

MINUTES
MEETING OF APRIL 21, 2004
CITY COUNCIL - CITY OF HOUSTON

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

The City Council of the City of Houston, Texas, convened in regular meeting, open to the public, in the City Hall of such City on April 21, 2004, and the roll was called of the duly constituted members of such City Council, to-wit:

Bill White	Mayor
Toni Lawrence	Council Member, District A
Carol Mims Galloway	Council Member, District B
Mark Goldberg	Council Member, District C
Ada Edwards	Council Member, District D
Addie Wiseman	Council Member, District E
M. J. Khan	Council Member, District F
Pam Holm	Council Member, District G
Adrian Garcia	Council Member, District H
Carol Alvarado	Council Member, District I
Mark Ellis	Council Member, At-Large Position No. 1
Gordon Quan	Council Member, At-Large Position No. 2
Shelley Sekula-Gibbs, M.D.	Council Member, At-Large Position No. 3
Ronald C. Green	Council Member, At-Large Position No. 4
Michael Berry	Council Member, At-Large Position No. 5

and the following members were absent, to-wit: None, constituting a quorum of such City Council, when the following, among other business, was transacted:

The Mayor introduced Ordinance No. 2004-299, such Ordinance being entitled:

AN ORDINANCE PROVIDING FOR ISSUANCE OF CITY OF HOUSTON, TEXAS, COMBINED UTILITY SYSTEM REVENUE OBLIGATIONS, PROVIDING FOR THE PAYMENT THEREOF; MAKING OTHER PROVISIONS REGARDING SUCH OBLIGATIONS AND MATTERS INCIDENT THERETO, INCLUDING COVENANTS AND AGREEMENTS RELATING TO THE OPERATION AND MANAGEMENT OF THE COMBINED UTILITY SYSTEM, THE REVENUES DERIVED FROM ITS OPERATION AND OWNERSHIP, THE ESTABLISHMENT AND MAINTENANCE OF FUNDS AND ACCOUNTS FOR THE PAYMENT OF SUCH OBLIGATIONS, SPECIFYING THE TERMS AND CONDITIONS FOR THE ISSUANCE OF SUCH OBLIGATIONS AND OTHER MATTERS INCIDENT AND RELATED TO THEIR ISSUANCE AND SECURITY; AND DECLARING AN EMERGENCY

which Ordinance was read by caption. The Mayor called for a vote on such Ordinance, and the same passed by the following vote:

AYES: Mayor White, Council Members Lawrence, Galloway, Edwards, Khan, Holm, Garcia, Alvarado, Ellis, Quan, Sekula-Gibbs, Green, and Berry

NAYS: Council Members Goldberg and Wiseman

The Mayor thereupon announced that the Ordinance had duly and lawfully passed.

MAYOR'S OFFICE

HOUSTON, TEXAS

April 14, 2004

To the Honorable City Council of the City of Houston, Texas
City Hall Annex

In accordance with the provisions of Article VII, Section 7 of the Charter of the City of Houston, Texas, I submit to you the ordinance set out below with the request that it be passed finally on the date of its introduction. There exists a public emergency requiring such action, and I accordingly request that you pass the same if it meets with your approval.



City of Houston, Texas
Mayor

City of Houston Ordinance No. 2004- 299

CITY OF HOUSTON ORDINANCE NO. 2004-299

AN ORDINANCE PROVIDING FOR ISSUANCE OF CITY OF HOUSTON, TEXAS, COMBINED UTILITY SYSTEM REVENUE OBLIGATIONS, PROVIDING FOR THE PAYMENT THEREOF; MAKING OTHER PROVISIONS REGARDING SUCH OBLIGATIONS AND MATTERS INCIDENT THERETO, INCLUDING COVENANTS AND AGREEMENTS RELATING TO THE OPERATION AND MANAGEMENT OF THE COMBINED UTILITY SYSTEM, THE REVENUES DERIVED FROM ITS OPERATION AND OWNERSHIP, THE ESTABLISHMENT AND MAINTENANCE OF FUNDS AND ACCOUNTS FOR THE PAYMENT OF SUCH OBLIGATIONS, SPECIFYING THE TERMS AND CONDITIONS FOR THE ISSUANCE OF SUCH OBLIGATIONS AND OTHER MATTERS INCIDENT AND RELATED TO THEIR ISSUANCE AND SECURITY; AND DECLARING AN EMERGENCY

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CITY OF HOUSTON ORDINANCE NO. 2004-299

AN ORDINANCE PROVIDING FOR ISSUANCE OF CITY OF HOUSTON, TEXAS, COMBINED UTILITY SYSTEM REVENUE OBLIGATIONS, PROVIDING FOR THE PAYMENT THEREOF; MAKING OTHER PROVISIONS REGARDING SUCH OBLIGATIONS AND MATTERS INCIDENT THERETO, INCLUDING COVENANTS AND AGREEMENTS RELATING TO THE OPERATION AND MANAGEMENT OF THE COMBINED UTILITY SYSTEM, THE REVENUES DERIVED FROM ITS OPERATION AND OWNERSHIP, THE ESTABLISHMENT AND MAINTENANCE OF FUNDS AND ACCOUNTS FOR THE PAYMENT OF SUCH OBLIGATIONS, SPECIFYING THE TERMS AND CONDITIONS FOR THE ISSUANCE OF SUCH OBLIGATIONS AND OTHER MATTERS INCIDENT AND RELATED TO THEIR ISSUANCE AND SECURITY; AND DECLARING AN EMERGENCY

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HOUSTON:

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1.1. Findings and Determinations. It is hereby officially found and determined that:

(a) The City of Houston, Texas (the "City") is an incorporated city operating under a home-rule charter adopted pursuant to Article XI, Section 5, of the Constitution of Texas having a population according to the latest federal decennial census of 50,000 or more and having outstanding long-term indebtedness that is rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations.

