Stepped Rate. **In the event that all of the Variable Rate Bonds are not successfully converted into one or more rate periods and remarketed to new purchasers on the Conversion Date for the Variable Rate Bonds, neither the Remarketing Agent nor the Board will have any obligation to purchase any of the Variable Rate Bonds tendered on that date, and the mandatory tender will be deemed to be rescinded for that date with respect to all of the Variable Rate Bonds.** The occurrence of the foregoing will not result in an event of default under the Series 2016B Resolution or the Variable Rate Bonds. Until such time as the Board redeems or remarkets Variable Rate Bonds that have not been successfully remarketed as described above, such Variable Rate Bonds shall bear interest at the "Stepped Rate" for the duration of the Stepped Rate Period (as defined herein). The Stepped Rate for the Variable Rate Bonds, being the per annum rate of interest then applicable to such unremarketed Variable Rate Bonds specified on cover page ii and, calculated on the basis of a 360-day year and the number of days actually elapsed. The Board may, at its discretion, acquire a Liquidity Facility to provide liquidity support for the Variable Rate Bonds in the future but currently has no intention of doing so.

Tender Agent. The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, serves as the tender agent (the "*Tender Agent*"), for the Variable Rate Bonds, pursuant to a Tender Agent Agreement, dated as July 14, 2016, between the Board and the Tender Agent for the Subseries 2016B-2 (Variable Rate) Bonds.

Tender Procedures. While the Variable Rate Bonds are all registered in the name of Cede & Co., as nominee for DTC, Bondholders may tender Variable Rate Bonds for purchase by giving DTC sufficient instructions to transfer

beneficial ownership of such Variable Rate Bonds to the account of the Tender Agent against payment. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Variable Rate Bonds are required to be delivered to the Tender Agent.

Limitations on Payment of Purchase Price; Untendered Bonds. The Tender Agent will be required to affect purchases of tendered Variable Rate Bonds solely from and to the extent of (1) proceeds of the remarketing of such Variable Rate Bonds pursuant to the Remarketing Agreement, and (2) payments, if any, elected to be made by the Board in its sole discretion. The Board will have no obligation and has no intent to purchase tendered Variable Rate Bonds. No purchase right will pertain to Variable Rate Bonds registered in the name or held for the benefit or account of the Board or certain affiliates. See discussion above under "Mandatory Tender" and "No Initial Liquidity Support for Variable Rate Bonds; Stepped Rate" for the effects of a failed remarketing of Variable Rate Bonds when there exists no Liquidity Facility providing liquidity support therefor.

ANY VARIABLE RATE BOND (OR PORTION THEREOF) WHICH IS REQUIRED TO BE TENDERED OR FOLLOWING NOTICE OF TENDER AND FOR WHICH PAYMENT OF THE PURCHASE PRICE IS DULY PROVIDED FOR ON THE RELEVANT PURCHASE DATE WILL BE DEEMED TO HAVE BEEN TENDERED AND SOLD ON SUCH PURCHASE DATE, AND THE HOLDER OF SUCH VARIABLE RATE BOND WILL NOT THEREAFTER BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST ACCRUED SUBSEQUENT TO SUCH PURCHASE DATE) IN RESPECT THEREOF OTHER THAN THE PURCHASE PRICE FOR SUCH VARIABLE RATE BOND OR PORTION OR OTHERWISE BE SECURED BY OR ENTITLED TO ANY BENEFIT UNDER THE APPLICABLE RESOLUTION.

Redemption Provisions

Optional Redemption. The Subseries 2016B-2 (Variable Rate) Bonds are subject to redemption at the option of the Board, in whole or from time to time in part, prior to stated maturity prior to the expiration of the Initial Rate Period on August 1, 2017, and on any day thereafter at a redemption price equal to par plus accrued interest to the redemption date. The Subseries 2016B-2 (Variable Rate) Bonds bearing interest at a Stepped Rate are subject to optional redemption on any date at a redemption price equal to par plus accrued interest to the redemption date.

Purchase by Board on Mandatory Tender Date.

In addition to the foregoing and without notice to any Owner, the Board, at its option, may purchase for cancellation or redeem any Series 2016 Bond subject to mandatory tender on any mandatory tender date therefor, at a price equal to the principal amount thereof plus any accrued and unpaid interest.

Mandatory Sinking Fund Redemption. The Variable Rate Bonds are subject to mandatory sinking fund redemption by the Board prior to their scheduled maturity (but not during the Initial Rate Period) at a redemption price of par plus accrued interest to the date fixed for redemption, on August 1 in each of the years and in the principal amounts indicated below:

| Subseries 2016B-2 (Variable Rate) Bonds Maturing August 1, 2025 | |
|--|----------------------|
| <u>Redemption Date (August 1)</u> | <u>Redeemed (\$)</u> |
| 2020 | 8,240,000 |
| 2021 | 5,820,000 |
| 2022 | 5,930,000 |
| 2023 | 5,125,000 |
| 2024 | 4,240,000 |
| <u>2025⁽¹⁾</u> | 1,005,000 |

⁽¹⁾ Final Maturity

The principal amount of Variable Rate Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the Board, by the principal amount of any Variable Rate Bonds of the same stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the Board with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth herein and not theretofore credited against a mandatory redemption requirement.

Redemption Procedures. Except with respect to Variable Rate Bonds bearing interest at a Stepped Rate (which may be redeemed on one day's notice to the holders thereof), notice of each redemption of Variable Rate Bonds during the Initial Rate Period is required to be mailed not less than 30 days prior to the redemption date to each registered owner of the Variable Rate Bonds to be redeemed. If notice of redemption of any Variable Rate Bond is so given, such Variable Rate Bonds (or the principal amount thereof to be redeemed) will be due and payable on the redemption date and, if funds sufficient to pay the redemption price are deposited with the Paying Agent/Registrar on

the redemption date, will cease to bear interest after such date. While the Variable Rate Bonds are registered in the name of DTC or its nominee, as nominee for the beneficial owners, the foregoing notice will be given to DTC or such nominee only, which shall alone be responsible for providing such notice to the beneficial owners. See **APPENDIX E** herein.

The Board reserves the right to give notice of its election to optionally redeem Variable Rate Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of monies and/or Defeasance Securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the Board retains the right to rescind such notice at any time prior to the scheduled redemption date if the Board delivers a certificate or other direction to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice of redemption shall be of no effect if such monies and/or Defeasance Securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall not constitute an event of default and shall remain outstanding.

In addition to the foregoing and without notice to the Owners, the Board, at its option, may purchase for cancellation or redeem any Series 2016 Bond subject to mandatory tender on any mandatory tender date therefor, at a price equal to the principal amount thereof plus any accrued and unpaid interest

SHOULD NOTICE TO CALL THE VARIABLE RATE BONDS FOR REDEMPTION AT THE OPTION OF THE BOARD BE GIVEN IN THE MANNER PROVIDED ABOVE, BUT THE BOARD SHALL NOT BE ABLE TO PROVIDE THE PAYING AGENT/REGISTRAR WITH AMOUNTS SUFFICIENT TO AFFECT ON THE DATE FIXED FOR REDEMPTION THE PAYMENT OF THE ENTIRE REDEMPTION PRICE OF THE VARIABLE RATE BONDS SO CALLED FOR REDEMPTION, NO SUCH VARIABLE RATE BONDS SHALL BE REDEEMED ON THE DATE FIXED FOR REDEMPTION, AND THE NOTICE OF REDEMPTION FOR SUCH VARIABLE RATE BONDS SHALL BE NULL AND VOID.

Except when held by DTC, its nominee, or any substitute securities depository, if less than all the Subseries 2016B-2 (Variable Rate) Bonds (the "*Tax-Exempt Variable Rate Bonds*") are to be redeemed, the Paying Agent/Registrar must select at random and by lot the Variable Rate Bonds to be redeemed as provided in the Tax-Exempt Variable Rate Bonds Resolution.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Variable Rate Bonds is The Bank of New York Mellon Trust Company, N.A. In the Series 2016B Resolution, the Board retains the right to replace the Paying Agent/Registrar. The Board covenants in the Series 2016B Resolution to maintain and provide a Paying Agent/Registrar for the Variable Rate Bonds at all times while the Variable Rate Bonds are outstanding and any successor Paying Agent/Registrar is required to be a competent and legally qualified bank or trust company which shall be a corporation organized and doing business under the laws of the United States of America or any state, authorized under such laws to exercise trust powers and subject to supervision by federal or state authority. Upon any change in the Paying Agent/Registrar for the Variable Rate Bonds, the Board agrees to promptly cause a written notice thereof to be sent by the new Paying Agent/Registrar for the Variable Rate Bonds to each registered owner of the affected Variable Rate Bonds by United States mail, first-class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the use of the Book-Entry-Only System should be discontinued, the Variable Rate Bonds will be printed and delivered to the beneficial owners thereof and, thereafter, the Variable Rate Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar for the Variable Rate Bonds only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated corporate trust office, currently the Paying Agent/Registrar's corporate trust office in Dallas, Texas (the "*Designated Payment/Transfer Office*"). Such transfer or exchange will be at the expense of the registered owner of any Variable Rate Bond requesting any exchange, in addition to any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer; except, however, that in the case of the exchange of an assigned and transferred Variable Rate Bond or any portion thereof in any authorized denominations, and in the case of the exchange of the unredeemed portion of a Variable Rate Bond which has been redeemed in part prior to maturity, such fees and charges will be paid by the Board. A Variable Rate Bond may be assigned by the execution of an assignment form on the Variable Rate Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar for the Variable Rate Bonds. A new Variable Rate Bond or Variable Rate Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Variable Rate Bond or Variable Rate Bonds being transferred or exchanged, at the designated corporate trust office of Variable Rate Bond the Paying Agent/Registrar. New Variable Rate Bonds registered and delivered in an exchange or

transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Variable Rate Bonds surrendered for exchange or transfer.

See **APPENDIX E** herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Variable Rate Bonds.

Limitation on Transfer of Variable Rate Bonds Called for Redemption

Neither the Board, the State, nor the Paying Agent/Registrar for the Variable Rate Bonds will be required (a) to issue, transfer, or exchange any Variable Rate Bond subject to redemption during a period beginning at the opening of business thirty (30) days before the day of the first mailing of a notice of redemption of the Variable Rate Bonds and ending at the close of business on the day of such mailing or (b) to transfer or exchange any Variable Rate Bond after it is selected for redemption in whole or in part, prior to the redemption date; except that at the option of the registered owner of at least \$1,000,000 in principal amount of Variable Rate Bonds, the Paying Agent/Registrar is required to transfer or exchange any Variable Rate Bond which has been selected in whole or in part for redemption upon surrender thereof. In such event, the Paying Agent/Registrar may make such arrangements as it deems appropriate for notation on each new Variable Rate Bond issued in exchange for or upon transfer of the Variable Rate Bond so selected for redemption of an appropriate legend to the effect that such new Variable Rate Bond has been so selected for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Obligation Pledge

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE, AND AS PROVIDED IN SECTION 49-d-8, 49-d-9, 49-d-10 AND 49-d-11, AND THE ACT, THE FULL FAITH AND CREDIT OF THE STATE IS PLEDGED FOR THE FAITHFUL PERFORMANCE OF ALL COVENANTS, RECITALS AND STIPULATIONS IN THE RESOLUTIONS AND THE BONDS.

Section 49-d-8 provides that if there is not enough money in the Financial Assistance Account, EDAP Account or State Participation Account, (together, the "*Water Assistance Accounts*") available to pay the principal of, premium, if any, and interest on the Water Assistance Bonds payable from such account, including money to make payments by the Board under any Bond Enhancement Agreement (as defined below) with respect to principal of or interest on such Water Assistance Bonds, there is appropriated out of the first money coming into the State Treasury in each fiscal year, not otherwise appropriated by the Constitution, an amount that is sufficient to pay such obligations maturing or becoming due during that fiscal year. If there is not sufficient money in the applicable Water Assistance Account to pay such Water Assistance Bonds payable from such Water Assistance Account, the Texas Water Code directs the Board to notify the Comptroller of such insufficiency and requires the Comptroller to transfer to the applicable Water Assistance Account the first money coming into the State Treasury not otherwise appropriated by the Constitution in amounts sufficient to pay such obligations. The Resolutions establishes procedures by which the Board will seek transfers from the Comptroller, as further described below.

Pursuant to Section 49-j of Article III of the Constitution (adopted on November 4, 1997), the Texas Legislature (the "*Legislature*") is prohibited from authorizing additional State debt payable from the State's General Revenue Fund if the resulting annual debt service exceeds five percent of an amount equal to the average amount of General Revenue Fund revenues for the three preceding fiscal years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. For purposes of such limitation, "State debt payable from the State's General Revenue Fund" does not include debt that, although backed by the full faith or credit of the State, are reasonably expected to be paid from other revenue sources and that are not expected to create a general revenue draw. Appropriations have been made by the Legislature to pay debt service on the EDAP Bonds (including the Series 2016C Bonds). Notwithstanding the limitation on the ability of the Legislature to authorize additional State debt, the Bonds offered by this Official Statement are general obligations of the State, as described above, and are payable from the sources described under this heading.

The Board is authorized and may, at any time, enter into a bond enhancement agreement (a "*Bond Enhancement Agreement*") with respect to any of its Water Assistance Bonds. Section 49-d-8 provides that payments under any Bond Enhancement Agreement with respect to principal of, and interest on, Water Assistance Bonds will be paid out of the Development Fund II account for which such Water Assistance Bonds were issued. While the Board does not anticipate entering into any Bond Enhancement Agreement related to the issuance of the Bonds, the Board has the ability to enter into a Bond Enhancement Agreement at any time, including subsequent to the issuance of the Bonds. For a reference to information describing the financial condition of the State, see **APPENDIX A** attached hereto.

Perfection of Security

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the security granted by the Board under the Bond Resolutions, and such pledge is therefore valid, effective and perfected. If State law is amended at any time while any Bonds are outstanding and unpaid such that the pledge of the security granted by the Board under the Bond Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve for the owners of Bonds the perfection of the security interest in said pledge, the Board has agreed to take such measures as it determines are reasonable and necessary under State law to comply with the provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Enforcement of Payment

The right of mandamus in any court of competent jurisdiction is specifically provided in the Texas Water Code to enforce payment of the Bonds, and obligations incurred under Bond Enhancement Agreements with respect to the Bonds, and the performance of official duties prescribed by Section 49-d-8 to make the transfers of funds as required.

Defeasance

The Resolutions provide that any Bond issued thereunder will be deemed paid and no longer outstanding when payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (by maturity or otherwise), shall have been provided by the Board irrevocably depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other similar instrument for such payment (a) lawful money of the United States of America sufficient to make such payment or (b) Defeasance Securities (as defined below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Board with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable. As used above, "*Defeasance Securities*" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America and (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board authorizes or approves proceedings authorizing the issuance of refunding bonds, or if such defeasance is not in connection with the issuance of refunding bonds, on the date the Board provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. In addition, to the extent then allowed by state law, the term Defeasance Securities shall include noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm with a rating that is not less than the rating assigned by such firm to Federal Securities. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any of the other Defeasance Securities will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. The Board has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the Board, in the proceedings providing for the firm banking and financial arrangements, (i) expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendment of Resolutions With Consent of Registered Owners

The registered owners aggregating in principal amount 51% of the aggregate principal amount of the Bonds of each series (not including any Bonds held by or for the account of the Board) at the time outstanding shall have the right from time to time to approve any amendment of the Resolutions authorizing the issuance of the Bonds of such series which may be deemed necessary or desirable by the Board; provided, however, that nothing therein shall permit or be construed to permit the amendment of the terms and conditions contained in the Resolutions or in the Bonds so as to:

- (i) make any change in the maturity of any of the Bonds;
- (ii) reduce the rate of interest borne by any of the Bonds;
- (iii) reduce the amount of the principal payable on any of the Bonds;

- (iv) modify the terms of payment of principal of or interest on any of the Bonds, or impose any conditions with respect to such payment;
- (v) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment; or
- (vi) affect the rights of the registered owners of less than all of the Bonds then outstanding;

unless such amendment or amendments be approved by the registered owners of all of the Bonds of such series at the time outstanding.

Amendment of Resolutions Without Consent of Registered Owners

The Board may, without the consent of the registered owners of the Bonds of each series (including any subseries thereof), pursuant to an amendatory resolution from time to time:

- (i) impose conditions or restrictions additional to, but not in diminution of, those contained in each Resolution respecting the issuance of the Bonds;
- (ii) undertake covenants additional to but not inconsistent with those contained in each Resolution;
- (iii) correct any ambiguity or correct or supplement any inconsistent or defective provision contained in any Resolution or any amendatory resolution;
- (iv) adopt amendments to any Resolution that provide for the payment of principal of and interest on the Bonds or the payment of administrative expenses of the Board from Bond proceeds; or
- (v) to make any change to the Series 2016B Resolution as it relates to the Subseries 2016B-2 (Variable Rate) Bonds when all of the bonds of such subseries have been tendered to the Remarketing Agent pursuant to the terms of the Series 2016B Resolution, but have not been remarketed following such tender, provided, however, that the Remarketing Agent consents to such amendment or supplement;
- (vi) effective upon any Conversion Date, to make any changes to the Series 2016B Resolution affecting only the Subseries 2016B-2 (Variable Rate) Bonds being converted; or
- (vii) adopt amendments to any Resolution that, in the opinion of bond counsel acceptable to the Board, do not adversely affect the registered owners.

In addition to the foregoing, the Board expressly reserve the right, without prior notice to or consent from the registered owners of the Bonds, to amend certain provisions of the Resolutions to reflect subsequent amendments to the Constitution and the Texas Water Code, including, without limitation, amendments altering:

- (i) the administration of Development Fund II; or
- (ii) the accounts within Development Fund II; or
- (iii) the deposit or application of money received by the Board as repayments of loans to political subdivisions and interest on those loans, or proceeds from the sale, transfer or lease of facilities held for any account within Development Fund II; or
- (iv) the use of the proceeds of the Bonds; or
- (v) the rights, duties and obligations of the Comptroller as specified in the Resolutions; or
- (vi) the procedure for payment of the Bonds; or
- (vii) the payment of expenses of administering Development Fund II and other authorized expenses of the Board; or
- (viii) the administration of the Water Infrastructure Fund;

provided, however, that such amendments to any Resolution can be made only if:

- (i) the Board receives an opinion of bond counsel acceptable to the Board to the effect that such amendments comply with the Texas Water Code, that the Bonds continue to be general obligations of the State and the Constitution provides for appropriation out of the first money coming into the State Treasury in each fiscal year, not otherwise appropriated by the Constitution, of an amount sufficient to pay the principal of or interest on the Bonds that mature or become payable during that Fiscal Year, to the extent the same are not otherwise paid from funds pledged to their payment; and

(ii) bond counsel acceptable to the Board renders an opinion substantially to the effect that any such amendment will not adversely affect the excludability of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes; and

(iii) each nationally-recognized securities rating agency providing a rating on the Bonds at the time the Bonds were initially delivered to the Underwriters and that has a then existing rating thereon confirms in writing that subsequent to any such amendment, the Bonds will continue to be rated as general obligation bonds of the State.

If the Board so amends any Resolution without the consent of registered owners as provided in this subsection, it shall cause notice of such amendment to be published one time in a financial newspaper or journal of general circulation in The City of New York, New York, or the City of Austin, Texas. Such notice shall contain a summary of the amendatory language, recite that the conditions set forth in items (i) through (iii) above have been satisfied, and recite the effective date of such amendment. Such notice shall be published within thirty days of the effective date of such amendment. Such notice shall state that a copy thereof is on file at the principal office of the Board for inspection. Such publication is not required, however, if written notice is given to each registered owner of the affected Bonds.

