ANGELINA & NECHES RIVER AUTHORITY

BOND FINANCINGS OUTLINE
May 2011

The following is a brief outline of the types of bond financings that are authorized to be accomplished by the Angelina and Neches River Authority (the "Authority") and/or Angelina and Neches River Authority Industrial Development Corporation (the "IDC"):

I. Governmental Bonds - These are the type of bonds that are issued by the Authority for traditional governmental activities in which there is less than 10% use by non-governmental entities. They are usually issued for facilities to serve one or more of the governmental entities cities or other customers located within the Authority.

A. Tax Bonds - Unlike some other special districts, neither the act creating the Authority (the "Authority Act") nor the general laws of the State of Texas authorizes the issuance of bonds payable from taxes levied by the Authority.

B. Revenue Bonds - These are bonds that are secured by revenues from a particular system or from contract payments made by contracting parties being served by such system as well as bonds issued for specific facilities generally not constituting an entire system. Revenue Bonds may be issued for the purpose of water supply pursuant to the Authority Act and for wastewater facilities and solid waste disposal facilities pursuant to Chapter 30 of the Texas Water Code ("Chapter 30").

(1) System Revenue Bonds - System Revenue Bonds are bonds payable from the revenues of a particular system. A pure system revenue bond is issued for a system that either does not have contracting parties but merely provides service to customers requesting such service or, if there are contracting parties, such contracts contain no minimum usage or take or pay provisions. While common in cities, such arrangements are rare for river authorities and special districts. The Authority has never issued bonds on this basis.

(2) Contract Revenue Bonds - These are bonds in which contracting parties agree to make payments sufficient to pay debt service on the bonds.

(a) System Contract Revenue Bonds - These are contract revenue bonds issued to provide a system to several or many contracting parties who agree to certain minimum usage or take or pay provisions, often with joint and several liability, to pay debt service. This is the basis upon which most river authority have issued their bonds to provide lakes, water, and/or sewer facilities for their customers. Examples of this type of financing by the Authority are the Regional Composting Project and the North Angelina County Regional Wastewater System.

(b) Special Facilities Revenue Bonds - These bonds are issued by the Authority for facilities to serve usually a single user (as opposed to a system), which user is obligated to pay all of the debt service on the Bonds. An example of such special facilities bonds issued by the Authority is the Holmwood Project.

II. Private Activity Bonds - These are bonds in which a non-governmental entity has a 10% or greater interest in the facilities being financed or the proceeds of the bonds. Volume cap must be obtained from the Texas Bond Review Board for most types of private activity bonds.

A. Exempt Activities - These private activity bonds are issued without a federal tax limit on the amount of the particular bond issue although most are limited by the fact that state volume cap must be obtained for them to be tax-exempt. The type of activity determines whether or not the bonds are exempt from federal income taxation. The types of exempt activity bonds that can be issued by the Authority and/or the IDC under Texas law, the interest on which is exempt under federal tax law, are:

(1) Water Supply Facilities - The bonds are authorized to be issued by the Authority pursuant to the Authority Act and by the IDC pursuant to the Development corporation Act, Chapter 501, Texas Local Government Code (the "Development Corporation Act"). An example of this type of a bond would be one where specific water facilities were constructed to serve a particular non-governmental customer or limited number of such customers and were not made part of the Authority's system although available for general public use. The Authority has never issued bonds pursuant to this structure.

(2) Sewage Facilities - These bonds are authorized to be issued by the Authority by Chapter 30 and by the IDC by the Development Corporation Act. Much like the water supply facilities private activity bonds, these bonds can be issued for certain treatment facilities that have been constructed to serve a particular user or users. In order for facilities to qualify for tax-exempt financing, the sewage treated must have characteristics of municipal sewage and pretreatment and tertiary treatment facilities do not qualify. Although the Authority has not issued any bonds for this purpose, a number of river authorities in the State of Texas have issued bonds for this purpose for private companies, particularly oil and chemical companies.

(3) Solid Waste Disposal Facilities - These bonds are also authorized by Chapter 30 to be issued by the Authority and by the IDC by the Development Corporation Act. Like bonds for sewage facilities, they are used to provide facilities for private companies. Included in the type of facilities that qualify for financing are landfills, transfer stations, and related facilities owned and used by waste disposal companies which dispose of waste generated by others. However, because of the particular tax rules that are applicable to bonds for solid waste disposal facilities, many facilities constructed by private companies to dispose of their own waste may also qualify for financing. In fact, in many cases, allocable portions of production facilities may qualify. This has been an area where many river authorities, including the Authority, have done financing on behalf of private companies such as Temple-Inland, Champion International and Aspen Power. Note: If the facilities are governmentally owned and meet certain other tests, volume cap is not required.