WATER ASSISTANCE BOND PROGRAM

Development Fund I

Since 1957, the Legislature and the voters of the State have approved constitutional amendments increasing the Board's bond issuance authority and authorized funding purposes, such that the Board had been authorized to issue up to \$2.48 billion in general obligation bonds for various water development purposes ("*Water Development Bonds*") to augment the Texas Water Development Fund ("*Development Fund I*"). Pursuant to such authorization, the Board has issued \$1,467,190,000 of Water Development Bonds for Development Fund I. In an effort to aggregate the voted authority of various constitutional amendments, voters approved Section 49-d-8 in 1997 which provided that bonds otherwise authorized by Sections 49-c, 49-d, 49-d-1, 49-d-2, 49-d-5, 49-d-6 and 49-d-7 of Article III of the Constitution (the "*Development Fund I Constitutional Provisions*") could be issued as Water Assistance Bonds to augment Development Fund II. Thereafter, all of the liabilities and assets formerly held in Development Fund I were transferred to Development Fund II.

Development Fund II

Development Fund II was established pursuant to Section 49-d-8, which was approved by the voters of the State on November 4, 1997. Development Fund II is a fund in the State Treasury separate and legally distinct from Development Fund I. Section 49-d-8 provides that bonds otherwise authorized by the Development Fund I Constitutional Provisions can be issued to augment Development Fund II. Since Section 49-d-8 consolidated the separate bond issuance authorities contained in the Development Fund I Constitutional Provisions and provides a more efficient cash flow for Development Fund II than exists for Development Fund I, the Board ceased issuing bonds to augment Development Fund I and used the remaining constitutional authority provided by the Development Fund I Constitutional Provisions to issue bonds to augment Development Fund II. In addition, the voters of the State approved Section 49-d-9 on November 6, 2001, which authorizes the Board to issue additional general obligation bonds for one or more accounts of Development Fund II in an amount not to exceed \$2 billion.

Section 49-d-8 limits the authorized amount of EDAP Bonds that may be issued by the Board under that section to \$250 million in the aggregate, and the Board has previously issued EDAP Bonds in such amount pursuant to such authorization (including Water Development Bonds previously issued pursuant to subsection (b) of Section 49-d-7 of the Constitution.) In November 2007, the Constitution was amended to add Section 49-d-10, which authorized the Board to issue up to \$250 million in additional general obligation bonds as EDAP Bonds to augment the EDAP Account.

Section 49-d-11, which was approved by the voters of the State on November 8, 2011, authorizes the Board to issue additional general obligation bonds for one or more accounts of Development Fund II in amounts such that the aggregate principal amount of bonds issued under Section 49-d-11 that are outstanding at any time does not exceed \$6 billion. The effect of the provisions of Section 49-d-11 is that, unlike bonds issued under authority of the Development Fund I Constitutional Provisions, Section 49-d-9 and Section 49-d-10, which provide that the authority to issue bonds is extinguished once bonds are issued, once bonds issued under authority of Section 49-d-11 are no longer outstanding by their terms, the authority under Section 49-d-11 to issue bonds in a like principal amount is restored.

The Bonds are being issued pursuant to the bond authorization found in Section 49-d-9 and Section 49-d-11. See "**TABLE 1: WATER ASSISTANCE BONDS**" below for the aggregate amount of authorized but unissued general obligation bonds available to be issued to fund accounts within Development Fund II.

Major Accounts within Development Fund II

Within Development Fund II, the Board has established the "*Financial Assistance Bond Payment Account*", the "*EDAP Bond Payment Account*," the "*State Participation Bond Payment Account*" and other accounts necessary for the proper administration of Development Fund II, as determined by the Board. In addition, the Board has the authority to create additional accounts as may be needed to administer its programs. Money on deposit in the Financial Assistance Account may be used for Water Assistance Projects; money on deposit in the EDAP Account may be used for EDAP Projects; and money on deposit in the State Participation Account may be used for State Participation Projects. Money in each such account can be used to pay the expenses of the Board in connection with the issuance of bonds for such account and the administration of such account and for the payment of debt service on bonds issued for such account, including payments, if any, required under a Bond Enhancement Agreement with respect to principal of and interest on such bonds.

Section 49-d-8 and the Texas Water Code provide that the Financial Assistance Account, the EDAP Account, and the State Participation Account are separate and distinct from one another and that each such account is a source of payment for Water Assistance Bonds issued with respect to that account. The Board has also established (i) the Financial Assistance Bond Payment Account (with respect to the Financial Assistance Bonds) (the "*Financial Assistance Bond Payment Account*"), (ii) the Economically Distressed Areas Program Bond Payment Account (with respect to the EDAP Bonds) (the "*EDAP Bond Payment Account*") and (iii) the State Participation Bond Payment Account (with respect to the State Participation Bonds) (the "*State Participation Bond Payment Account*"). Accordingly, (i) the Financial Assistance Account and the Financial Assistance Bond Payment Account constitute sources of payment only for the Financial Assistance Bonds, including the Series 2016B Bonds, (ii) the EDAP Account and the EDAP Bond Payment Account constitute a source of payment only for the EDAP Bonds, including the Series 2016C Bonds and (iii) the State Participation Account and the State Participation Bond Payment Account constitute sources of payment only for the State Participation Bonds, including the Series 2016D Bonds.

Financial Assistance Bonds

Money in the Financial Assistance Account is available (i) to provide financial assistance (in the form of loans) to political subdivisions for water supply, water quality enhancement and flood control purposes and (ii) for transfers to any state revolving fund administered by the Board, for transfers to the Rural Water Assistance Fund, and for transfers to the Water Infrastructure Fund (collectively, "*Water Assistance Projects*"). See "**WATER ASSISTANCE BOND PROGRAM - Water Infrastructure Fund**" and "**OTHER FINANCIAL ASSISTANCE PROGRAMS OF THE BOARD.**" Under the provisions of Section 49-d-8, Financial Assistance Bonds are payable from available money on deposit in the Financial Assistance Account. To the extent that there is not sufficient money in the Financial Assistance Account to pay the principal of and interest on Financial Assistance Bonds, including to make payments, if any, required under a Bond Enhancement Agreement with respect to principal of, and interest on, any such bonds, the Constitution appropriates an amount sufficient to make such payments out of the first money coming into the State Treasury in each fiscal year, which money is not otherwise appropriated by the Constitution. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - General Obligation Pledge.**" Currently, there are no Bond Enhancement Agreements executed and in effect in support of Water Assistance Bonds, and the Board does not intend, but reserves the right, to execute and deliver a Bond Enhancement Agreement in support of the Bonds.

As a practice, the Board's policy historically has been that debt service on Financial Assistance Bonds (including the Series 2016B Bonds) be self-supporting, and has expected that program revenues flowing into the Financial Assistance Account will be sufficient to meet debt service requirements on outstanding Financial Assistance Bonds. No assurance, however, can be given that subsequent events, including, without limitation, changes in relevant constitutional or statutory provisions, will not cause the Board to change such policy.

The foregoing notwithstanding, the Board has issued Financial Assistance Bonds to augment the Water Infrastructure Fund. The Board anticipates that the Legislature will continue to appropriate general revenues of the State to support the payment of debt service on Water Infrastructure Bonds until such time that program assets and revenues are sufficient to meet debt service requirements. See "**WATER ASSISTANCE BOND PROGRAM – Water Infrastructure Fund.**"

Certain of the bonds to be refunded with the proceeds of the Subseries 2016B-3 (Taxable) Bonds (identified in Schedule I as the Series 2003B Bonds and Series 2005B Bonds) were issued to provide funds for the Financial Assistance Account that were transferred to the Rural Water Assistance Fund to make loans to Rural Political Subdivisions (see "**TEXAS WATER DEVELOPMENT BOARD – Rural Water Assistance Fund**"). The Series 2003B Bonds and 2005B Bonds are hereinafter referred to sometimes as the "*Refunded RWA Funds*."

Financial Assistance Account. Consistent with the Texas Water Code and Section 49-d-8, the Financial Assistance Account receives the following moneys, which will be used as further described below:

- (i) Money and Assets Attributable to bonds designated by the Board as issued for Water Assistance Projects;
- (ii) payments received under a Bond Enhancement Agreement with respect to Financial Assistance Bonds;
- (iii) investment income earned on money on deposit in the Financial Assistance Account; and
- (iv) any other funds, regardless of their source, that the Board directs to be deposited to the credit of the Financial Assistance Account.

See **APPENDIX B** attached hereto for unaudited financial data relating to the Financial Assistance Account for various fiscal years, including the fiscal year ended August 31, 2015. See "**OTHER INFORMATION – Unaudited Financial Information.**"

Financial Assistance Bond Payment Account. The Board has established the Financial Assistance Bond Payment Account as a special account into which amounts will be deposited, as more fully described below, from the Financial Assistance Account, or otherwise from the State Treasury, and used to pay the principal of, premium, if any, and interest payable on the Financial Assistance Bonds, including, to the extent determined by the Board, amounts sufficient to make payments, if any, required under one or more Bond Enhancement Agreements with respect to principal or interest on such Financial Assistance Bonds. In the case of Water Infrastructure Bonds, appropriations from the State's General Revenue Fund and moneys received from repayments of loans made from the Water Infrastructure Fund shall be used to pay debt service on Water Infrastructure Bonds, such moneys will be deposited to the credit of an account within the Water Infrastructure Fund (the "*Water Infrastructure Fund Bond Payment Account*") to pay debt service on Water Infrastructure Fund Bonds. See "**WATER ASSISTANCE BOND PROGRAM – Water Infrastructure Fund.**"

Financial Assistance Bonds Flow of Funds. On or before the date interest or interest and principal on the Financial Assistance Bonds is scheduled to become due and payable, the Board must cause to be transferred, from moneys available for such purpose in the Financial Assistance Account or, in the case of repayments of principal and interest from loans made to Rural Political Subdivisions from proceeds of the Refunded RWF Bonds available in the Rural Water Assistance Fund, to the Financial Assistance Bond Payment Account an amount which will be sufficient to pay the principal of and premium, if any, and interest on the Financial Assistance Bonds, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such Financial Assistance Bonds, when such interest or interest and principal, and premium, if any, or such payments, if any, become due and payable, with allowance being made for money currently on deposit in the Financial Assistance Bond Payment Account and available to make such payments.

If the Executive Administrator or the designee thereof determines within 15 days of an interest or principal payment date that the money available in the Financial Assistance Account or, in the case of the Refunded RWF Bonds, the Rural Water Assistance Fund, for transfer to the Financial Assistance Bond Payment Account, as described above, is not sufficient to pay the principal of, premium, if any, and interest on the Financial Assistance Bonds which then are outstanding and are scheduled to be due and payable on such interest or principal payment date, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such Financial Assistance Bonds, the Executive Administrator or the designee thereof is required to request the Comptroller to deposit no later than three days prior to such interest or principal payment date, or as soon thereafter as sufficient money has been received in the State Treasury, in the Financial Assistance Bond Payment Account out of the first money coming into the State Treasury, sufficient money so that the total amount in the Financial Assistance Bond Payment Account will be sufficient to pay the principal, premium, if any, and interest to mature and come due on the Financial Assistance Bonds on such interest or principal payment date, or to make any payments by the Board, to the extent determined by the Board, under any Bond Enhancement Agreement with respect to principal or interest on such Financial Assistance Bonds, and to pay all collection and exchange charges in connection therewith.

After making the transfers for the benefit of the Financial Assistance Bond Payment Account, other available money remaining in the Financial Assistance Account may, at the direction of the Board, be used for Water Assistance Projects and all of the purposes for which the Board may expend money in the Financial Assistance Account under Section 49-d-8; *provided, however*, that repayments of principal and interest from loans made to Rural Political Subdivisions from the Rural Water Assistance Fund not otherwise needed as a source of revenue to pay the principal of, premium, if any, and interest on the Taxable Series 2016B Bonds shall, at the direction of the Board, be retained in the Rural Water Assistance Fund and be used for the purposes for which the Board may expend moneys under Subchapter R, Chapter 15, Texas Water Code. See "**WATER ASSISTANCE BOND PROGRAM – Development Fund II.**"

Notwithstanding the foregoing, money in the Financial Assistance Account representing proceeds from Financial Assistance Bonds, prepayments of financial assistance provided from the Financial Assistance Account or proceeds from the sale or other disposition of the Board's rights to receive repayments of such financial assistance are not available for transfer to the Financial Assistance Bond Payment Account unless by resolution the Board specifically authorizing the transfer of any such proceeds or prepayments so identified in said resolution to the Financial Assistance Bond Payment Account.

EDAP Bonds

Money in the EDAP Account is available to provide financial assistance (in the form of loans or grants) to political subdivisions in economically distressed areas for water supply and water quality enhancement purposes consistent with the provisions of Subsection (b) of Section 49-d-7 of Article III of the Constitution and Subchapter K of Chapter 17 of the Texas Water Code, as amended. Under the provisions of Section 49-d-8, EDAP Bonds are payable from available money on deposit in the EDAP Account. Accordingly, the Bonds will be payable from available money on deposit in the EDAP Account. To the extent that there is not sufficient money in the EDAP Account to pay the principal of and interest on EDAP Bonds, including to make payments, if any, required under a Bond Enhancement Agreement with respect to principal of, and interest on, any such bonds, the Constitution appropriates an amount sufficient to make such payments out of the first money coming into the State Treasury in each fiscal year, which money is not otherwise appropriated by the Constitution. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - General Obligation Pledge.**" Currently, there are no Bond Enhancement Agreements executed and in effect in support of Water Assistance Bonds, and the Board does not intend, but reserves the right, to execute and deliver a Bond Enhancement Agreement in support of the Bonds.

Bonds heretofore issued to provide financial assistance pursuant to the Board's Economically Distressed Areas Program have resulted in draws on the State's general revenue funds. The Board currently anticipates that the EDAP Bonds (including the Series 2016C Bonds) will result in future draws on the State's general revenue funds. See "**PLAN OF FINANCE – Background.**" Amounts specifically appropriated by the Legislature in support of debt service on EDAP Bonds are not limitations on general revenue draws, if additional funds are needed during the biennium, since the Constitution itself provides for an appropriation of money needed for the payment of this debt service. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – General Obligation Pledge.**"

EDAP Account. Consistent with the Texas Water Code and Section 49-d-8, the EDAP Account receives the following money, which will be used as further described below:

- (i) Money and Assets Attributable to Bonds designated by the Board as issued for EDAP Projects;
- (ii) money from the sale, transfer, or lease of a EDAP Project that was acquired, constructed, reconstructed, developed, or enlarged with money from the EDAP Account;
- (iii) payments received under a Bond Enhancement Agreement with respect to bonds designated by the Board as issued for EDAP Projects;
- (iv) investment income earned on money on deposit in the EDAP Account; and
- (v) any other funds, regardless of their source, that the Board directs be deposited to the credit of the EDAP Account.

"Money and Assets Attributable to Bonds" means:

- (i) the Board's rights to receive repayment of financial assistance provided from the related account, together with any evidence of such rights;
- (ii) money received from the sale or other disposition of the Board's rights to receive repayment of such financial assistance;
- (iii) money received as repayment of such financial assistance;
- (iv) money and assets attributable to Bonds, including money and assets transferred to the related account from Development Fund I pursuant to Section 49-d-8; and
- (v) money deposited in the related account pursuant to Section 49-d-8.

See **APPENDIX B** attached hereto for unaudited financial data relating to the EDAP Account for various fiscal years, including the fiscal year ended August 31, 2015. See "**OTHER INFORMATION – Unaudited Financial Information.**"

EDAP Bond Payment Account. The Board has established the EDAP Bond Payment Account as a special account into which amounts will be deposited as more fully described below, from the EDAP Account, or otherwise

from the State Treasury, and used to pay the principal of, premium, if any, and interest payable on the EDAP Bonds, including, to the extent determined by the Board, amounts sufficient to make payments, if any, required under one or more Bond Enhancement Agreements with respect to principal or interest on such EDAP Bonds.

EDAP Bonds Flow of Funds. On or before the date interest or interest and principal on the EDAP Bonds is scheduled to become due and payable, the Board must cause to be transferred, from moneys available for such purpose in the EDAP Account, to the EDAP Bond Payment Account an amount which will be sufficient to pay the principal of and premium, if any, and interest on the EDAP Bonds, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such EDAP Bonds, when such interest or interest and principal, and premium, if any, or such payments, if any, become due and payable, with allowance being made for money currently on deposit in the EDAP Bond Payment Account and available to make such payments.

If the Executive Administrator or the designee thereof determines within 15 days of an interest or principal payment date that the money available in the EDAP Bond Payment Account, as described above, is not sufficient to pay the principal of, premium, if any, and interest on the EDAP Bonds which then are outstanding and are scheduled to be due and payable on such interest or principal payment date, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such EDAP Bonds, the Executive Administrator or the designee thereof is required to request the Comptroller to deposit no later than three days prior to such interest or principal payment date, or as soon thereafter as sufficient money has been received in the State Treasury, in the EDAP Bond Payment Account out of the first money coming into the State Treasury, sufficient money so that the total amount in the EDAP Bond Payment Account will be sufficient to pay the principal, premium, if any, and interest to mature and come due on the EDAP Bonds on such interest or principal payment date, or to make any payments by the Board, to the extent determined by the Board, under any Bond Enhancement Agreement with respect to principal or interest on such EDAP Bonds, and to pay all collection and exchange charges in connection therewith.

After making the transfers for the benefit of the EDAP Bond Payment Account, other available money remaining in the EDAP Account may, at the direction of the Board, be used for EDAP Projects and all of the purposes for which the Board may expend money in the EDAP Account under Section 49-d-8.

Notwithstanding the foregoing, money in the EDAP Account representing proceeds from EDAP Bonds, prepayments of financial assistance provided from the EDAP Account or proceeds from the sale or other disposition of the Board's rights to receive repayments of such financial assistance are not available for transfer to the EDAP Bond Payment Account unless by resolution the Board specifically authorizes the transfer of any such proceeds or prepayments so identified in said resolution to the EDAP Bond Payment Account.

State Participation Bonds

Bonds heretofore issued to provide financial assistance pursuant to the Board's State Participation Program, have resulted in draws on the State's general revenue funds. The Board currently anticipates that the State Participation Bonds (including the Series 2016D Bonds) may result in draws on the State's general revenue funds but the program assets and revenues will be sufficient to meet debt service requirements on the currently outstanding State Participation Bonds. Amounts specifically appropriated by the Legislature in support of debt service on State Participation Bonds are not limitations on general revenue draws, if additional funds are needed during the biennium, since the Constitution itself provides for an appropriation of money needed for the payment of this debt service. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – General Obligation Pledge.**"

State Participation Account. Consistent with the Texas Water Code and Section 49-d-8, the State Participation Account receives the following money, which will be used as further described below:

- (i) Money and Assets Attributable to Bonds designated by the Board as issued for State Participation Projects;
- (ii) money from the sale, transfer, or lease of a State Participation Project that was acquired, constructed, reconstructed, developed, or enlarged with money from the State Participation Account;
- (iii) payments received under a Bond Enhancement Agreement with respect to bonds designated by the Board as issued for State Participation Projects;
- (iv) investment income earned on money on deposit in the State Participation Account; and
- (v) any other funds, regardless of their source, that the Board directs be deposited to the credit of the State Participation Account.

See **APPENDIX B** attached hereto for unaudited financial data relating to the State Participation Account for various fiscal years, including the fiscal year ended August 31, 2015. See "**OTHER INFORMATION – Unaudited Financial Information.**"

State Participation Bond Payment Account. The Board has established the State Participation Bond Payment Account as a special account into which amounts will be deposited as more fully described below, from the State Participation Account, or otherwise from the State Treasury, and used to pay the principal of, premium, if any, and interest payable on the State Participation Bonds, including, to the extent determined by the Board, amounts sufficient to make payments, if any, required under one or more Bond Enhancement Agreements with respect to principal or interest on such State Participation Bonds.

State Participation Bonds Flow of Funds. On or before the date interest or interest and principal on the State Participation Bonds is scheduled to become due and payable, the Board must cause to be transferred, from moneys available for such purpose in the State Participation Account, to the State Participation Bond Payment Account an amount which will be sufficient to pay the principal of and premium, if any, and interest on the State Participation Bonds, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such State Participation Bonds, when such interest or interest and principal, and premium, if any, or such payments, if any, become due and payable, with allowance being made for money currently on deposit in the State Participation Bond Payment Account and available to make such payments.

If the Executive Administrator or the designee thereof determines within 15 days of an interest or principal payment date that the money available in the State Participation Bond Payment Account, as described above, is not sufficient to pay the principal of, premium, if any, and interest on the State Participation Bonds which then are outstanding and are scheduled to be due and payable on such interest or principal payment date, including, to the extent determined by the Board, an amount which will be sufficient to make payments by the Board under one or more Bond Enhancement Agreements with respect to principal or interest on such State Participation Bonds, the Executive Administrator or the designee thereof is required to request the Comptroller to deposit no later than three days prior to such interest or principal payment date, or as soon thereafter as sufficient money has been received in the State Treasury, in the State Participation Bond Payment Account out of the first money coming into the State Treasury, sufficient money so that the total amount in the State Participation Bond Payment Account will be sufficient to pay the principal, premium, if any, and interest to mature and come due on the State Participation Bonds on such interest or principal payment date, or to make any payments by the Board, to the extent determined by the Board, under any Bond Enhancement Agreement with respect to principal or interest on such State Participation Bonds, and to pay all collection and exchange charges in connection therewith.

After making the transfers for the benefit of the State Participation Bond Payment Account, other available money remaining in the State Participation Account may, at the direction of the Board, be used for State Participation Projects and all of the purposes for which the Board may expend money in the State Participation Account under Section 49-d-8. See "**WATER ASSISTANCE BOND PROGRAM – Development Fund II.**"

Notwithstanding the foregoing, money in the State Participation Account representing proceeds from State Participation Bonds, prepayments of financial assistance provided from the State Participation Account or proceeds from the sale or other disposition of the Board's rights to receive repayments of such financial assistance are not available for transfer to the State Participation Bond Payment Account unless by resolution the Board specifically authorizes the transfer of any such proceeds or prepayments so identified in said resolution to the State Participation Bond Payment Account.

Water Infrastructure Fund

No Water Infrastructure Bonds are being offered pursuant to this Official Statement. Section 49-d-9 requires that \$50,000,000 of the bonds authorized to be issued under Section 49-d-9 be used for the Water Infrastructure Fund, a special fund in the State Treasury established under Subchapter Q of Chapter 15 of the Texas Water Code to provide financial assistance to eligible Texas political subdivisions (the "*Water Infrastructure Fund*"). The Board met this requirement in 2008. Since 2007, the Legislature has authorized appropriations of money from the State's General Revenue Fund to support the payment of debt service on general obligation bonds issued for the Water Infrastructure Fund ("*Water Infrastructure Bonds*"). Appropriations of money from the State's General Revenue Fund are expected to be used to defray a portion of the debt service payable on the Water Infrastructure Bonds heretofore and hereafter issued by the Board.

The Board may direct the Comptroller to transfer amounts from the Financial Assistance Account to the Water Infrastructure Fund to provide financial assistance under the Texas Water Code for the purposes provided in Subchapter Q, specifically for the uses described above, as listed in Section 15.974, Texas Water Code, as amended. Subchapter Q further provides that the Water Infrastructure Fund may be used as a source of revenue for the

repayment of debt service on Financial Assistance Bonds, the proceeds of which have been deposited into Water Infrastructure Fund.

See Footnote (5) to "**TABLE 1: WATER ASSISTANCE BONDS**" for the amount of Financial Assistance Bonds previously issued to provide funds for the Water Infrastructure Fund.

Rural Water Assistance Fund

Chapter 15, Subchapter R, of the Texas Water Code authorizes and governs the Rural Water Assistance Fund, which is a special fund in the State Treasury. The Rural Water Assistance Fund may be used, among other purposes, to (i) provide low interest loans to Rural Political Subdivisions (as defined below) for water or water related projects and for water quality enhancement projects, including the construction of infrastructure facilities for wholesale or retail water and sewer service, desalination projects, the purchase or lease of well water fields; the construction of infrastructure facilities for wholesale purchase or lease of rights to produce groundwater; onsite or wetland wastewater treatment facilities; and interim financing of construction projects, (ii) water projects in the State Water Plan (as defined below) or regional water plan or (iii) enable a Rural Political Subdivision to obtain water or wastewater service supplied by larger political subdivisions or to finance the consolidation or regionalization of neighboring political subdivisions, or both. The Rural Water Assistance Fund may also be used to (i) finance an outreach and technical assistance program to assist Rural Political Subdivisions in obtaining assistance through the Rural Water Assistance Fund and (ii) buy down interest rates on loans or provide grants to Rural Political Subdivisions. A "*Rural Political Subdivision*" is a nonprofit water supply or sewer Service Corporation, district, or municipality with a service area of 10,000 or less in population; or that otherwise qualifies for financing from a federal agency; or a county in which no urban area exceeds 50,000 in population. The intent of the program is to provide tax-exempt equivalent financing to non-profit, water supply corporations which are considered by the Internal Revenue Service to be taxable entities.

The Board may direct the Comptroller to transfer amounts from the Financial Assistance Account to the Rural Water Assistance Fund to provide financial assistance under the Texas Water Code for the purposes provided in Subchapter R, specifically for the uses described above, as listed in Section 15.994, Texas Water Code, as amended. Subchapter R further provides that the Rural Water Assistance Fund may be used as a source of revenue for the repayment of debt service on Financial Assistance Bonds, the proceeds of which have been deposited into the Rural Water Assistance Fund.

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TABLE 1: WATER ASSISTANCE BONDS

| <u>Constitutional Provision</u> ⁽¹⁾ | <u>Purpose</u> | Constitutionally Authorized <u>Amount</u> | Previously Issued | Amount Being Issued | Authorized But <u>Unissued</u> |
|---|--------------------|---|------------------------------|------------------------|--------------------------------------|
| Development Fund I Constitutional Provision | DFUND I | \$2,480,000,000 | \$1,467,190,000 | \$ 0 | \$ 0 ⁽²⁾ |
| Section 49-d-8 (remaining DFund I authority) ⁽²⁾ | DFUND II | 1,012,810,000 ⁽²⁾ | 1,012,810,000 ⁽³⁾ | 0 | 0 |
| Section 49-d-9 | DFUND II | 2,000,000,000 ⁽⁴⁾ | 1,948,972,658 ⁽⁵⁾ | 51,027,342 | 0 |
| Section 49-d-10 | DFUND II (EDAP) | 250,000,000 | 196,507,620 | 0 | 53,492,380 |
| Section 49-d-11 ⁽⁶⁾ | DFUND II | <u>6,000,000,000</u> | <u>0</u> | <u>1,985,956</u> | <u>5,998,014,044</u> |
| | Totals | | <u>\$4,625,480,278</u> | <u>\$53,013,298</u> | <u>\$6,051,506,424</u> |

⁽¹⁾ All section references are to Article III of the Texas Constitution.

⁽²⁾ In an effort to aggregate the voted authority of various constitutional amendments, Section 49-d-8 provided that bonds otherwise authorized by the Development Fund I Constitutional Provisions could be issued as Water Assistance Bonds to augment Development Fund II. The remaining authorization under the Development Fund I Constitutional Provisions was used for bonds issued to augment Development Fund II.

⁽³⁾ Section 49-d-8 limits the authorized amount of EDAP Bonds that may be issued by the Board under that section to \$250 million in the aggregate, and the Board has previously issued EDAP Bonds in such amount under such authorization (including Water Development Bonds issued pursuant to subsection (b) of Section 49-d-7 of the Constitution).

⁽⁴⁾ Section 49-d-9 requires that \$50,000,000 of the bonds authorized to be issued under Section 49-d-9 be used for the Water Infrastructure Fund to provide financial assistance to eligible Texas political subdivisions, a requirement that the Board met in 2008. See "**WATER ASSISTANCE BOND PROGRAM – Water Infrastructure Fund.**"

⁽⁵⁾ Included in this amount are Financial Assistance Bonds issued by the Board in the aggregate principal amount of \$871,720,000 to provide funds for the Water Infrastructure Fund, of which \$668,610,000 in principal is still outstanding. See "**WATER ASSISTANCE BOND PROGRAM – Water Infrastructure Fund.**"

⁽⁶⁾ Section 49-d-11 authorizes the Board to issue additional general obligation bonds for one or more accounts of Development Fund II in amounts such that the aggregate principal amount of bonds issued under Section 49-d-11 that are outstanding at any time does not exceed \$6 billion.

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OTHER FINANCIAL ASSISTANCE PROGRAMS OF THE BOARD

In addition to the financial assistance programs described under the "WATER ASSISTANCE BOND PROGRAM" section of this Official Statement, the Board administers other assistance programs which are funded with special revenues, general revenues or the proceeds of general obligation bonds of the State. The following is a brief summary of such programs. **None of the following programs are being funded with proceeds from the Bonds.**

Texas Agricultural Water Conservation Bond Program

Article III, Section 50-d of the Constitution (adopted in 1985) authorizes the Board to issue \$200,000,000 in general obligation Texas Agricultural Water Conservation Bonds. Subchapter J was added to Chapter 17 of the Texas Water Code, implementing the Agricultural Water Conservation Bond Program and creating the Agricultural Water Conservation Fund (the "Agriculture Fund").

Money in the Agriculture Fund may be used to provide grants to State agencies to fund conservation programs or conservation projects, provide grants or loans to certain political subdivisions for conservation programs or conservation projects, provide linked deposits to certain financial institutions for loans to certain entities and individuals for conservation projects, pay for the Board's conservation programs, pay costs of issuance for and debt service due on Texas Agricultural Water Conservation Bonds, and to pay the Board's related administrative expenses. Conservation programs, certain costs of which may be financed from the Agriculture Fund, include: (a) agricultural water conservation technical assistance programs; (b) research, demonstration, technology transfer, or educational programs relating to agricultural water use and conservation; (c) precipitation enhancement programs; and (d) any other agricultural water conservation program defined by Board rule. Conservation projects, certain costs of which may be financed from the Agriculture Fund, include projects that: (a) improve water use efficiency; (a) prepare irrigated land for conversion to dry land conditions; (c) prepare dry land for more efficient use of precipitation; (d) purchase and fund the acquisition and installation of devices on public or private property to indicate the amount of water withdrawn for irrigation; (e) prepare and maintain land to be used for brush control activities; and (f) implement any other agricultural water conservation project defined by Board rule.

TABLE 2: AGRICULTURE FUND GENERAL OBLIGATION BONDS

| <u>Constitutional Provision</u> ⁽¹⁾ | <u>Purpose</u> | <u>Amount Authorized</u> | <u>Previously Issued</u> | <u>Authorized But Unissued</u> |
|--|------------------|--------------------------|--------------------------|--------------------------------|
| Section 50-d | Agriculture Fund | \$200,000,000 | \$35,160,000 | \$164,840,000 |

⁽¹⁾ All section references are to Article III of the Texas Constitution.

Revenue Bonds

The Board is authorized to issue an unlimited amount of revenue bonds to fund certain eligible projects. The Board has the authority to sell revenue bonds for the following purposes: (1) to finance the construction of water and wastewater projects of political subdivisions and nonprofit water supply corporations; (2) to provide interim financing to political subdivisions which are also receiving long term financing from the Board; (3) to provide the state matching funds for federal funds provided to the Clean Water State Revolving Fund ("CWSRF"), and the Drinking Water State Revolving Fund ("DWSRF"); (4) to provide funds for the State Water Implementation Revenue Fund of Texas ("SWIRFT"); and (5) to provide matching funds for any additional State revolving funds hereafter established by the Board to provide financial assistance to political subdivisions for public works in accordance with a federal capitalization grant program. The Board's revenue bonds do not constitute a debt of the State, and neither the full faith and credit nor the taxing authority of the State is in any manner pledged, given or loaned to the payment of the Board's revenue bonds. Further, the Board's revenue bonds are not secured by or payable from money in either Development Fund I or Development Fund II.

Clean Water State Revolving Fund

The State Revolving Fund Act, Title VI of the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987, as amended (the "Federal Act"), established a joint federal and state loan program (the "Federal Loan Program"). Under the Federal Loan Program, the United States Environmental Protection Agency ("USEPA") is authorized to make grants (the "SRF Capitalization Grants") to states to aid in providing financial assistance to municipalities; intermunicipal, interstate or state agencies; or other public entities eligible for assistance under the Federal Act (the "Eligible Borrowers") for publicly owned wastewater treatment works including storm water and nonpoint source pollution control projects and other authorized purposes pursuant to the Federal Act. As a condition to receipt of an SRF Capitalization Grant, a state is required to establish a perpetual state revolving fund into

which the SRF Capitalization Grant must be deposited, and to provide state matching funds at least equal to 20% of the SRF Capitalization Grant. Historically, proceeds of Water Development Bonds and Financial Assistance Bonds have been used to provide such matching funds, and proceeds of Financial Assistance Bonds hereafter issued are expected to be used to provide all or a portion of such matching funds. Funds in a state revolving fund are permitted to be applied to provide financial assistance to Eligible Borrowers for publicly owned wastewater treatment works in a number of ways, including making direct loans, retiring existing debt through refinancing, and loan guarantees.

Pursuant to Chapter 15, Subchapter J of the Texas Water Code ("*Subchapter J*"), which became effective June 17, 1987, the State created the State Water Pollution Control Revolving Fund (commonly referred to as the "*Clean Water State Revolving Fund*") for the purpose of providing loans to political subdivisions for wastewater treatment works including storm water and nonpoint source pollution control projects and other authorized purposes. The Board currently provides financial assistance by purchasing political subdivision bonds from Eligible Borrowers.

Each loan to an Eligible Borrower made with the proceeds of bonds issued by the Board is in the form of either a loan or the purchase of the obligations issued by the Eligible Borrower. Either form of assistance is referred to as a "*loan*." Each Eligible Borrower delivers its own general obligation or revenue bond to the Board, referred to as a "*political subdivision bond*," in order to secure its loan repayment obligations. The Board makes loans (or purchases debt obligations) under the CWSRF program with terms up to thirty (30) years from project completion, but in no event longer than the expected useful life of the project financed or refinanced by such loan.

Drinking Water State Revolving Fund

The Safe Drinking Water Act, 42 U.S.C. § 300 et seq., as reauthorized in 1986 and amended in 1996 (the "*SDWA*"), established national primary drinking water regulations to protect the safety of the public's drinking water. Under the SDWA, the USEPA is authorized to make grants ("*DWSRF Capitalization Grants*") to states to assist communities in meeting established drinking water standards. As a condition to receipt of a DWSRF Capitalization Grant, a state is required to establish a drinking water state revolving fund into which the DWSRF Capitalization Grant must be deposited, provide state matching funds at least equal to 20% of the DWSRF Capitalization Grant for deposit in the DWSRF and comply with certain other requirements of the SDWA. Heretofore, proceeds of Water Development Bonds have been used to provide all or a portion of such matching funds, and it is expected that matching funds will continue to be provided from the proceeds of Financial Assistance Bonds hereafter issued. DWSRF funds are permitted to be applied to provide financial assistance to community water systems and non-profit community water systems in a number of ways, including making direct loans, retiring existing debt through refinancing, and providing loan guarantees for expenditures that facilitate compliance with the primary national drinking water regulations. The Board makes loans (or purchases debt obligations) under the DWSRF program with terms up to thirty (30) years from project completion, but in no event longer than the expected useful life of the project financed or refinanced by such loan.

Pursuant to Subchapter J, Texas created the DWSRF for the purpose of providing loans to political subdivisions and water supply corporations. The Legislature expanded the program to allow funding for privately owned corporations for loan subsidies, provided that only appropriated funds and federal grants are utilized for such purpose.

State Water Implementation Fund for Texas and State Water Implementation Revenue Fund for Texas

At an election held on November 5, 2013, the voters of Texas approved a constitutional amendment which added two new sections to Article III of the Constitution. Section 49-d-12 provided for the appropriation of \$2 billion from the State's economic stabilization fund to create the State Water Implementation Fund for Texas ("*SWIFT*") as a special fund in the state treasury outside the general revenue fund and Section 49-d-13 created the State Water Implementation Revenue Fund for Texas ("*SWIRFT*") as a special fund in the state treasury outside the general revenue fund.

Section 49-d-12 provides that money in the SWIFT must be administered, without further appropriation, by the Board for the purpose of implementing the State Water Plan. In addition, Section 49-d-12 authorizes the Legislature to authorize the Board to enter into Bond Enhancement Agreements, payable solely from the SWIFT, to provide additional security for general obligation bonds or revenue bonds issued by the Board, the proceeds of which are used to finance State Water Plan projects, provided that the Bond Enhancement Agreements do not exceed the capacity of the SWIFT to fully support such agreements. Section 49-d-12 provides that the Legislature may authorize the Board to use the SWIFT to finance, including by direct loan, water projects included in the State Water Plan. Section 49-d-13, authorizes the Legislature to authorize the Board to issue bonds and enter into related credit agreements that are payable from revenues available to the SWIRFT. Obligations issued or incurred pursuant to Section 49-d-13 will be special obligations payable solely from amounts in the SWIRFT. Subchapter G of the Texas Water Code provides that the Board has legal title to the money and investments of the SWIFT to be used without further appropriation for the purpose of implementing the State Water Plan. Responsibility for the management and

investment of the SWIFT is conferred on the Texas Treasury Safekeeping Trust Company ("*Trust Company*"), which holds and invests the SWIFT for and in the name of the Board.

The Board may direct the Trust Company to enter into Bond Enhancement Agreements to provide a source of revenue or security for the payment of the principal of and interest on general obligation bonds or revenue bonds issued by the Board to finance or refinance projects included in the State Water Plan if the proceeds of the sale of the bonds have been or will be deposited to the credit of: (1) the SWIFT; (2) the SWIRFT; (3) the Rural Water Assistance Fund; (4) the State Participation Account; or (5) the Agriculture Fund. If the Trust Company enters into a Bond Enhancement Agreement, the Board may direct the Trust Company to make disbursements from the SWIFT to another fund or account for the support of bonds the proceeds of which are used to provide financial assistance in the forms described by Subchapter G, including loans bearing an interest rate of not less than 50% of the then-current market rate of interest available to the Board, a deferral of loan repayment, and incremental repurchase terms for an acquired facility. At the direction of the Board, the Trust Company must make disbursements from the SWIFT to another fund or account pursuant to a Bond Enhancement Agreement in the amounts the Board determines are needed for debt service payments on or security provisions of the Board's general obligation bonds or revenue bonds, after considering all other sources available for those purposes.