(4) Local Furnishing of Steam or Electricity - These bonds may be issued as manufacturing facilities under the Development Corporation Act and generally involve generation or co-generation facilities that serve a limited number of industrial users. As the Authority does not have direct authority to issue bonds for this purpose, they would have be issued through the IDC.

(5) Dock and Wharf Facilities - These facilities must be governmentally owned or located in a public port to qualify. Only the IDC has authority to issue bonds for dock and wharf facilities.

(6) Airports - The bonds may be issued only by the IDC and the facilities must be governmentally owned to be tax-exempt.

(7) Hurricane Ike Bonds - This program runs through 2012, includes many of the counties within the Authority, and permits the issuance of bonds to provide non-residential real property and certain property of public utilities. Such property is generally anything that is capital in nature and not on the list of impermissible purposes for private activity bonds. The financing must be for the benefit of an entity that either suffered damage from Hurricane Ike or is designated by the Governor as replacing a damaged entity. However, there is no requirement that the improvements financed be comparable in size, scope, amount, or function as the damaged property. Volume cap is allocated by the Governor. Bonds would have to be issued by the IDC.

B. Exempt Amounts - Unlike the bonds in (A) above which may be issued without regard to the principal amount of the bonds, the Federal Income Tax Code also allows the issuance of certain bonds based upon the amount of bonds issued. At one time there was no limit on the type of these industrial development bonds that could be issued. However, because bonds were issued for some rather notorious purposes, the issuance of small issue industrial development bonds was limited by the 1986 Tax Code to manufacturing purposes only. The Authority is not authorized to issue such bonds so they would have to be issued by the IDC.

(1) $20,000,000 Limit - Bonds issued under this exemption cannot exceed $10,000,000 in principal amount and capital expenditures made by the non-governmental entity, or with respect to the project, for a six year (three years looking back and three years going forward) period cannot exceed another $10,000,000.

(2) $1,000,000 Limit - This limit is a one time limit to $1,000,000 for the amount of a bond issue issued for manufacturing purposes. Other capital expenditures are not taken into consideration but a company cannot utilize this provision if it is the beneficiary of more than $40 million in private activity financing.

C. Taxable Private Activity Bonds - In addition to the tax-exempt bonds described above, the Authority and the IDC are authorized to issue taxable bonds as follows:

(1) The Authority:

(a) Water Pollution Control Facilities - These are authority to be issued by the Authority by Chapter 30 or by the IDC pursuant to the Development Corporation Act. However, the Federal Tax Code does not allow bonds to be issued on a tax exempt basis unless they also qualify as sewage or solid waste disposal facilities. The exemption for water pollution control was eliminated with the adoption of the 1986 Tax Code.

(b) Air Pollution Control Facilities - These bonds are authorized to be issued by the Authority By the Authority Act and by Chapter 383 of the Texas Health and Safety Code or by the IDC pursuant to the Development Corporation Act. Much like bonds for water pollution control facilities, the tax exemption for this type of bond was eliminated by the 1986 Tax Code, and there has been no real demand for the issuance of taxable bonds for this purpose.

(c) Water Supply Facilities - These are bonds issued to provide water to customers who are not governmental entities and are not considered to be available for public use. An example of this is the Lake Eastex preconstruction financing done in 1988 which had too much involvement by non-governmental entities (in that case water supply corporations).

(2) The IDC:

(a) Research and development facilities.

(b) Military facilities, including closed or realigned military bases.

(c) Transportation facilities, including airports, hangars, railports, rail switching facilities, maintenance, and repair facilities, cargo facilities, related infrastructure located on or adjacent to an airport or railport facility, marine ports, inland ports, mass commuting facilities, and parking facilities.

(d) Distribution centers.

(e) Small warehouse facilities capable of serving as decentralized storage and distribution centers.

(f) Primary job training facilities for use by institutions of higher education.

(g) Regional or national corporate headquarters facilities.

(h) Streets and roads, rail spurs, water and sewer facilities, electric utilities, or gas utilities, drainage, site improvements, and related improvements.

(i) Telecommunications and internet improvements.

(j) Beach remediation along the Gulf of Mexico.

(k) Projects for the creation or retention of primary jobs for the Coast Guard (except the Coast Guard Academy) which are for promoting or supporting a military base in active use to prevent the possible future closure or realignment of the base; attracting new military missions to a military base in active use; or redeveloping a military base that has been closed or realigned.

(l) Projects suitable for use for a career center, if the area to be benefitted by the career center is not located in the taxing jurisdiction of a junior college district.