The Board may use money in the SWIRFT (i) as a source of revenue or security for the payment of the principal of and interest on revenue bonds issued by the Board under Subchapter H of the Texas Water Code, other bonds issued by the Board if the proceeds of the bonds will be deposited in the SWIRFT, or a Bond Enhancement Agreement, (ii) to acquire loans or other assets from another fund or account administered by the Board or (iii) to pay necessary and reasonable costs incurred by the Board in administering the fund. Money deposited to the credit of the SWIRFT must be invested as determined by the Board. Subchapter H also authorizes the Board to issue revenue bonds for the purpose of providing money for the SWIRFT. Revenue bonds issued under Subchapter H are special obligations of the Board payable only from and secured by designated income and receipts of the SWIRFT, and such bonds do not constitute indebtedness of the State.

Texas Water Resources Finance Authority

The Texas Water Resources Finance Authority (the "*Authority*"), created in 1987 by the Legislature as a governmental entity and a body politic and corporate, is governed by a board of directors composed of the three TWDB members. Because the Authority is a separate legal entity from the Board, it may issue revenue bonds, the proceeds of which may be used for the purpose of purchasing political subdivision bonds from the Board's existing loan portfolio or directly from political subdivisions. The Authority's revenue bonds do not constitute a debt of the State, and neither the full faith or credit nor the taxing authority of the State is in any manner pledged, given or loaned to the payment of the Authority's revenue bonds.

TEXAS WATER DEVELOPMENT BOARD

General

The Board is an agency of the State and was created by constitutional amendment in 1957. Its mission is to provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas. The Board is responsible for long-range water planning in the State. The Board is primarily responsible for the State's financial programs associated with the water industry, including the establishment of policy for the financial programs.

The Board initially was given authorization to issue as general obligations of the State \$200,000,000 in Water Development Bonds for the "construction of dams, reservoirs and other water storage projects." Subsequent amendments to the Constitution and enabling legislation expanded the types of water-related facilities eligible for Board financial assistance to include all components of water supply, wastewater (sewage) conveyance and treatment, flood control, municipal solid waste management and agricultural water conservation projects. The Board may also execute contracts with any agency of the United States for the acquisition and development of storage facilities in the State and reservoirs constructed by the federal government, which contracts constitute general obligations of the State.

The primary focus of the Board prior to 1985 was to provide loans to assist communities that found it a hardship to obtain funding from other sources. Constitutional amendments and legislative changes implemented in 1985 broadened the eligibility criteria to include all eligible applicants and regional water, wastewater, municipal solid waste management, flood control projects, and water projects that involved the conversion from a ground water supply source to a surface supply. In 1987, with the creation of the Clean Water State Revolving Fund ("*CWSRF*"), all political subdivisions (no hardship or regional criteria required) became eligible to apply for financial assistance for wastewater treatment projects. In 1989, a constitutional amendment and legislation authorized the Board to provide loan and grant assistance to construct potable water supply and sanitary sewer systems in impoverished areas (primarily along the border with Mexico) through the Economically Distressed Areas Program.

State Water Plan

Pursuant to Subchapter C of Chapter 16 of the Texas Water Code, the Legislature first directed the Board to prepare, develop, formulate, and adopt a comprehensive state water plan (the "*State Water Plan*") prior to January 2002. Thereafter, the Board has been responsible for preparing, developing, formulating and adopting a State Water Plan before the end of each successive five-year period after that date. The State Water Plan provides for and identifies projects in furtherance of the orderly development, management, and conservation of water resources and preparation for and response to drought conditions, in order that sufficient water will be available at a reasonable cost to ensure public health, safety and welfare, further economic development and protect the agricultural and natural resources of the entire State.

For purposes of developing the State Water Plan, the State is divided into 16 regional water planning areas. Each regional water planning group for each regional water planning area must prepare a regional water plan and submit the plan to the Board for approval by the Board, and for inclusion in the State Water Plan. The regional water planning groups shall submit their adopted regional water plans to the Board no later than January 5 of the year that is one year prior to the date the Board is to adopt the State Water Plan for the ensuing five-year period.

On adoption of the State Water Plan, the Board is required to deliver the State Water Plan to the Governor, the Lieutenant Governor and the Speaker of the Texas House of Representatives, and present the adopted State Water Plan for review to the appropriate legislative committees in the Legislature.

In March 2016, the Board published a draft 2017 State Water Plan, including the 2017 Interactive State Water Plan website, and conducted a public hearing on April 18, 2016, to receive public comments on the draft 2017 State Water Plan. At its May 19, 2016 meeting, the Board unanimously approved the 2017 State Water Plan. The 2017 State Water Plan is available on the website of the Board at: <http://www.twdb.texas.gov/waterplanning/swp/2017/index.asp>.

Board Members

The members of the Board currently are:

Bech K. Bruun, Chairman. Appointed to the Board by Governor Rick Perry effective September 1, 2013, and designated Chairman of the Board by Governor Greg Abbott effective June 10, 2015. Prior to his appointment to the Board, Mr. Bruun served on the senior staff of Governor Rick Perry's administration. Mr. Bruun has also worked as the government and customer relations manager for the Brazos River Authority. During the 81st Legislative Session, Mr. Bruun served as chief of staff to State Representative Todd Hunter (District 32) and as general counsel to the House Committee on Judiciary and Civil Jurisprudence. Mr. Bruun currently is a gubernatorial appointee to the Western States Water Council and the Texas Environmental Flows Advisory Group. He also serves as an ex-officio member of the Texas Farm and Ranch Lands Conservation Council. He received a bachelor's degree in business administration from the University of Texas at Austin and a law degree from the University of Texas School of Law. He is a member of the State Bar of Texas. Mr. Bruun's term expires February 1, 2019.

Kathleen Jackson, Member. Appointed to the Board by Governor Rick Perry effective March 18, 2014, and appointed to a new term by Governor Greg Abbott effective December 15, 2015. Ms. Jackson has a diverse background representing agricultural, environmental, industrial and wholesale-supply interests, which includes developing and implementing water management strategies for Southeast Texas. As a registered professional engineer, Ms. Jackson served as public affairs manager for one of the world's largest petroleum and petrochemical producers. Additionally, she was involved in production agriculture with her late husband, who ran a cattle operation and farmed rice. She served as a past member of the Lower Neches Valley Authority Board of Directors, the Texas Water Conservation Association, and participated on the Sabine and Neches Rivers Bay and Estuary Environmental Flows Assessment Program Stakeholders Committee. She is also a board member and past president of the Lamar Institute of Technology Foundation, a sustaining member of the Junior League of Beaumont, a member of the Texas Farm Bureau, past president of the American Cancer Society of North Jefferson County, and a past board member of Junior Achievement of the Golden Triangle. Ms. Jackson received a bachelor's degree in chemical engineering from North Carolina State University. Ms. Jackson's term expires February 1, 2017.

Peter M. Lake, Member. Appointed to the Board by Governor Greg Abbott effective December 15, 2015. Mr. Lake has held a variety of financial roles in a number of industries. He served as director of research and head of automated trading at Gambit Trading, a member firm of the Chicago Board of Trade and the Chicago Mercantile Exchange, leading the firm's market research initiatives and directing the development of its first automated trading programs. He also traded interest rate derivatives, primarily focusing on U.S. Treasury bond futures. Additionally, Mr. Lake served as director of business development for Lake Ronel Oil Company, where he focused on financial analysis of upstream oil and gas opportunities. Mr. Lake was director of special operations for VantageCap Partners and played a key role in the due diligence, valuation and transactional aspects of the successful divestment of the firm's primary investment. Mr. Lake was born and raised in Tyler, Texas. He

graduated with a bachelor of arts in public policy with a specialization in economics from the University of Chicago, and he earned a master's of business administration from Stanford University's Graduate School of Business. Mr. Lake's term expires February 1, 2021.

Key Staff Members

Jeff Walker, Executive Administrator. Mr. Walker was named Executive Administrator of the TWDB on May 19, 2016. He has served in various positions at the TWDB for more than 25 years, including as an agricultural conservation specialist, a financial analyst, a non-point source coordinator, and director of Project Development. In his most recent role as deputy executive administrator of Water Supply and Infrastructure, his areas of responsibility included state water planning, project development, financial assistance, project funds disbursement, financial program administration, water use and population projections, facility needs assessment, project inspection, and reporting. Mr. Walker holds a Master of Business Administration from Texas State University and a Bachelor of Science in Agricultural Economics from Texas A&M University.

Cindy Demers, Chief Financial Officer and Development Fund Manager. Ms. Demers joined the Board as its Chief Financial Officer/Development Fund Manager in August 2015. Prior to the Board, she served as Controller for the Central Texas Regional Mobility Authority and Assistant City Manager for the City of Round Rock. Ms. Demers has over 20 years of experience in organizational leadership, financial policy development and municipal bond financing. She holds a Masters of Business Administration from St. Edward's University, a Bachelor's degree in Accounting from Concordia University and is a Certified Public Accountant.

Les Trobman, General Counsel. Mr. Trobman was appointed to serve as General Counsel effective November 1, 2013. Prior to joining the Board, Mr. Trobman served as the General Counsel for the TCEQ since 2007. He worked in various legal capacities with the TCEQ since 2003. Prior to joining the TCEQ, Mr. Trobman practiced law in the private sector in Washington, D.C. and served as counsel to the U.S. House of Representatives Budget Committee. Mr. Trobman is a current board member of the General Counsel Forum and a member of the American Inns of Court. Mr. Trobman received a bachelor's degree in political science from Washington University in St. Louis and a law degree from Tulane Law School.

Amanda Lavin, Assistant Executive Administrator. Ms. Lavin has more than 25 years of experience in public financing of infrastructure projects in Texas. She previously served as assistant deputy for the office of Water Supply and Infrastructure and helped supervise the implementation of the SWIRFT program. Prior to joining the TWDB, Ms. Lavin was a financial advisor to various political subdivisions in the Austin and Houston areas.

Jessica Peña Zuba, Deputy Executive Administrator, Water Supply and Infrastructure. Ms. Zuba joined the TWDB in July 2001. She was named the Deputy Executive Administrator of Water Supply and Infrastructure in May 2016. Prior to this role, she served as the director of Regional Water Planning and Development, which entailed managing six multi-disciplined regional teams that implement water and wastewater projects across the state. Her past positions at the TWDB also include team manager for the Northeast Region of the state and financial analyst. Ms. Zuba received a bachelor's degree in business administration with the distinction of magna cum laude from St. Edward's University.

Limitation of Liability of Officials of the Board

No present or future member of the Board or agent or employee of the Board, in his or her individual capacity, and neither the members of the Board nor any official executing the Bonds will be liable personally for payment on the Bonds or be subject to any personal liability or accountability by reason of the issuance of Bonds.

Bond Review Board Approval

With certain exceptions, bonds issued by State agencies and institutions, including bonds issued by the Board, must be approved by the Texas Bond Review Board ("*BRB*") prior to their issuance. The BRB is composed of the Governor of the State (the "*Governor*"), the Lieutenant Governor, the Speaker of the House of Representatives, and the Comptroller. The Governor is the Chairman of the BRB. Each member of the BRB may, and frequently does, act through a designee.

On June 13, 2016, the BRB approved the bonds.

Sunset Review of the Board

The Board is subject to review, but not abolishment, under the Texas Sunset Act, Chapter 325, Texas Government Code (the "*Sunset Act*"), by the Sunset Advisory Commission (the "*Commission*"). The Board was most recently reviewed in 2011 and is subject to review every 12th year thereafter. The Legislature, however, is not prohibited from considering legislation addressing the programs performed by the Board prior to such date. Pursuant to the Sunset Act, the Commission is required to make recommendations to the Legislature regarding the reorganization, consolidation or transfer of programs administered by the Board. The Sunset Act further prohibits

the Legislature from enacting legislation which would in any way affect the Board's continuing obligations, including those to the Holder of the Bonds pursuant to the Resolution.

GENERAL INFORMATION REGARDING THE STATE

Bond Appendix

The Comptroller prepares a quarterly appendix (the "*Bond Appendix*") which sets forth certain information regarding the State including its government, finances, economic profile and other matters for use by State entities when issuing debt. The most current Bond Appendix and the First and Second Supplements to the Bond Appendix are dated May 2016 and are incorporated herein as described in "**APPENDIX A – THE STATE OF TEXAS.**" See "**CONTINUING DISCLOSURE OF INFORMATION – Continuing Disclosure Undertaking of the Comptroller – General.**" With respect to evaluating the ability of the State to make timely payment of debt service on the Bonds based on the information contained in the Bond Appendix, no representation is made that such information contains all factors material to such an evaluation or that any specific information should be accorded any particular significance.

2015 State CAFR

The Texas 2015 Comprehensive Annual Financial Report for the year ended August 31, 2015 (the "*2015 CAFR*") is currently on file with the MSRB and may be obtained (i) using the MSRB's EMMA website, www.emma.msrb.org, by using the Quick Search function and entering the term "State of Texas Comptroller" or (ii) from the Comptroller's website at:

http://www.texasransparency.org/State_Finance/Budget_Finance/Reports/Comprehensive_Annual_Financial/. The 2015 CAFR is incorporated by reference and made a part of this Official Statement as if set forth herein.

LEGAL MATTERS

Legal Opinion

The Board will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the Board and, based upon examination of such transcript of proceedings, the legal opinion to like effect of Bracewell LLP, Bond Counsel. In its capacity as Bond Counsel, Bond Counsel has reviewed the information under the captions "**PLAN OF FINANCE**" (except the subcaption "**Anticipated Issuance of Additional Bonds**," as to which no opinion will be expressed), "**THE FIXED RATE BONDS**," "**THE VARIABLE RATE BOND**" "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**," "**LEGAL MATTERS**" (except the last two sentences of the first paragraph appearing under the subcaption "**Legal Opinion**" and the entirety of the information under the subcaption "**No-Litigation Certificate**" to which no opinion will be expressed), "**TAX MATTERS – TAX-EXEMPT BONDS**," "**TAX MATTERS – TAXABLE BONDS**," "**CONTINUING DISCLOSURE OF INFORMATION**" (excluding any information describing or otherwise pertaining to the continuing disclosure undertaking of the Comptroller and any statements with respect to Board's compliance with prior undertakings as to which no opinion will be expressed), and **APPENDIX C** to this Official Statement, and such firm is of the opinion that the information relating to the Bonds and the Resolution and such firm's legal conclusions contained under such captions and in **APPENDIX C** is a fair and accurate summary of the information purported to be shown therein. In connection with the transactions described herein, Bond Counsel represents only the Board. The legal opinions of Bond Counsel in the forms set forth in **APPENDIX C** to this Official Statement will accompany the Bonds deposited with DTC. Certain legal matters will be passed upon for the Board by its Disclosure Counsel, Mahomes Bolden PC. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP whose legal fee is contingent on the issuance and sale of the Bonds.

Bracewell LLP and Mahomes Bolden PC each represent the Underwriters from time to time on matters not related to the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

No-Litigation Certificate

No litigation or other governmental proceedings are pending or, to the knowledge of the Board, threatened which seek to prohibit, restrain or enjoin the issuance, execution and delivery of the Bonds or question the validity or enforceability of the Bonds or any of the proceedings taken in connection with the issuance thereof.

The State is party to various legal proceedings relating to its operations and governmental functions but such proceedings are unrelated to the Bonds or the security for the Bonds.

At the time of payment for and delivery of the Bonds, the Chairman of the Board and the Executive Administrator will execute and deliver a certification to the effect that no litigation of any nature has been filed or is then pending which would restrain the issuance and delivery of the Bonds or affect the provision made for their payment or security or in any manner question the validity of the Bonds.

Eligibility for Investment in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business & Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to the investment quality by a national rating agency before the Bonds are eligible investments for sinking funds or other public funds of such political subdivisions.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Board has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes. The Board has not made any review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. It is the obligation of the purchaser to register or qualify sale of the Bonds under the securities laws of any jurisdiction which so requires. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

TAX MATTERS-TAX EXEMPT BONDS

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes and (ii) the Tax-Exempt Bonds are not "private activity bonds" under the Code, and, as such, interest on the Tax-Exempt Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "*Service*"). The Board has covenanted in the Resolutions that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolutions pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes and, in addition, will rely on representations by the Board, the Board's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Board, the Board's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the Board fails to comply with the covenants in the Resolutions or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Tax-Exempt Bonds could become includable in gross income from the date of delivery of the Tax-Exempt Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Tax-Exempt Bonds, is included in a corporation's "adjusted current earnings," ownership of the Tax-Exempt Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Tax-Exempt Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Resolutions upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the exclusion of interest of the Tax-Exempt Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Tax-Exempt Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Board as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Tax-Exempt Bonds could adversely affect the value and liquidity of the Tax-Exempt Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Tax-Exempt Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Tax-Exempt Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Tax-Exempt Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Tax-Exempt Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all of the Tax-Exempt Bonds exceeds the stated redemption price payable at maturity of such Tax-Exempt Bonds. Such Tax-Exempt Bonds (the "*Premium Tax-Exempt Bonds*") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Tax-Exempt Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Tax-Exempt Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Tax-Exempt Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Tax-Exempt Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Tax-Exempt Bond) is determined using the yield to maturity on the Premium Tax-Exempt Bond based on the initial offering price of such Premium Tax-Exempt Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Tax-Exempt Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Tax-Exempt Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes

of amortized bond premium upon the redemption, sale or other disposition of a Premium Tax-Exempt Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Tax-Exempt Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

TAX MATTERS – TAXABLE BONDS

General

The following discussion summarizes certain material U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Taxable Bonds by an initial holder (as described below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Neither the Board nor Bond Counsel offers any assurance that the Internal Revenue Service (the "*Service*") will not challenge one or more of the tax consequences described in this discussion, and neither of the Board nor Bond Counsel has obtained, nor do the Board or Bond Counsel intend to obtain, a ruling from the Service or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Taxable Bonds.

This discussion is limited to holders who purchase the Taxable Bonds in this initial offering for a price equal to the issue price of the Taxable Bonds (*i.e.*, the first price at which a substantial amount of the Taxable Bonds is sold for cash other than to Taxable Bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers, the "*Issue Price*") and who hold the Taxable Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. Bondholders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Taxable Bonds as part of a hedge, straddle, conversion or other "synthetic security" or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and
- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Taxable Bonds, the tax treatment of such partnership or a partner of such partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships acquiring Taxable Bonds and partners of partnerships acquiring the Taxable Bonds should consult their own tax advisors about the U.S. federal income tax consequences of acquiring, holding and disposing of the Taxable Bonds.

INVESTORS CONSIDERING THE PURCHASE OF THE TAXABLE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES

OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

In certain circumstances (see "**THE FIXED RATE BONDS—Redemption Provisions**") the Board may be obligated to pay amounts on the Taxable Bonds that are in excess of stated interest or principal on the Taxable Bonds. The Board does not intend to treat the possibility of paying such additional amounts as (i) affecting the determination of the yield to maturity of the Taxable Bonds, (ii) giving rise to original issue discount or recognition of ordinary income on the sale, exchange or redemption of the Taxable Bonds or (iii) resulting in the Taxable Bonds being treated as contingent payment debt instruments under the applicable Treasury Regulations. The Board's treatment will be binding on all Bondholders, except a Bondholder that discloses its differing treatment in a statement attached to its timely filed U.S. federal income tax return for the taxable year during which the Taxable Bond was acquired.

The Board's position is not, however, binding on the Service, and if the Service were to successfully challenge this position, a Bondholder might be required to accrue interest income at a higher rate than the stated interest rate on the Taxable Bonds, and to treat as ordinary interest income any gain realized on the taxable disposition of Taxable Bonds. The remainder of this discussion assumes that the Taxable Bonds will not be treated as contingent payment debt instruments. Bondholders should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the Taxable Bonds.

Tax Consequences to U.S. Bondholders

As used herein "*U.S. Bondholder*" means a beneficial owner of a Taxable Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Interest on the Taxable Bonds

A U.S. Bondholder will be required to include any stated interest payments in income in accordance with its method of accounting for U.S. federal income tax purposes. If a U.S. Bondholder is a cash method taxpayer, such holder must report interest on the Taxable Bonds as ordinary income when it is received. If a U.S. Bondholder is an accrual method taxpayer, such holder must report the interest on the Taxable Bonds as ordinary income as it accrues.

Disposition of the Taxable Bonds

A U.S. Bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Bond. This gain or loss will equal the difference between the U.S. Bondholder's adjusted tax basis in the Taxable Bond and the amount realized (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent any such Bondholder has not previously included such amounts in income) by the Bondholder. A U.S. Bondholder's adjusted tax basis in the Taxable Bonds will generally equal the amount the U.S. Bondholder paid for the Taxable Bonds increased by any original issue discount previously included in the Bondholder's income and decreased by the amount of the Taxable Bond premium that has been previously amortized. The gain or loss generally will be long-term capital gain or loss if the Bondholder held the Taxable Bonds for more than one year at the time of the sale, redemption, exchange, retirement or other taxable disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

Additional Tax on Investment Income

An additional 3.8% net investment income tax, or the "*NIIT*," is imposed on the "net investment income" of certain U.S. Bondholders who are individuals and on the undistributed "net investment income" of certain estates and trusts, to the extent the sum of net investment income and other modified adjusted gross income exceeds specified dollar amounts. Among other items, "net investment income" would generally include interest income and net gain from the disposition of property, such as the Taxable Bonds, less certain deductions. U.S. Bondholders should consult their tax advisors with respect to the tax consequences of the NIIT.

Tax Consequences to Non-U.S. Bondholders

As used herein, a "non-U.S. Bondholder" means a beneficial owner of Taxable Bonds that is an individual, corporation, estate or trust that is not a U.S. Bondholder.

Interest on the Taxable Bonds-Portfolio Interest

Subject to the discussions below under the headings "Information Reporting and Backup Withholding—Non-U.S. Bondholders" and "Information Reporting and Backup Withholding—Foreign Account Tax Compliance," payments to a non-U.S. Bondholder of interest on the Taxable Bonds generally will be exempt from withholding of U.S. federal tax under the "portfolio interest" exemption if the non-U.S. Bondholder properly certifies as to the non-U.S. Bondholder's foreign status as described below, and:

- the non-U.S. Bondholder does not own, actually or constructively, 10% or more of the Board's voting stock;
- the non-U.S. Bondholder is not a "controlled foreign corporation" for U.S. federal income tax purposes that is related to the Board (actually or constructively); and
- the non-U.S. Bondholder is not a bank whose receipt of interest on the Taxable Bonds is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of such Bondholder's trade or business.

The foregoing exemption from withholding tax will not apply unless (i) the non-U.S. Bondholder provides his, her or its name and address on an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form), and certifies under penalties of perjury, that such holder is not a U.S. person, (ii) a financial institution holding the Taxable Bonds on a non-U.S. Bondholder's behalf certifies, under penalties of perjury, that it has received an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form) from such holder and provides the Trustee with a copy or (iii) the non-U.S. Bondholder holds their Taxable Bonds directly through a "qualified intermediary," and the qualified intermediary has sufficient information in its files indicating that such holder is not a U.S. Bondholder.

If a non-U.S. Bondholder cannot satisfy the requirements described above, payments of principal and interest made to such holder will be subject to the 30% U.S. federal withholding tax, unless such non-U.S. Bondholder provides the Trustee with a properly executed (a) IRS Form W-8BEN or IRS Form W-8-BEN-E or successor form claiming an exemption from or a reduction of withholding under an applicable tax treaty or (b) IRS Form W-8ECI (or successor form) stating that interest paid on the Taxable Bonds is not subject to withholding tax because it is effectively connected with such non-U.S. Bondholder's conduct of a trade or business in the United States.

If a non-U.S. Bondholder is engaged in an active trade or business in the United States and interest on the Taxable Bonds is effectively connected with the active conduct of that trade or business (and, in the case of an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by such holder), such non-U.S. Bondholder will be subject to U.S. federal income tax on the interest on a net income basis (although exempt from the 30% withholding tax) in the same manner as if such non-U.S. Bondholder were a U.S. person as defined under the Code. In addition, if a non-U.S. Bondholder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of such holder's earnings and profits for the taxable year, subject to certain adjustments, including earnings and profits from an investment in the Taxable Bonds, that is effectively connected with the active conduct by such non-U.S. Bondholder of a trade or business in the United States.

Disposition of the Taxable Bonds

Subject to the discussions below under the headings "**Information Reporting and Backup Withholding—Non-U.S. Bondholders**" and "**Information Reporting and Backup Withholding—Foreign Account Tax Compliance**," a non-U.S. Bondholder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Bond unless:

- the gain is effectively connected with the conduct by the non-U.S. Bondholder of a U.S. trade or business (and, if required by an applicable income tax treaty, is treated as attributable to a permanent establishment maintained by the Bondholder in the United States);
- the non-U.S. Bondholder is a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met;
- the gain represents accrued interest, in which case the rules for taxation of interest would apply.

If a non-U.S. Bondholder is described in the first bullet point above, the non-U.S. Bondholder generally will be subject to U.S. federal income tax in the same manner as a U.S. Bondholder. If a non-U.S. Bondholder is described in the second bullet point above, the Bondholder generally will be subject to U.S. federal income tax at a flat rate of

30% or lower applicable treaty rate on the gain derived from the sale or other disposition, which may be offset by U.S. source capital losses.

Information Reporting and Backup Withholding

U.S. Bondholders

Information reporting will apply to payments of principal and interest made by the Board on, or the proceeds of the sale or other disposition of, the Taxable Bonds with respect to U.S. Bondholders (unless such holder is an exempt recipient such as a corporation), and backup withholding, currently at a rate of 28%, may apply unless the recipient of such payment provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against the U.S. Bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the U.S. Bondholder's actual U.S. federal income tax liabilities provided the required information is timely provided to the Service.

Non-U.S. Bondholders

Payments to non-U.S. Bondholders of interest on their Taxable Bonds and any amounts withheld from such payments generally will be reported to the Service and such holder. Backup withholding will not apply to payments of principal and interest on the Taxable Bonds if the non-U.S. Bondholder certifies as to his, her or its non-U.S. Bondholder status on an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form) under penalties of perjury or such non-U.S. Bondholder otherwise qualifies for an exemption (provided that neither the Board nor its agent, if any, know or have reason to know that such Bondholder is a U.S. person or that the conditions of any other exemptions are not in fact satisfied).

The payment of the proceeds of the disposition of Taxable Bonds to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and backup withholding unless a non-U.S. Bondholder provides the certification described above or such Bondholder otherwise qualifies for an exemption. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against the non-U.S. Bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the non-U.S. Bondholder's actual U.S. federal income tax liabilities provided the required information is timely provided to the Service.

Foreign Account Tax Compliance

Pursuant to the Foreign Account Tax Compliance Act ("*FATCA*"), withholding at a rate of 30% generally will be required in certain circumstances on payments of interest in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition (including payments of principal) of, Taxable Bonds held by or through certain foreign financial institutions (including investment funds) that do not qualify for an exemption from these rules, unless the institution either (i) enters into, and complies with, an agreement with the Service to undertake certain diligence and to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold 30% on certain payments, or (ii) if required under an intergovernmental agreement between the United States and an applicable foreign country, undertakes such diligence and reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury Regulations or other guidance, may modify these requirements. Accordingly, the entity through which the Taxable Bonds are held will affect the determination of whether such withholding is required. Similarly, in certain circumstances, payments of interest in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, Taxable Bonds held by or through a non-financial foreign entity that does not qualify under certain exemptions generally will be subject to withholding at a rate of 30%, unless such entity either (a) certifies that such entity does not have any "substantial United States owners" or (b) provides certain information regarding the entity's "substantial United States owners," which will be provided to the Service, as required. Prospective Bondholders should consult their tax advisors regarding the possible implications of these rules on their investment in the Taxable Bonds.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF TAXABLE BONDS, INCLUDING THE EFFECT AND APPLICABILITY OF (I) U.S. FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS, (II) GIFT AND ESTATE TAX LAWS, AND (III) ANY INCOME TAX TREATY.

CONTINUING DISCLOSURE OF INFORMATION

Each of the Board and the Comptroller has entered into a separate undertaking for the benefit of bondholders to provide certain updated information and notices to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Continuing Disclosure Undertaking of the Board

General. In the Resolution, the Board has made the following agreement for the benefit of the holders and Beneficial Owners of the related Bonds. The Board is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB through EMMA.

Annual Reports. The Board will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes TABLES 1 and 2 of this Official Statement and the financial information and operating data in **APPENDIX B**. The Board will update and provide this information within 195 days after the end of each fiscal year ending in or after 2016.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's website or filed with the SEC, as permitted by SEC Rule 15c2-1 2 (the "Rule"). The updated information will include audited financial statements, if the Board or the State, as appropriate, commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Board will provide unaudited financial statements within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with generally accepted accounting principles for governmental entities or such other accounting principles as the Board may be required to employ from time to time pursuant to State law or regulation.

The Board's current fiscal year end is August 31. Accordingly, it must provide updated information within 195 days thereof unless the Board changes its fiscal year. If the Board changes its fiscal year, it will notify the MSRB of the change prior to the next date by which the Board otherwise would be required to provide financial information and operating data as described above.

Event Notices. The Board will notify the MSRB in a timely manner, not in excess of ten (10) Business Days (as defined in the Resolutions) after the occurrence of any of the events listed below. The Board will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Board; (13) the consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material. In addition, the Board will provide timely notice of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under "**Continuing Disclosure Undertaking of the Board – Annual Reports.**" None of the Bonds or Resolutions make provision for credit if enforcement or liquidity enforcement for the Bonds in their Limited Term Mode or for any debt service reserve funds.

For the purposes of the event numbered 12 in the preceding paragraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board.

Continuing Disclosure Undertaking of the Comptroller

General. The Comptroller has entered into a Continuing Disclosure Agreement with the Bond Review Board dated as of August 17, 1995 and amended January 25, 2010. The Board and the legal and beneficial owners of the Bonds are third-party beneficiaries of the Comptroller's agreement. The Comptroller is required to observe this agreement in respect of any issue of Securities (as defined in the agreement) for so long as the State remains an "obligated person." Under the agreement, the Comptroller will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB.

In addition to the information that the Comptroller has agreed to provide annually as described below, the Comptroller currently prepares an updated disclosure appendix (Bond Appendix and the First and Second Supplements to the Bond Appendix attached hereto as **APPENDIX A**) quarterly for use in State agency securities offerings. The Comptroller intends to continue to prepare or supplement the Bond Appendix quarterly and to provide annual information in accordance with the disclosure agreement.

Certain tables within the Bond Appendix, as currently prepared by the Comptroller, are updated on a quarterly basis while other tables within such appendix are updated on an annual basis. Under the Continuing Disclosure Agreement, the Comptroller is not obligated to provide such financial and operating data more frequently than on an annual basis.

Annual Reports. The Comptroller will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the State of the general type referred to in the Bond Appendix. The Comptroller will update and provide this information within 195 days after the end of each Fiscal Year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA website or filed with the SEC, as permitted by the Rule. The updated information provided by the Comptroller will be provided on a cash basis and will not be audited, but the Comptroller will provide audited financial statements of the State prepared in accordance with generally accepted accounting principles for governmental entities when the State Auditor completes its statutorily required audit of such financial statements. The accounting principles pursuant to which such financial statements must be prepared may be changed from time to time to comply with State law.

The State's current fiscal year end is August 31. Accordingly, the Comptroller must provide updated information within 195 days thereof in each year unless the State changes its fiscal year. If the State changes its fiscal year, the Comptroller will notify the MSRB of the change prior to the next date by which the Comptroller otherwise would be required to provide financial information and operating data as described above.

Event Notices. The Comptroller will also provide timely notice of its failure to provide information, data, or financial statements in accordance with its agreement described above under "**Continuing Disclosure Undertaking of the Comptroller – Annual Reports.**" Such notice will be provided to the MSRB.

Availability of Information

The Board and the Comptroller have agreed to provide the foregoing financial and operating information only as described above. The Board and the Comptroller will be required to file their respective continuing disclosure information using the MSRB's EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The Board and the Comptroller have agreed to update information and to provide notices of disclosure events only as described above. Neither is responsible for performance of the other's agreement, and neither has agreed to provide other information that may be relevant or material to a complete presentation of the Board's or the State's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. Each disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board and the Comptroller may amend their respective continuing disclosure agreements from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board or the State, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding

Bonds consent to the amendment or (b) a person unaffiliated with the State, the Comptroller, the BRB and the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of such Bonds. The Board or the Comptroller may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Board or the Comptroller so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

With respect to the 2011 Continuing Disclosure Annual Report, the Board has determined that the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets for the Clean Water State Revolving Fund was inadvertently omitted; however such financial statements were included in prior and subsequent continuing disclosure filings. It is the Board's position that such inadvertent omission is not a failure to comply, in all material respects, with any of its prior undertakings. On April 9, 2015, the Board filed an event notice regarding this inadvertent omission through the MSRB's EMMA system.

OTHER INFORMATION

Ratings

Fitch Ratings, Moody's Investors Service, Inc. and Standard and Poor's Financial Services LLC business, have assigned ratings of "AAA," "Aaa" and "AAA" respectively, to the Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such rating companies and the Board and the Underwriters make no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies if, in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

Underwriting

J. P. Morgan Securities LLC, as representative of the Underwriters of the Bonds (the "*Representative*"), has agreed, subject to certain conditions, to purchase the Subseries 2016B-1 Bonds at a purchase price of \$68,668,121.18 (consisting of a principal amount of \$58,555,000.00, plus an original issue premium of \$10,301,262.55, and less an underwriting discount of \$188,141.37), the Subseries 2016B-2 (Variable Rate) Bonds at a purchase price of \$30,566,710.18 (consisting of a principal amount of \$30,360,000.00, plus an original issue premium of \$331,227.60, and less an underwriting discount of \$124,517.42) and the Subseries 2016B-3 (Taxable) Bonds at a purchase price of \$18,883,605.40 (consisting of a principal amount of \$18,950,000.00 less an underwriting discount of \$66,394.60).

The Representative has agreed, subject to certain conditions, to purchase the Subseries 2016C-1 Bonds at a purchase price of \$33,976,605.26 (consisting of a principal amount of \$28,815,000.00, plus an original issue premium of \$5,243,193.05, and less an underwriting discount of \$81,587.79) and the Subseries 2016C-2 (Taxable) Bonds at a purchase price of \$1,305,308.46 (consisting of a principal amount of \$1,310,000.00 less an underwriting discount of \$4,691.54).

The Representative has agreed, subject to certain conditions, to purchase the Series 2016D Bonds at a purchase price of \$13,809,987.17 (consisting of a principal amount of \$11,550,000.00, plus an original issue premium of \$2,307,357.90, and less an underwriting discount of \$47,370.73).

The Underwriters will be obligated to purchase all of the Bonds of a series if any Bonds are purchased.

The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of the Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have furnished for inclusion in this Official Statement the following paragraphs of this subcaption. The Board makes no representation as to the accuracy or completeness of the information contained in the following paragraphs.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their

respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory -and investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Board or the State.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The Board intends to use a portion of the proceeds from the Bonds to redeem the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Bonds, such Underwriter or its affiliate, as applicable, would receive, as an owner of a Refunded Bond, a portion of the proceeds from the issuance of the Bonds contemplated herein in connection with such Refunded Bonds being redeemed by the Board.

The Representative has entered into negotiated dealer agreements (each, a "*Dealer Agreement*") with each of Charles Schwab & Co., Inc. ("*CS&Co.*") and LPL Financial LLC ("*LPL*") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from the Representative at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Unaudited Financial Information

The Board provides financial information and operating data regarding the Development Fund II in **APPENDIX B** to this Official Statement. The information presented in **APPENDIX B** is unaudited, and is prepared in accordance with State requirements for State agencies.

Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided to the reader by the Board that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Board's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements. It is important to note that the Board's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Certification of Official Statement

The financial and other information contained herein have been obtained from the Board's records and other sources which are deemed reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and the Resolutions contained in this Official Statement are made subject to all of the provisions of such statutes and documents and the Resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

At the time of payment for and delivery of the Bonds, the Board will be furnished a letter from the State, signed on behalf of the State by the Comptroller, upon which the Underwriters will be authorized to rely, to the effect that (a) to the best of the Comptroller's knowledge and belief, **APPENDIX A** hereto is true and correct as of its date and does not contain an untrue statement of a material fact or omit to state a material fact that would make the

statements made therein, in light of the circumstances under which they are made, misleading; (b) the information therein has been obtained from sources which he believes to be reliable; and (c) the Comptroller has entered into a continuing disclosure agreement with the Texas Bond Review Board, for the benefit of the Board and the legal and beneficial owners of the Bonds, to provide, with respect to the State, updated financial information and operating data of the type referred to in **APPENDIX A** hereto and timely notice of certain specified events.

Financial Advisor

FirstSouthwest, a Division of Hilltop Securities Inc. ("*FirstSouthwest*") is employed as Financial Advisor to the Board in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. FirstSouthwest, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Board has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Board and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

First Southwest Company, LLC merged with its common control affiliate, Hilltop Securities Inc. ("*HilltopSecurities*"). The merger was completed at the close of business on January 22, 2016, at which time HilltopSecurities, as the surviving entity, automatically assumed all rights and obligations of First Southwest.

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Approval of Official Statement

The Resolution approves the form and content of this Official Statement, and authorizes its further use in the reoffering of the Bonds by the Underwriters. Questions regarding this Official Statement may be directed to Cindy Demers, Chief Financial Officer and Development Fund Manager, Texas Water Development Board, 1700 North Congress Avenue, Suite 610I, Austin, Texas 78701; Telephone: (512) 936-0809; Electronic Mail: cindy.demers@twdb.texas.gov.

TEXAS WATER DEVELOPMENT BOARD

/s/ Jeff Walker
Executive Administrator
Texas Water Development Board

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SCHEDULE I SCHEDULE OF REFUNDED BONDS

All of the Refunded Bonds shown will be called for redemption on August 1, 2016 at the price of par plus accrued interest to the redemption date.

Bonds Refunded by Subseries 2016B-1 Bonds

\$55,675,000
State of Texas
Water Financial Assistance and Refunding Bonds,
Series 2005A

| Maturity Date | Interest Rate (%) | Principal Amount |
|--------------------------|--------------------------|-----------------------------|
| <u>(August 1)</u> | <u></u> | <u>Refunded (\$)</u> |
| 2017 | 5.000 | 3,035,000 |
| 2018 | 5.000 | 3,205,000 |
| 2019 | 5.000 | 3,385,000 |
| 2026 | 5.000 | 1,495,000 |
| 2027 | 5.000 | <u>1,570,000</u> |
| | | <u>12,690,000</u> |

\$27,295,000
State of Texas
Water Financial Assistance Refunding Bonds,
Series 2013F

| Maturity Date | Interest Rate (%) | Principal Amount |
|--------------------------|--------------------------|-----------------------------|
| <u>(August 1)</u> | <u></u> | <u>Refunded (\$)</u> |
| 2019 | 5.000 | <u>3,080,000</u> |

Bonds Refunded by Subseries 2016B-2 Bonds

\$55,675,000
State of Texas
Water Financial Assistance and Refunding Bonds,
Series 2005A

| Maturity Date | Interest Rate (%) | Principal Amount |
|--------------------------|--------------------------|-----------------------------|
| <u>(August 1)</u> | <u></u> | <u>Refunded (\$)</u> |
| 2020 | 5.000 | 3,585,000 |
| 2021 | 5.000 | 1,170,000 |
| 2022 | 5.000 | 1,230,000 |
| 2023 | 5.000 | 1,290,000 |
| 2024 | 5.000 | 1,355,000 |
| 2025 | 5.000 | <u>1,430,000</u> |
| | | <u>10,060,000</u> |

\$27,295,000
State of Texas
Water Financial Assistance Refunding Bonds,
Series 2013F

| Maturity Date (August 1) | Interest Rate (%) | Principal Amount Refunded (\$) |
|-------------------------------------|--------------------------|---|
| 2020 | 5.000 | 4,215,000 |
| 2021 | 5.000 | 4,435,000 |
| 2022 | 5.000 | 4,645,000 |
| 2023 | 5.000 | 3,955,000 |
| 2024 | 5.000 | <u>3,165,000</u> |
| | | <u>20,415,000</u> |

Bonds Refunded by Subseries 2016B-3 Bonds

\$50,915,000
State of Texas
Water Financial Assistance and Refunding Bonds,
Taxable Series 2003B

| Maturity Date (August 1) | Interest Rate (%) | Principal Amount Refunded (\$) |
|-------------------------------------|--------------------------|---|
| 2017 | 4.350 | 1,000,000 |
| 2018 | 4.450 | <u>310,000</u> |
| | | <u>1,310,000</u> |

\$70,330,000
State of Texas
Water Financial Assistance and Refunding Bonds,
Series 2003C

| Maturity Date (August 1) | Interest Rate (%) | Principal Amount Refunded (\$) |
|-------------------------------------|--------------------------|---|
| 2019 | 4.000 | 30,000 |
| 2019 | 5.000 | 535,000 |
| 2020 | 4.100 | 10,000 |
| 2020 | 5.000 | 580,000 |
| 2021 | 5.000 | 615,000 |
| 2022 | 5.000 | 645,000 |
| 2023 | 4.300 | 160,000 |
| 2023 | 5.000 | <u>530,000</u> |
| | | <u>3,105,000</u> |

\$55,675,000
State of Texas
Water Financial Assistance and Refunding Bonds,
Series 2005A

| Maturity Date <u>(August 1)</u> | <u>Interest Rate (%)</u> | Principal Amount <u>Refunded (\$)</u> |
|--|---------------------------------|--|
| 2017 | 5.000 | 650,000 |
| 2018 | 5.000 | 690,000 |
| 2019 | 5.000 | 730,000 |
| 2020 | 5.000 | 775,000 |
| 2021 | 5.000 | 255,000 |
| 2022 | 5.000 | 265,000 |
| 2023 | 5.000 | 280,000 |
| 2024 | 5.000 | 295,000 |
| 2025 | 5.000 | 300,000 |
| 2026 | 5.000 | 325,000 |
| 2027 | 5.000 | <u>340,000</u> |
| | | <u>4,905,000</u> |

\$15,000,000
State of Texas
Water Financial Assistance Bonds,
Series 2005B

| Maturity Date <u>(August 1)</u> | <u>Interest Rate (%)</u> | Principal Amount <u>Refunded (\$)</u> |
|--|---------------------------------|--|
| 2020 | 4.900 ¹ | 2,915,000 |
| 2027 | 5.130 ¹ | <u>6,715,000</u> |
| | | <u>9,630,000</u> |

Bonds Refunded by Subseries 2016C-1 Bonds

\$49,270,000
State of Texas
Water Financial Assistance Refunding Bonds,
Series 2005C (Economically Distressed Areas Program)

| Maturity Date <u>(August 1)</u> | <u>Interest Rate (%)</u> | Principal Amount <u>Refunded (\$)</u> |
|--|---------------------------------|--|
| 2017 | 5.000 | 3,000,000 |
| 2018 | 5.000 | 3,095,000 |
| 2019 | 5.000 | 3,320,000 |
| 2020 | 5.000 | 5,980,000 |
| 2021 | 5.000 | 4,880,000 |
| 2022 | 5.000 | 4,825,000 |
| 2023 | 5.000 | 3,710,000 |
| 2024 | 5.000 | 3,175,000 |
| 2025 | 5.000 | <u>1,915,000</u> |
| | | <u>33,900,000</u> |

¹Denotes a portion of a term bond.

Bonds Refunded by Subseries 2016C-2 Bonds

\$49,270,000
State of Texas
Water Financial Assistance Refunding Bonds,
Series 2005C (Economically Distressed Areas Program)

| Maturity Date <u>(August 1)</u> | <u>Interest Rate (%)</u> | Principal Amount <u>Refunded (\$)</u> |
|--|---------------------------------|--|
| 2017 | 5.000 | 115,000 |
| 2018 | 5.000 | 120,000 |
| 2019 | 5.000 | 130,000 |
| 2020 | 5.000 | 230,000 |
| 2021 | 5.000 | 190,000 |
| 2022 | 5.000 | 185,000 |
| 2023 | 5.000 | 145,000 |
| 2024 | 5.000 | 120,000 |
| 2025 | 5.000 | <u>75,000</u> |
| | | <u>1,310,000</u> |

Bonds Refunded by Series 2016D Bonds

\$49,840,000
State of Texas
Water Financial Assistance Refunding Bonds,
Series 2001C (State Participation Program)

| Maturity Date <u>(August 1)</u> | <u>Interest Rate (%)</u> | Principal Amount <u>Refunded (\$)</u> |
|--|---------------------------------|--|
| 2023 | 5.250 ¹ | 610,000 |
| 2026 | 5.750 ¹ | 2,050,000 |
| 2031 | 5.750 ¹ | 4,815,000 |
| 2035 | 5.250 ¹ | <u>6,300,000</u> |
| | | <u>13,775,000</u> |

¹ Denotes a portion of a term bond.

APPENDIX A

THE STATE OF TEXAS

The Bond Appendix and the First and Second Supplements to the Bond Appendix dated May 2016 (together, the "*Bond Appendix*") are currently on file with the MSRB and are hereby incorporated by reference and made a part of this Official Statement. The Bond Appendix may be obtained (i) using the MSRB's EMMA website, www.emma.msrb.org, by using the Quick Search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: <http://www.comptroller.texas.gov/treasops/bond-appendix.php> until the Comptroller files a later version of such Bond Appendix.

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APPENDIX B
SELECTED FINANCIAL DATA (UNAUDITED)

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UNAUDITED (1)

**Texas Water Development Board
Statement of Net Position - Water Development Fund II (DFund II)**

August 31,

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents: | | | | | |
| Cash in State Treasury | 94,332,699 | 85,043,572 | 132,787,989 | 86,441,332 | 56,045,096.96 |
| Receivables from: | | | | | |
| Interest and Dividends | 6,842,210 | 8,749,492 | 12,488,627 | 12,485,259 | 40,719,692.72 |
| Accounts Receivable | 65,469 | 34,991 | | | |
| Interfund Receivables | 12,050,048 | 13,561,621 | 14,569,103 | 15,621,931 | 31,890,448.40 |
| Due From Other Funds | 44,876,452 | 43,681,814 | 56,734,372 | 53,632,348 | 80,414,334.28 |
| Loans and Contracts | 19,907,820 | 16,394,452 | 24,578,508 | 28,546,690 | 24,801,731.48 |
| Total Current Assets | 178,074,698 | 167,465,942 | 241,158,599 | 196,727,558 | 233,871,303.84 |
| Non-Current Assets: | | | | | |
| Loans and Contracts | 618,914,585 | 820,366,125 | 938,037,616 | 918,572,727 | 867,220,593.80 |
| Interfund Receivables | 296,988,964 | 313,427,765 | 323,020,525 | 319,964,622 | 345,392,103.83 |
| Total Non-Current Assets | 915,903,549 | 1,133,793,890 | 1,261,058,141 | 1,238,537,348 | 1,212,612,697.63 |
| Total Assets | 1,093,978,247 | 1,301,259,832 | 1,502,216,740 | 1,435,264,907 | 1,446,484,001.47 |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Payables from: | | | | | |
| Accounts Payable | 5,000 | 14,349 | 93,783 | 24,596 | |
| Interest Payable | 3,599,661 | 4,229,272 | 4,754,655 | 4,872,862 | 4,032,514.83 |
| Due to Other Funds | 42,274,438 | 40,998,829 | 54,066,387 | 50,955,652 | 80,414,334.28 |
| G. O. Bonds Payable | 39,505,000 | 37,827,856 | 49,321,361 | 46,086,849 | 54,529,132.96 |
| Total Current Liabilities | 85,384,099 | 83,070,306 | 108,236,186 | 101,939,960 | 138,975,982.07 |
| Non-Current Liabilities: | | | | | |
| G. O. Bonds Payable (net) | 825,540,000 | 1,031,410,152 | 1,203,399,230 | 1,135,606,767 | 1,092,289,072.85 |
| Total Non-Current Liabilities | 825,540,000 | 1,031,410,152 | 1,203,399,230 | 1,135,606,767 | 1,092,289,072.85 |
| Total Liabilities | 910,924,099 | 1,114,480,458 | 1,311,635,416 | 1,237,546,726 | 1,231,265,054.92 |
| NET POSITION | | | | | |
| Unrestricted | 183,054,148 | 186,779,374 | 190,581,324 | 197,718,180 | 215,218,946.55 |
| Total Net Position (2) | 183,054,148 | 186,779,374 | 190,581,324 | 197,718,180 | 215,218,946.55 |

(1) The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level.

(2) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

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UNAUDITED (1)

**Texas Water Development Board
Statement of Activities - Water Development Fund II (DFund II)**

For the Fiscal Year Ended August 31,

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------------------|--------------------|--------------------|--------------------|-----------------------|
| OPERATING REVENUES: | | | | | |
| Licenses Fees & Permits | | | | | 417,351.80 |
| Interest and Investment Income | 50,602,160 | 53,555,335 | 61,276,948 | 61,465,749 | 80,368,322.54 |
| Total Operating Revenues | 50,602,160 | 53,555,335 | 61,276,948 | 61,465,749 | 80,785,674.34 |
| OPERATING EXPENSES: | | | | | |
| Professional Fees and Services | 112,487 | 513,339 | 940,459 | 226,013 | 552,662.71 |
| Travel | | 4,686 | 4,791 | | |
| Printing and Reproduction | | 1,571 | 1,231 | | 1,815.82 |
| Interest | 44,698,711 | 47,957,802 | 55,613,279 | 53,352,986 | 48,003,878.98 |
| Other Operating Expenses | 8,804 | 1,352,711 | 915,238 | 749,894 | (300,320.63) |
| Total Operating Expenses | 44,820,002 | 49,830,109 | 57,474,998 | 54,328,893 | 48,258,036.88 |
| Operating Income (Loss) | 5,782,158 | 3,725,226 | 3,801,950 | 7,136,856 | 32,527,637.46 |
| Income/(Loss) before Other Revenues, Expenses, Gains/Losses and Transfers | 5,782,158 | 3,725,226 | 3,801,950 | 7,136,856 | 32,527,637.46 |
| OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS: | | | | | |
| Transfers-In | 255,459,708 | 54,053,857 | 379,202,818 | 53,342,515 | 146,116,607.94 |
| Transfers-Out | (255,491,708) | (54,053,857) | (379,202,818) | (53,342,515) | (146,114,607.94) |
| Total Other Revenue, Expenses, Gain/Losses and Transfers | (32,000) | - | - | - | 2,000.00 |
| Change in Net Position | 5,750,158 | 3,725,226 | 3,801,950 | 7,136,856 | 32,529,637.46 |
| Total Net Position, September 1, XXXX | 177,303,990 | 183,054,148 | 186,779,374 | 190,581,324 | 182,689,309.09 |
| Total Net Position, August 31, Ending (2) | 183,054,148 | 186,779,374 | 190,581,324 | 197,718,180 | 215,218,946.55 |

(1) The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level. Any adjustments related to the agency's financial data as a result of the CAFR Audit are not reflected in the amounts reported here.

(2) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

UNAUDITED (1)

Texas Water Development Board
Statement of Net Position – Economically Distressed Area Program (EDAP) Funds

August 31,

| | Governmental Funds Total 2011 (2)(3) | Long-Term Liabilities Adjustments 2011 (2) | Statement of Net Assets 2011 (2) | Governmental Funds Total 2012 (2) | Long-Term Liabilities Adjustments 2012 (2) | Statement of Net Assets 2012 (2) |
|---|---|---|---|--|---|---|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents: | | | | | | |
| Cash in State Treasury | 27,037,768 | | 27,037,768 | 13,112,131 | | 13,112,131 |
| Receivables From: | | | | | | |
| Interest and Dividends | 212,220 | | 212,220 | 199,916 | | 199,916 |
| Accounts Receivable | 18,513 | | 18,513 | 4,787 | | 4,787 |
| Loans and Contracts | 1,334,360 | | 1,334,360 | 1,428,103 | | 1,428,103 |
| Total Current Assets | 28,602,861 | - | 28,602,861 | 14,744,937 | - | 14,744,937 |
| Non-Current Assets: | | | | | | |
| Loans & Contracts | 23,743,713 | | 23,743,713 | 23,444,661 | | 23,444,661 |
| Investments | - | | - | - | | - |
| Interfund Receivables | - | | - | - | | - |
| Other Noncurrent Assets | - | | - | - | | - |
| Total Noncurrent Assets | 23,743,713 | - | 23,743,713 | 23,444,661 | - | 23,444,661 |
| Total Assets | 52,346,574 | - | 52,346,574 | 38,189,598 | - | 38,189,598 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Current Liabilities: | | | | | | |
| Payables From: | | | | | | |
| Accounts Payable | | | - | 55,884 | | 55,884 |
| Interest Payable | | 749,895 | 749,895 | | 696,527 | 696,527 |
| General Obligation Bonds Payable | | 12,797,055 | 12,797,055 | | 14,201,235 | 14,201,235 |
| Total Current Liabilities | - | 13,546,950 | 13,546,950 | 55,884 | 14,897,762 | 14,953,646 |
| Non-Current Liabilities: | | | | | | |
| General Obligation Bonds Payable | | 185,741,726 | 185,741,726 | | 187,239,906 | 187,239,906 |
| Total Non-Current Liabilities | - | 185,741,726 | 185,741,726 | - | 187,239,906 | 187,239,906 |
| Total Liabilities | - | 199,288,676 | 199,288,676 | 55,884 | 202,137,668 | 202,193,552 |
| Fund Financial Statement - Fund Balances | | | | | | |
| Fund Balances (Deficits): | | | | | | |
| Restricted | 52,346,574 | | | 38,133,714 | | |
| Reserved for: | | | | | | |
| Debt Service | | | | | | |
| Loans and Contracts | | | | | | |
| Unreserved Designated for: | | | | | | |
| Other | | | | | | |
| Total Fund Balances | 52,346,574 | | | 38,133,714 | | |
| Total Liabilities and Fund Balances | 52,346,574 | | | 38,189,598 | | |
| Government-wide Statement - Net Position | | | | | | |
| Net Position: | | | | | | |
| Restricted for: | | | | | | |
| Debt Retirement | | | - | | | - |
| Unrestricted | | (199,288,676) | (146,942,102) | | (202,137,668) | (164,003,954) |
| Total Net Position (5) | | (199,288,676) | (146,942,102) | | (202,137,668) | (164,003,954) |

- The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level. Any adjustments related to the agency's financial data as a result of the CAFR Audit are not reflected in the amounts reported here.
- Adjustments to amounts presented in the Fund Financial Statements necessitated by GASB Statement 34 to convert balances and results of operations from the modified accrual basis of accounting to the full accrual basis of accounting. Most significant of these adjustments is adding in the liability for the General Obligation Bonds Payable that was previously carried in the General Long-Term Debt Account Group. This results in negative Net Assets, as the adjusted carrying amount of the liabilities exceeds the assets in the fund(s). The bond liabilities of these funds are not dependent on the assets or earnings of the funds, as they are paid from biennial appropriations made by the state legislature.
- Beginning on 9/1/2010 fund balance categories changed due to Government Accounting Standards Board Statement No. 54 implementation. Fund balances are no longer reported as reserved or unreserved. Instead they are reported as restricted.
- The term Net Assets was changed to Net Position to comply with FY14 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.
- The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

UNAUDITED (1)

| Governmental Funds Total 2013 (2) | Long-Term Liabilities Adjustments 2013 (2) | Statement of Net Assets 2013 (2) | Governmental Funds Total 2014 (2) | Long-Term Liabilities Adjustments 2014 (2) | Statement of Net Assets 2014 (2) | Governmental Funds Total 2015 (2) | Long-Term Liabilities Adjustments 2015 (2) | Statement of Net Assets 2015 (2) |
|--|---|---|--|---|---|--|---|---|
| 7,072,291 | | 7,072,291 | 3,738,953 | | 3,738,953 | 1,524,232.03 | | 1,524,232.03 |
| 204,178 | | 204,178 | 206,939 | | 206,939 | 600,678.96 | | 600,678.96 |
| 1,615,895 | | 1,615,895 | 1,633,815 | | 1,633,815 | 1,518,936.57 | | 1,518,936.57 |
| 8,892,364 | - | 8,892,364 | 5,579,707 | - | 5,579,707 | 3,643,847.56 | 0.00 | 3,643,847.56 |
| 22,337,755 | | 22,337,755 | 19,873,863 | - | 19,873,863 | 21,051,456.67 | 0.00 | 21,051,456.67 |
| - | | - | - | - | - | 0.00 | 0.00 | |
| - | | - | - | - | - | 0.00 | 0.00 | |
| - | | - | - | - | - | 0.00 | 0.00 | |
| 22,337,755 | - | 22,337,755 | 19,873,863 | - | 19,873,863 | 21,051,456.67 | 0.00 | 21,051,456.67 |
| 31,230,119 | - | 31,230,119 | 25,453,570 | - | 25,453,570 | 24,695,304.23 | 0.00 | 24,695,304.23 |
| | | | | | | | | 0.00 |
| | 752,433 | 752,433 | | 673,071 | 673,071 | | 627,790.28 | 627,790.28 |
| | 16,270,017 | 16,270,017 | | 16,815,017 | 16,815,017 | | 19,548,948.98 | 19,548,948.98 |
| - | 17,022,450 | 17,022,450 | - | 17,488,089 | 17,488,089 | 0.00 | 20,176,739.26 | 20,176,739.26 |
| | 203,326,753 | 203,326,753 | | 186,161,736 | 186,161,736 | | 210,717,098.39 | 210,717,098.39 |
| - | 203,326,753 | 203,326,753 | - | 186,161,736 | 186,161,736 | 0.00 | 210,717,098.39 | 210,717,098.39 |
| - | 220,349,203 | 220,349,203 | - | 203,649,825 | 203,649,825 | 0.00 | 230,893,837.65 | 230,893,837.65 |
| 31,230,119 | | | 25,453,570 | | | 24,695,304.23 | | |
| 31,230,119 | | | 25,453,570 | | | 24,695,304.23 | | |
| 31,230,119 | | | 25,453,570 | | | 24,695,304.23 | | |
| | (220,349,203) | (189,119,084) | | (203,649,825) | (178,196,255) | | (230,893,837.71) | (206,198,533.57) |
| | (220,349,203) | (189,119,084) | | (203,649,825) | (178,196,255) | | (230,893,837.71) | (206,198,533.57) |

UNAUDITED (1)

Texas Water Development Board
Statement of Activities -
Economically Distressed Area Program (EDAP) Funds
For the Fiscal Year Ended August 31,

| | Long-Term Liabilities Adjustments 2011 (2) | Statement of Activities 2011 (2) | Governmental Funds Total 2012 (2) | Long-Term Liabilities Adjustments 2012 (2) | Statement of Activities 2012 (2) |
|--|---|---|--|---|---|
| REVENUES | | | | | |
| Interest and Other Investment Income | | 1,084,770 | 836,968 | | 836,968 |
| Total Revenues | - | 1,084,770 | 836,968 | - | 836,968 |
| EXPENDITURES | | | | | |
| Professional Fees and Services | 198,606 | 308,538 | 157,604 | 10,645 | 168,249 |
| Travel | | 4,573 | 902 | | 902 |
| Printing and Reproduction | | 3,347 | 1,194 | | 1,194 |
| Intergovernmental Payments | | 23,268,395 | 28,578,797 | | 28,578,797 |
| Public Assistance Payments | | 2,498,434 | | | - |
| Other Expenditures | | 9,500 | 31,114 | | 31,114 |
| Debt service: | | | | | |
| Principal | (11,950,000) | - | 12,630,000 | (12,630,000) | - |
| Interest (FFS) | (9,200,808) | - | 9,312,285 | (9,312,285) | - |
| Interest on Long-Term Debt (GWFS) | 8,904,659 | 8,904,659 | | 8,852,682 | 8,852,682 |
| Total Expenditures/Expenses | (12,047,543) | 34,997,446 | 50,711,896 | (13,078,958) | 37,632,938 |
| Excess (Deficiency) of Revenues Over Expenditures | 12,047,543 | (33,912,676) | (49,874,928) | 13,078,958 | (36,795,970) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Bond and Note Proceeds | (34,680,183) | - | 15,927,950 | (15,927,950) | - |
| Transfers In | | 29,661,315 | 21,940,112 | | 21,940,112 |
| Transfers Out | | (11,002,853) | (2,205,994) | | (2,205,994) |
| Total Other Financing Sources and Uses | (34,680,183) | 18,658,462 | 35,662,068 | (15,927,950) | 19,734,118 |
| Net Change in Fund Balances/Net Position | (22,632,640) | (15,254,214) | (14,212,860) | (2,848,992) | (17,061,852) |
| Fund Financial Statement - Fund Balances | | | | | |
| Fund Balances--Beginning | | | 52,346,574 | | |
| Fund Balances--August 31, Ending | | | 38,133,714 | | |
| Government-Wide Statement of Net Position | | | | | |
| Net Position--Beginning | (176,656,036) | (131,687,888) | | (199,288,676) | (146,942,102) |
| Net Position--August 31, Ending (4) | (199,288,676) | (146,942,102) | | (202,137,668) | (164,003,954) |

(1) The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level.

(2) Adjustments to amounts presented in the Fund Financial Statements necessitated by GASB Statement 34 to convert balances and results of operations from the modified accrual basis of accounting to the full accrual basis of accounting. Most significant of these adjustments is adding in the liability for the General Obligation Bonds Payable that was previously carried in the General Long-Term Debt Account Group. This results in negative Net Assets, as the adjusted carrying amount of the liabilities exceeds the assets in the fund(s). The bond liabilities of these funds are not dependent on the assets or earnings of the funds, as they are paid from biennial appropriations made by the state legislature.

(3) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

(4) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board

UNAUDITED (1)

| Governmental Funds Total 2013 (2) | Long-Term Liabilities Adjustments 2013 (2) | Statement of Activities 2013 (2) | Governmental Funds Total 2014 (2) | Long-Term Liabilities Adjustments 2014 (2) | Statement of Activities 2014 (2) | Governmental Funds Total 2015 (2) | Long-Term Liabilities Adjustments 2015 (2) | Statement of Activities 2015 (2) |
|--|---|---|--|---|---|--|---|---|
| 778,406 | | 778,406 | 711,588 | | 711,588 | 1,002,879.06 | | 1,002,879.06 |
| 778,406 | - | 778,406 | 711,588 | - | 711,588 | 1,002,879.06 | - | 1,002,879.06 |
| 86,172 | 185,429 | 271,601 | 21,143 | | 21,143 | 121,489.66 | | 121,489.66 |
| 1,435 | | 1,435 | | | - | | | - |
| | | - | | | | 907.94 | | 907.94 |
| 38,038,388 | | 38,038,388 | 2,596,200 | | 2,596,200 | 2,962,109.54 | | 2,962,109.54 |
| 1,216,608 | | 1,216,608 | 1,485,232 | | 1,485,232 | 46,048,916.00 | | 46,048,916.00 |
| | | - | 86,621 | | 86,621 | 91,002.85 | | 91,002.85 |
| 15,265,000 | (15,265,000) | - | 15,980,000 | (15,980,000) | - | 21,930,000.00 | (21,930,000.00) | - |
| 9,445,720 | (9,445,720) | - | 8,820,246 | (8,820,246) | - | 8,112,761.81 | (8,112,761.81) | - |
| | 8,861,609 | 8,861,609 | | 8,100,868 | 8,100,868 | | 7,377,655.24 | 7,377,655.24 |
| 64,053,323 | (15,663,682) | 48,389,641 | 28,989,443 | (16,699,378) | 12,290,065 | 79,267,187.80 | (22,665,106.57) | 56,602,081.23 |
| (63,274,917) | 15,663,682 | (47,611,235) | (28,277,855) | 16,699,378 | (11,578,477) | (78,264,308.74) | 22,665,106.57 | (55,599,202.17) |
| 33,875,217 | (33,875,217) | - | | | - | 49,909,119.28 | (49,909,119.28) | - |
| 24,816,431 | | 24,816,431 | 25,122,228 | | 25,122,228 | 32,000,436.43 | | 32,000,436.43 |
| (2,320,326) | | (2,320,326) | (2,620,921) | | (2,620,921) | (4,403,512.80) | | (4,403,512.80) |
| 56,371,322 | (33,875,217) | 22,496,105 | 22,501,306 | - | 22,501,306 | 77,506,042.91 | (49,909,119.28) | 27,596,923.63 |
| (6,903,595) | (18,211,535) | (25,115,130) | (5,776,549) | 16,699,378 | 10,922,829 | (758,265.83) | (27,244,012.71) | (28,002,278.54) |
| 38,133,714 | | | 31,230,119 | | | 25,453,570.06 | | |
| 31,230,119 | | | 25,453,570 | | | 24,695,304.23 | | |
| | (202,137,668) | (164,003,954) | | (220,349,203) | (189,119,084) | | (203,649,825.00) | (178,196,255.03) |
| | (220,349,203) | (189,119,084) | | (203,649,825) | (178,196,255) | | (230,893,837.71) | (206,196,533.57) |

UNAUDITED (1)

**Texas Water Development Board
Statement of Net Position – State Participation Program Funds**

August 31,

| | Governmental Funds Total 2011 (2) | Long-Term Liabilities Adjustments 2011 | Statement of Net Assets 2011 | Governmental Funds Total 2012 | Long-Term Liabilities Adjustments 2012 | Statement of Net Assets 2012 |
|---|--|---|---------------------------------------|--|---|---------------------------------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents: | | | | | | |
| Cash in State Treasury | \$ 47,780,492 | | \$ 47,780,492 | \$ 52,683,921 | | \$ 52,683,921 |
| Interest and Dividends | 893,856 | | 893,856 | 893,855 | | 893,855 |
| Accounts Receivable | 31,893 | | 31,893 | 19,050 | | 19,050 |
| Due From Other Funds | | | | | | |
| Total Current Assets | 48,706,241 | - | 48,706,241 | 53,596,826 | - | 53,596,826 |
| Non-Current Assets: | | | | | | |
| Loans & Contracts | 160,319,000 | | 160,319,000 | 134,144,000 | | 134,144,000 |
| Total Noncurrent Assets | 160,319,000 | - | 160,319,000 | 134,144,000 | - | 134,144,000 |
| Total Assets | 209,025,241 | - | 209,025,241 | 187,740,826 | - | 187,740,826 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Current Liabilities: | | | | | | |
| Payables From: | | | | | | |
| Accounts Payable | | | - | | | - |
| Interest Payable | | 728,170 | 728,170 | | 581,993 | 581,993 |
| Due To Other Funds | | | | | | |
| General Obligation Bonds Payable | | 1,442,316 | 1,442,316 | | 1,487,316 | 1,487,316 |
| Total Current Liabilities | - | 2,170,486 | 2,170,486 | - | 2,069,309 | 2,069,309 |
| Non-Current Liabilities: | | | | | | |
| General Obligation Bonds Payable | | 175,966,692 | 175,966,692 | | 150,354,375 | 150,354,375 |
| Total Non-Current Liabilities | - | 175,966,692 | 175,966,692 | - | 150,354,375 | 150,354,375 |
| Total Liabilities | - | 178,137,178 | 178,137,178 | - | 152,423,684 | 152,423,684 |
| Fund Financial Statement-Fund Balances | | | | | | |
| Fund Balances (Deficits): | | | | | | |
| Restricted | 209,025,241 | | | 187,740,826 | | |
| Reserved for: | | | | | | |
| Encumbrances | | | | | | |
| Debt Service | | | | | | |
| Loans and Contracts | | | | | | |
| Unreserved Designated for: | | | | | | |
| Other | | | | | | |
| Total Fund Balances | 209,025,241 | | | 187,740,826 | | |
| Total Liabilities and Fund Balances | 209,025,241 | | | 187,740,826 | | |
| Government-wide Statement - Net Position | | | | | | |
| Net Position: | | | | | | |
| Restricted for: | | | | | | |
| Debt Retirement | | | - | | | - |
| Other | | (178,137,178) | 30,888,063 | | (152,423,684) | 35,317,142 |
| Total Net Position (3) | | (178,137,178) | 30,888,063 | | (152,423,684) | 35,317,142 |

(1) The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level.

(2) Beginning on 9/1/2010 fund balance categories changed due to Government Accounting Standards Board Statement No. 54 implementation. Fund balances are no longer reported as reserved or unreserved. Instead they are reported as restricted.

(3) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

(4) In fiscal year 2014, the balances associated with the state participation program were restated to the proprietary enterprise fund type. The activity of the state participation program is now fully supported by the loan repayments and thus meets one of the required enterprise fund reporting criteria.

UNAUDITED (1)

| | Governmental Funds Total 2013 | Long-Term Liabilities Adjustments 2013 | Statement of Net Assets 2013 | Statement of Net Assets 2014 (4) | Statement of Net Assets 2015 (4) |
|----|--|---|---------------------------------------|---|---|
| \$ | 41,689,854 | | \$ 41,689,854 | \$ 37,416,432 | 35,105,014.86 |
| | 1,058,143 | | 1,058,143 | 1,659,427 | 4,405,096.42 |
| | | | - | 1,939,743 | 1,647,229.54 |
| | 42,747,997 | - | 42,747,997 | 41,015,603 | 41,157,340.82 |
| | 122,033,000 | | 122,033,000 | 122,033,000 | 122,033,000.00 |
| | 122,033,000 | - | 122,033,000 | 122,033,000 | 122,033,000.00 |
| | 164,780,997 | - | 164,780,997 | 163,048,603 | 163,190,340.82 |
| | | | - | 455,613 | 450,699.91 |
| | | 473,040 | 473,040 | 1,939,743 | 1,647,229.54 |
| | | 1,522,316 | 1,522,316 | 1,642,316 | 3,192,316.20 |
| | - | 1,995,356 | 1,995,356 | 4,037,673 | 5,290,245.65 |
| | | 122,742,059 | 122,742,059 | 120,699,743 | 117,507,426.84 |
| | - | 122,742,059 | 122,742,059 | 120,699,743 | 117,507,426.84 |
| | - | 124,737,415 | 124,737,415 | 124,737,416 | 122,797,672.49 |
| | 164,780,997 | | | | |
| | 164,780,997 | | | | |
| | 164,780,997 | | | | |
| | | | - | - | - |
| | (124,737,415) | | 40,043,582 | 38,311,187 | 40,392,668.33 |
| | (124,737,415) | | 40,043,582 | 38,311,187 | 40,392,668.33 |

Texas Water Development Board
Statement of Activities
State Participation Program Funds
 For the Fiscal Year Ended August 31,

| | Governmental Funds Total 2011 | Long-Term Liabilities Adjustments 2011 | Statement of Activities 2011 | Governmental Funds Total 2012 | Long-Term Liabilities Adjustments 2012 | Statement of Activities 2012 |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| REVENUES | | | | | | |
| Licenses, Fees & Permits | | | | | | |
| Interest and Other Investment Income | \$ 9,541,698 | | \$ 9,541,698 | \$ 15,605,420 | | \$ 15,605,420 |
| Total Revenues | 9,541,698 | - | 9,541,698 | 15,605,420 | - | 15,605,420 |
| EXPENDITURES | | | | | | |
| Professional Fees and Services | 6,247 | | 6,247 | 90,554 | 321,274 | 411,828 |
| Travel | | | - | 259 | | 259 |
| Printing and Reproduction | | | - | | | - |
| Other Expenditures | | | - | 23,797 | | 23,797 |
| Debt service: | | | | | | |
| Principal | 3,645,000 | (3,645,000) | - | 25,825,000 | (25,825,000) | - |
| Interest (FFS) | 8,874,640 | (8,874,640) | - | 11,036,177 | (11,036,177) | - |
| Interest on Long-Term Debt (GWFS) | | 8,705,941 | 8,705,941 | | 10,732,684 | 10,732,684 |
| Total Expenditures/Expenses | 12,525,887 | (3,813,699) | 8,712,188 | 36,975,787 | (25,807,219) | 11,168,568 |
| Excess (Deficiency) of Revenues Over Expenditures | (2,984,189) | 3,813,699 | 829,510 | (21,370,367) | 25,807,219 | 4,436,852 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Bond and Note Proceeds | | - | - | 93,725 | (93,725) | - |
| Transfers In | 63,817,379 | | 63,817,379 | 41,357,374 | | 41,357,374 |
| Transfers Out | (63,852,546) | | (63,852,546) | (41,365,147) | | (41,365,147) |
| Total Other Financing Sources and Uses | (35,167) | - | (35,167) | 85,952 | (93,725) | (7,773) |
| Net Change in Fund Balances/Net Assets | (3,019,356) | 3,813,699 | 794,343 | (21,284,415) | 25,713,494 | 4,429,079 |
| Fund Financial Statement-Fund Balances | | | | | | |
| Fund Balances--Beginning | 212,044,597 | | | 209,025,241 | | |
| Restatements | | | | | | |
| Fund Balances, September 1, XXXX, as Restated | 212,044,597 | | | 209,025,241 | | |
| Fund Balances--August 31, Ending | 209,025,241 | | | 187,740,826 | | |
| Government-wide Statement - Net Position | | | | | | |
| Net Position--Beginning | | (181,950,877) | 30,093,720 | | (178,137,178) | 30,888,063 |
| Net Position--August 31, Ending (2) | | (178,137,178) | 30,888,063 | | (152,423,684) | 35,317,142 |

(1) The financial data presented here is a recapitulation of the Board's financial statements presented in their Annual Financial Reports. The Board's financial statements become a part of the Comprehensive Annual Financial Report for the State of Texas, which is audited by the State Auditor's Office; however, the scope of the reviews at the agency level do not constitute an audit of the individual agency's financial statements. Consequently, these statements are considered unaudited at the agency level. Any adjustments related to the agency as a result of the CAFR Audit are not reflected in the amounts reported here.

(2) The term Net Assets was changed to Net Position to comply with FY13 Annual Financial Reporting requirements and Government Accounting Standards Board Statement No. 54.

(4) In fiscal year 2014, the balances associated with the state participation program were restated to the proprietary enterprise fund type. The activity of the state participation program is now fully supported by the loan repayments and thus meets one of the required enterprise fund reporting criteria.

UNAUDITED (1)

| Governmental Funds Total 2013 | Long-Term Liabilities Adjustments 2013 | Statement of Activities 2013 | Statement of Activities 2014 (4) | Statement of Activities 2015 |
|--|---|---------------------------------------|---|---------------------------------------|
| \$ 221,406 | | \$ 221,406 | | |
| \$ 16,286,104 | | \$ 16,286,104 | \$ 3,905,354 | 7,393,903.49 |
| 16,507,510 | - | 16,507,510 | 3,905,354 | 7,393,903.49 |
| 21,591 | | 21,591 | 13,310 | 7,292.45 |
| | | - | | |
| 21,792 | | 21,792 | 129,338 | - |
| 27,420,000 | (27,420,000) | - | | |
| 11,992,749 | (11,992,749) | - | | |
| | 11,726,480 | 11,726,480 | 5,494,427 | 5,305,129.42 |
| 39,456,132 | (27,686,269) | 11,769,863 | 5,637,075 | 5,312,421.87 |
| (22,948,622) | 27,686,269 | 4,737,647 | (1,731,721) | 2,081,481.62 |
| | - | - | | |
| 42,064,308 | | 42,064,308 | 10,581,700 | 7,039,961.64 |
| (42,075,515) | | (42,075,515) | (10,582,373) | (7,039,961.64) |
| (11,207) | - | (11,207) | (673) | - |
| (22,959,829) | 27,686,269 | 4,726,440 | (1,732,394) | 2,081,481.62 |
| 187,740,826 | | | 164,780,997 | 38,311,186.71 |
| | | | (124,737,416) | |
| 187,740,826 | | | 40,043,581 | 38,311,186.71 |
| 164,780,997 | | | 38,311,187 | 40,392,668.33 |
| | (152,423,684) | 35,317,142 | | |
| | (124,737,415) | 40,043,582 | | |

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APPENDIX C

PROPOSED FORMS OF BOND COUNSEL OPINION

Opinions in substantially the following forms will be delivered by Bracewell, LLP, Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

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[CLOSING DATE]

WE HAVE represented the Texas Water Development Board (the "Board") as its bond counsel in connection with the issuance of the bonds described as follows:

STATE OF TEXAS WATER FINANCIAL ASSISTANCE AND REFUNDING BONDS, SUBSERIES 2016B-1, dated July 14, 2016, in the principal amount of \$58,555,000 (the "Subseries 2016-1 Bonds"); and

STATE OF TEXAS WATER FINANCIAL ASSISTANCE AND REFUNDING BONDS, SUBSERIES 2016B-2 (VARIABLE RATE), dated July 14, 2016, in the principal amount of \$30,360,000 (the "Subseries 2016B-2 Bonds" and together with the Subseries 2016B-1 Bonds, the "Bonds").

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in accordance with the Bond Resolution adopted by the Board on June 1, 2016 (the "Bond Resolution"), authorizing the issuance of the Bonds and the approval certificate executed pursuant thereto (together with the Bond Resolution, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning give in the Resolution.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded (the "Refunded Bonds"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; a deposit agreement (the "Deposit Agreement") between the Board and The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds (the "Paying Agent"); the certificate of the Paying Agent

certifying as to the amounts necessary to redeem the Refunded Bonds on the date of redemption thereof (the "Sufficiency Certificate"); customary certificates of officers, agents, and representatives of the Board and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Subseries 2016B-1 Bond No. I-1 and Subseries 2016-2 Bond No. I-2 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and the Bonds are enforceable in accordance with the terms and conditions thereof;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Deposit Agreement entered into between the Board and the Paying Agent for the Refunded Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(3) The Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Article III, Sections 49-d-8, 49-d-9 and 49-d-11 of the Constitution, and Subchapter L of Chapter 17, Texas Water Code, as amended, which made a continuing appropriation without the necessity of subsequent legislative appropriation of the first moneys, not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal years; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed and cited above; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of the State generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that, under existing law:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(5) The Bonds are not "private activity bonds" within the meaning of the Code, and as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated

investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax liabilities.

In providing such opinions, we (i) have relied on the Sufficiency Certificate, (ii) have relied on representations of the Board, the Board's financial advisor, and the Underwriters, with respect to matters solely within the knowledge of the Board, the Board's financial advisor, and the Underwriters, respectively, which we have not independently verified, and (iii) have assumed continuing compliance with the covenants in the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event such representations are determined to be inaccurate or incomplete or the Board fails to comply with the foregoing provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

We express no opinion herein on the effect on the excludability of interest on the Subseries 2016B-2 Bonds from gross income for federal income tax purposes of any subsequent action which, under the terms of the Resolution, may be taken only upon receipt of an opinion of national recognized bond counsel that such action will not adversely affect such excludability. The Resolution provides that prior to taking certain actions, including but not limited to converting the interest rate on the Subseries 2016B-2 Bonds from one rate mode to another rate mode, the Board must have received such an opinion.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of

the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Board as the taxpayer. We observe that the Board has covenanted in the Resolution not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

| | |
|-----------------------|--|
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| New York | 800.404.3970 Fax |
| Washington, DC | |
| Connecticut | Bracewell LLP |
| Seattle | 711 Louisiana Street |
| Dubai | Suite 2300 |
| London | Houston, Texas |
| | 77002-2770 |
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[CLOSING DATE]

WE HAVE represented the Texas Water Development Board (the "Board") as its bond counsel in connection with the issuance of the bonds described as follows:

STATE OF TEXAS WATER FINANCIAL ASSISTANCE AND REFUNDING BONDS, SUBSERIES 2016B-3 (TAXABLE), dated July 14, 2016, in the principal amount of \$18,950,000 (the "Bonds").

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in accordance with the Bond Resolution adopted by the Board on June 1, 2016 (the "Bond Resolution"), authorizing the issuance of the Bonds and the approval certificate executed pursuant thereto (together with the Bond Resolution, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning give in the Resolution.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded (the "Refunded Bonds"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; a deposit agreement (the "Deposit Agreement") between the Board and The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds (the "Paying Agent"); the certificate of the Paying Agent certifying as to the amounts necessary to redeem the Refunded Bonds on the date of redemption thereof (the "Sufficiency Certificate"); customary certificates of officers, agents, and representatives of the Board and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. I-3 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and the Bonds are enforceable in accordance with the terms and conditions thereof;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Deposit Agreement entered into between the Board and the Paying Agent for the Refunded Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(3) The Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Article III, Sections 49-d-8 and 49-d-9 of the Constitution, and Subchapter L of Chapter 17, Texas Water Code, as amended, which made a continuing appropriation without the necessity of subsequent legislative appropriation of the first moneys, not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal years; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed and cited above; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of the State generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

We observe that interest on the Bonds is generally includable in gross income for federal income tax purposes under existing law. We express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

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| Connecticut | Bracewell LLP |
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| London | Houston, Texas |
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[CLOSING DATE]

WE HAVE represented the Texas Water Development Board (the "Board") as its bond counsel in connection with the issuance of the bonds described as follows:

STATE OF TEXAS WATER FINANCIAL ASSISTANCE REFUNDING BONDS, SUBSERIES 2016C-1 (ECONOMICALLY DISTRESSED AREAS PROGRAM), dated July 14, 2016, in the principal amount of \$28,815,000 (the "Bonds").

The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds and in accordance with the Bond Resolution adopted by the Board on June 1, 2016 (the "Bond Resolution"), authorizing the issuance of the Bonds and the approval certificate executed pursuant thereto (together with the Bond Resolution, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning give in the Resolution.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded (the "Refunded Bonds"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; a deposit agreement (the "Deposit Agreement") between the Board and The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds (the "Paying Agent"); the certificate of the Paying Agent certifying as to the amounts necessary to redeem the Refunded Bonds on the date of redemption thereof (the "Sufficiency Certificate"); customary certificates of officers, agents, and representatives of the Board and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury

Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and the Bonds are enforceable in accordance with the terms and conditions thereof;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Deposit Agreement entered into between the Board and the Paying Agent for the Refunded Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(3) The Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Article III, Sections 49-d-8 and 49-d-10 of the Constitution, and Subchapter L of Chapter 17, Texas Water Code, as amended, which made a continuing appropriation without the necessity of subsequent legislative appropriation of the first moneys, not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal years; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed and cited above; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of the State generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that, under existing law:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(5) The Bonds are not "private activity bonds" within the meaning of the Code, and as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax liabilities.

In providing such opinions, we (i) have relied on the Sufficiency Certificate, (ii) have relied on representations of the Board, the Board's financial advisor, and the Underwriters, with respect to matters solely within the knowledge of the Board, the Board's financial advisor, and

the Underwriters, respectively, which we have not independently verified, and (iii) have assumed continuing compliance with the covenants in the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event such representations are determined to be inaccurate or incomplete or the Board fails to comply with the foregoing provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Board as the taxpayer. We observe that the Board has covenanted in the Resolution not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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| London | Houston, Texas |
| | 77002-2770 |
| | bracewelllaw.com |

[CLOSING DATE]

WE HAVE represented the Texas Water Development Board (the "Board") as its bond counsel in connection with the issuance of the bonds described as follows:

STATE OF TEXAS WATER FINANCIAL ASSISTANCE REFUNDING BONDS, SUBSERIES 2016C-2 (ECONOMICALLY DISTRESSED AREAS PROGRAM) (TAXABLE), dated July 14, 2016, in the principal amount of \$1,310,000 (the "Bonds").

The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds and in accordance with the Bond Resolution adopted by the Board on June 1, 2016 (the "Bond Resolution"), authorizing the issuance of the Bonds and the approval certificate executed pursuant thereto (together with the Bond Resolution, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning give in the Resolution.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded (the "Refunded Bonds"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; a deposit agreement (the "Deposit Agreement") between the Board and The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds (the "Paying Agent"); the certificate of the Paying Agent certifying as to the amounts necessary to redeem the Refunded Bonds on the date of redemption thereof (the "Sufficiency Certificate"); customary certificates of officers, agents, and representatives of the Board and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and the Bonds are enforceable in accordance with the terms and conditions thereof;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Deposit Agreement entered into between the Board and the Paying Agent for the Refunded Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(3) The Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Article III, Sections 49-d-8 and 49-d-10 of the Constitution, and Subchapter L of Chapter 17, Texas Water Code, as amended, which made a continuing appropriation without the necessity of subsequent legislative appropriation of the first moneys, not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal years; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed and cited above; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of the State generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

We observe that interest on the Bonds is generally includable in gross income for federal income tax purposes under existing law. We express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

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[CLOSING DATE]

WE HAVE represented the Texas Water Development Board (the "Board") as its bond counsel in connection with the issuance of the bonds described as follows:

STATE OF TEXAS WATER FINANCIAL ASSISTANCE REFUNDING BONDS, SUBSERIES 2016D, dated July 14, 2016, in the principal amount of \$11,550,000 (the "Bonds").

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in accordance with the Bond Resolution adopted by the Board on June 1, 2016 (the "Bond Resolution"), authorizing the issuance of the Bonds and the approval certificate executed pursuant thereto (together with the Bond Resolution, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning give in the Resolution.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded (the "Refunded Bonds"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; a deposit agreement (the "Deposit Agreement") between the Board and The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds (the "Paying Agent"); the certificate of the Paying Agent certifying as to the amounts necessary to redeem the Refunded Bonds on the date of redemption thereof (the "Sufficiency Certificate"); customary certificates of officers, agents, and representatives of the Board and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury

Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and the Bonds are enforceable in accordance with the terms and conditions thereof;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Deposit Agreement entered into between the Board and the Paying Agent for the Refunded Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(3) The Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Article III, Sections 49-d-8 and 49-d-9 of the Constitution, and Subchapter L of Chapter 17, Texas Water Code, as amended, which made a continuing appropriation without the necessity of subsequent legislative appropriation of the first moneys, not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal years; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed and cited above; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of the State generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that, under existing law:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(5) The Bonds are not "private activity bonds" within the meaning of the Code, and as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax liabilities.

In providing such opinions, we (i) have relied on the Sufficiency Certificate, (ii) have relied on representations of the Board, the Board's financial advisor, and the Underwriters, with respect to matters solely within the knowledge of the Board, the Board's financial advisor, and

the Underwriters, respectively, which we have not independently verified, and (iii) have assumed continuing compliance with the covenants in the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event such representations are determined to be inaccurate or incomplete or the Board fails to comply with the foregoing provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Board as the taxpayer. We observe that the Board has covenanted in the Resolution not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

APPENDIX D

SCHEDULE OF DEBT SERVICE REQUIREMENTS

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APPENDIX D
SCHEDULE OF DEBT SERVICE REQUIREMENTS

\$107,865,000
STATE OF TEXAS
WATER FINANCIAL ASSISTANCE AND REFUNDING BONDS
SERIES 2016B

Less:

Debt Service

| Fiscal Year | Total Existing Debt Service ⁽¹⁾ | Refunded by Series 2016B ⁽²⁾ | Series 2016B Debt Service ⁽³⁾ | | | Total Debt Service |
|-------------|--|---|--|---------------|----------------|--------------------|
| | | | Principal | Interest | Total | |
| 2016 | \$ 104,126,927 | | | | | \$ 104,126,927 |
| 2017 | 110,287,753 | \$ 8,620,850 | \$ 8,150,000 | \$ 3,760,403 | \$ 11,910,403 | 113,577,307 |
| 2018 | 110,797,005 | 7,909,780 | 7,100,000 | 3,352,137 | 10,452,137 | 113,339,363 |
| 2019 | 113,626,793 | 11,256,445 | 10,575,000 | 3,078,429 | 13,653,429 | 116,023,778 |
| 2020 | 112,241,609 | 12,272,240 | 12,840,000 | 2,637,497 | 15,477,497 | 115,446,866 |
| 2021 | 110,880,179 | 9,125,860 | 10,010,000 | 2,326,019 | 12,336,019 | 114,090,338 |
| 2022 | 101,796,566 | 9,115,044 | 10,055,000 | 2,060,408 | 12,115,408 | 104,796,930 |
| 2023 | 95,228,309 | 8,201,419 | 9,175,000 | 1,792,660 | 10,967,660 | 97,994,550 |
| 2024 | 89,287,349 | 6,495,363 | 7,475,000 | 1,542,488 | 9,017,488 | 91,809,474 |
| 2025 | 80,326,047 | 3,170,621 | 5,320,000 | 1,327,044 | 6,647,044 | 83,802,470 |
| 2026 | 78,473,416 | 3,172,565 | 5,640,000 | 1,120,837 | 6,760,837 | 82,061,689 |
| 2027 | 79,187,337 | 3,172,443 | 3,515,000 | 868,243 | 4,383,243 | 80,398,137 |
| 2028 | 74,091,687 | | 1,210,000 | 720,400 | 1,930,400 | 76,022,087 |
| 2029 | 75,337,347 | | 1,265,000 | 672,000 | 1,937,000 | 77,274,347 |
| 2030 | 68,404,060 | | 1,315,000 | 621,400 | 1,936,400 | 70,340,460 |
| 2031 | 67,534,366 | | 1,365,000 | 568,800 | 1,933,800 | 69,468,166 |
| 2032 | 57,861,724 | | 1,420,000 | 514,200 | 1,934,200 | 59,795,924 |
| 2033 | 57,974,934 | | 1,475,000 | 457,400 | 1,932,400 | 59,907,334 |
| 2034 | 53,180,440 | | 1,530,000 | 398,400 | 1,928,400 | 55,108,840 |
| 2035 | 53,229,084 | | 1,595,000 | 337,200 | 1,932,200 | 55,161,284 |
| 2036 | 52,145,495 | | 1,665,000 | 273,400 | 1,938,400 | 54,083,895 |
| 2037 | 58,972,184 | | 490,000 | 206,800 | 696,800 | 59,668,984 |
| 2038 | 60,673,591 | | 505,000 | 187,200 | 692,200 | 61,365,791 |
| 2039 | 68,061,855 | | 525,000 | 167,000 | 692,000 | 68,753,855 |
| 2040 | 55,364,359 | | 550,000 | 146,000 | 696,000 | 56,060,359 |
| 2041 | 55,541,585 | | 570,000 | 124,000 | 694,000 | 56,235,585 |
| 2042 | 24,428,389 | | 595,000 | 101,200 | 696,200 | 25,124,589 |
| 2043 | 24,613,926 | | 620,000 | 77,400 | 697,400 | 25,311,326 |
| 2044 | 24,397,900 | | 645,000 | 52,600 | 697,600 | 25,095,500 |
| 2045 | 24,578,544 | | 670,000 | 26,800 | 696,800 | 25,275,344 |
| 2046 | 1,469,913 | | | | | 1,469,913 |
| 2047 | 1,471,750 | | | | | 1,471,750 |
| | \$ 2,145,592,423 | \$ 82,512,626 | \$ 107,865,000 | \$ 29,518,364 | \$ 137,383,364 | \$ 2,200,463,161 |

(1) Total Debt Service as of June 1, 2016.

(2) Debt Service Refunded by Series 2016B.

(3) The projected remarketed interest rate assumption after 2019 is 2.000%.

\$30,125,000
STATE OF TEXAS
WATER FINANCIAL ASSISTANCE REFUNDING BONDS
SERIES 2016C
(ECONOMICALLY DISTRESSED AREAS PROGRAM)

| Fiscal Year | Total Existing Debt Service ⁽¹⁾ | Less Debt Service Refunded by Series 2016C ⁽²⁾ | Series 2016C Debt Service | | | Total Debt Service |
|-------------|--|---|---------------------------|--------------|---------------|--------------------|
| | | | Principal | Interest | Total | |
| 2016 | \$ 29,563,398 | | | | | \$ 29,563,398 |
| 2017 | 31,334,977 | \$ 4,875,500 | \$ 2,645,000 | \$ 1,501,748 | \$ 4,146,748 | 30,606,225 |
| 2018 | 30,828,874 | 4,819,750 | 2,760,000 | 1,332,825 | 4,092,825 | 30,101,949 |
| 2019 | 30,118,887 | 4,894,000 | 2,965,000 | 1,200,824 | 4,165,824 | 29,390,711 |
| 2020 | 26,937,170 | 7,481,500 | 5,695,000 | 1,058,481 | 6,753,481 | 26,209,151 |
| 2021 | 25,042,844 | 6,031,000 | 4,520,000 | 782,784 | 5,302,784 | 24,314,628 |
| 2022 | 24,246,423 | 5,717,500 | 4,425,000 | 563,599 | 4,988,599 | 23,517,522 |
| 2023 | 22,442,024 | 4,312,000 | 3,235,000 | 348,385 | 3,583,385 | 21,713,409 |
| 2024 | 21,216,112 | 3,559,250 | 2,640,000 | 190,882 | 2,830,882 | 20,487,744 |
| 2025 | 17,667,703 | 2,089,500 | 1,240,000 | 62,000 | 1,302,000 | 16,880,203 |
| 2026 | 15,107,334 | | | | | 15,107,334 |
| 2027 | 11,436,696 | | | | | 11,436,696 |
| 2028 | 11,130,115 | | | | | 11,130,115 |
| 2029 | 10,802,615 | | | | | 10,802,615 |
| 2030 | 9,334,065 | | | | | 9,334,065 |
| 2031 | 9,009,065 | | | | | 9,009,065 |
| 2032 | 7,950,115 | | | | | 7,950,115 |
| 2033 | 4,735,950 | | | | | 4,735,950 |
| 2034 | 4,565,450 | | | | | 4,565,450 |
| 2035 | 4,395,100 | | | | | 4,395,100 |
| | \$ 347,864,917 | \$ 43,780,000 | \$ 30,125,000 | \$ 7,041,527 | \$ 37,166,527 | \$ 341,251,444 |

(1) Total Debt Service as of June 1, 2016.

(2) Debt Service Refunded by Series 2016C.

\$11,550,000
STATE OF TEXAS
WATER FINANCIAL ASSISTANCE REFUNDING BONDS
SERIES 2016D
(STATE PARTICIPATION PROGRAM)

| Fiscal Year | Total Existing Debt Service ⁽¹⁾ | Less Debt Service Refunded by Series 2016D ⁽²⁾ | Series 2016D Debt Service | | | Total Debt Service |
|-------------|--|---|---------------------------|--------------|---------------|--------------------|
| | | | Principal | Interest | Total | |
| 2016 | \$ 8,443,399 | | | | | \$ 8,443,399 |
| 2017 | 8,869,397 | \$ 757,513 | \$ - | \$ 604,771 | \$ 604,771 | 8,716,655 |
| 2018 | 8,790,447 | 757,513 | - | 577,500 | 577,500 | 8,610,435 |
| 2019 | 8,682,484 | 757,513 | - | 577,500 | 577,500 | 8,502,472 |
| 2020 | 8,101,525 | 757,513 | - | 577,500 | 577,500 | 7,921,513 |
| 2021 | 7,321,016 | 757,513 | - | 577,500 | 577,500 | 7,141,004 |
| 2022 | 9,883,825 | 757,513 | - | 577,500 | 577,500 | 9,703,813 |
| 2023 | 9,770,056 | 1,367,513 | 510,000 | 577,500 | 1,087,500 | 9,490,044 |
| 2024 | 9,664,617 | 1,370,488 | 540,000 | 552,000 | 1,092,000 | 9,386,130 |
| 2025 | 9,551,643 | 1,368,400 | 565,000 | 525,000 | 1,090,000 | 9,273,243 |
| 2026 | 10,125,308 | 1,374,300 | 600,000 | 496,750 | 1,096,750 | 9,847,758 |
| 2027 | 10,008,898 | 1,367,613 | 620,000 | 466,750 | 1,086,750 | 9,728,036 |
| 2028 | 9,906,794 | 1,373,913 | 660,000 | 435,750 | 1,095,750 | 9,628,632 |
| 2029 | 11,489,535 | 1,372,338 | 690,000 | 402,750 | 1,092,750 | 11,209,948 |
| 2030 | 11,382,180 | 1,373,175 | 725,000 | 368,250 | 1,093,250 | 11,102,255 |
| 2031 | 9,039,199 | 1,901,138 | 1,290,000 | 332,000 | 1,622,000 | 8,760,062 |
| 2032 | 9,022,484 | 1,870,750 | 1,325,000 | 267,500 | 1,592,500 | 8,744,234 |
| 2033 | 9,032,292 | 1,844,900 | 1,365,000 | 201,250 | 1,566,250 | 8,753,642 |
| 2034 | 9,027,917 | 1,831,163 | 1,420,000 | 133,000 | 1,553,000 | 8,749,755 |
| 2035 | 8,325,439 | 1,578,750 | 1,240,000 | 62,000 | 1,302,000 | 8,048,689 |
| | \$ 186,438,455 | \$ 24,539,513 | \$ 11,550,000 | \$ 8,312,771 | \$ 19,862,771 | \$ 181,761,713 |

(1) Total Debt Service as of June 1, 2016.
(2) Debt Service Refunded by Series 2016D.

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APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

This appendix describes how ownership of the Bonds is to be transferred and how the principal of premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as the Official Statement. The Board, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the Board, the Financial Advisor nor the Underwriters take any responsibility for the accuracy or completeness thereof.

The Board and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or (3) DTC will serve and act in the manner described in the Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC. Termination of the DTC Book-Entry-Only System by the Issuer may require consent of the Participants under DTC Operational Arrangements.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of the Bonds, as set forth on the inside of the cover pages hereof, in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly ("*Indirect Participants*") and, together with the Direct Participants, the "*Participants*"). DTC has a Standard & Poor's rating of "AA+." The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof and the information is not to be construed as a representation by the Board, the Financial Advisor or the Underwriters.

Use of certain terms in other sections of the Official Statement. In reading the Official Statement it should be understood while the Bonds are in the book-entry-only system, references in other sections of the Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolutions will be given only to DTC.



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