(b) The City is authorized by Chapter 1371, Texas Government Code, as amended, such statute's predecessors and other applicable laws to issue obligations payable from the revenues of the City's combined utility system (the "System") for the purpose of acquisition or construction of and improvements, additions, or extensions to the System.

(c) The City has determined that, except for certain bonds to be sold to the Texas Water Development Board, future financing of capital improvements to the System shall be undertaken through the issuance of obligations under a new master ordinance governing and pertaining to their issuance.

ARTICLE II

DEFINITIONS AND INTERPRETATIONS

Section 2.1. Definitions. In this Ordinance, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

"Additional First Lien Bonds" shall mean the additional first lien revenue bonds permitted to be issued by the City pursuant to Section 6.1 hereof.

"Additional Second Lien Bonds" shall mean the additional second lien revenue bonds permitted to be issued by the City pursuant to Section 6.1 hereof.

"Adjustable Rate Obligations" shall mean any Bonds or other Obligations that initially bear interest at an adjustable or variable rate of interest, including Adjustable Rate Obligations which may be converted to bear a rate of interest fixed to maturity.

"Average Annual Debt Service Requirements" shall mean the average of the annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in then current Fiscal Year and future Fiscal Years for the particular Obligations (First Lien Bonds, Second Lien Bonds, or otherwise) for which such calculation is made.

"Board Bonds" shall mean the Water and Sewer System Junior Lien Revenue Bonds purchased or to be purchased by the Texas Water Development Board on a parity with the Previous Ordinance Bonds Outstanding under the terms of the Previous Ordinance, as described in Exhibit A attached hereto.

"Bonds" shall mean any or all of the Obligations issued as First Lien Bonds or the Second Lien Bonds, or both, as the context may indicate.

"Business Day" shall mean a day which is not a banking holiday in New York, New York, or Houston, Texas, except as may be otherwise provided in a Supplemental Ordinance.

"City" shall mean the City of Houston, Texas, and, where appropriate, the City Council thereof and any successor to the City as owner of the System.

"Credit Agreement" shall mean any agreement between the City and a third party institution pursuant to which such third party institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Bonds. Each Credit Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of

securing its payment or repayment by the pledge of Net Revenues as provided in Articles Five, Six, and Seven of this Ordinance. Unless specifically provided for in a Supplemental Ordinance, issuers of Credit Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under this Ordinance; provided that a Supplemental Ordinance may provide that, so long as an institution that issues a municipal bond insurance policy insuring a series of Bonds is not in default of its payment obligations under such policy, such institution may, under the terms of the Ordinance, at all times be deemed to be the exclusive owner of such series of Bonds for the purpose of all approvals, consents, waivers, or exercise of any action and the direction of all remedies. For purposes of this Ordinance, Credit Agreements shall not include a Reserve Fund Surety Policy.

“Crossover Refunding Bonds” shall mean any Bonds the proceeds of which: (i) are deposited in an escrow account established for such purpose with a Paying Agent/Registrar, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be sufficient, together with the investment income thereon, after the payment of bond issuance costs, if any, to pay the Debt Service Requirements on such series on and prior to such Crossover Refunding Bonds Break Date, and (iv) other than paying or providing for the payment of bond issuance costs, if any, cannot be used for any purpose other than the payment of Debt Service Requirements on such Crossover Refunding Bonds on and prior to the Crossover Refunding Bonds Break Date.

“Crossover Refunding Bonds Break Date” shall mean the date specified in the Supplemental Ordinance authorizing a Series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such Supplemental Ordinance.

“Debt Service Requirements” shall mean, as of any period of time for which such calculation applies, an amount equal to the sum of the following for any such period and with respect to all or any portion of the Bonds:

A. Current interest scheduled to be paid during such period on such Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Bonds, from interest earned or to be earned thereon, from other System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the First Lien Bond Interest and Sinking Fund or the Second Lien Bond Interest and Sinking Fund, as the case may be, plus

B. That portion of the principal of, or compounded interest on, such Bonds scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions);

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on any series of Bonds that are Short Term Obligations, Adjustable Rate Obligations or Refundable Obligations:

(i) For any series of Bonds issued as Short Term Obligations under this Ordinance pursuant to a program designated by the City as a commercial paper or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Bonds of the same lien which shall be assumed to be amortized over a remaining period not to exceed 30 years from the original issue date of such Short Term Obligations and shall be assumed to be amortized in such a manner that the Debt Service Requirements in any 12-month period are substantially equal to the Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the interest rate such series of Bonds would bear if issued on such terms on the date of such estimate;

(ii) For any series of Bonds issued as Adjustable Rate Obligations, it shall be assumed that such Bonds will bear interest at a rate calculated as follows: (a) with respect to compliance with Section 5.2 of this Ordinance, for any such series of Bonds then Outstanding, at the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest payable on such series of Bonds during the period covered by such calculation, and (b) with respect to compliance with the Reserve Fund Requirements and compliance with Section 6.1 of this Ordinance, for any such Bonds then Outstanding or proposed to be issued, at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such Bonds would bear if issued as long-term bonds, in the same principal amount and with the same priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations;

(iii) For the purpose of calculating the Debt Service Requirements on any series of Bonds issued as Refundable Obligations, such Bonds shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period not to exceed 30 years from the original issue date of such series of Bonds at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such series of Bonds would bear if issued as long-term bonds in the same principal amount with the same priority of lien, bearing interest at fixed rates to be amortized over 30 years;

(iv) With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded; and

(v) With respect to Bonds to be redeemed with the proceeds of Crossover Refunding Bonds, Debt Service Requirements thereon after the Crossover Refunding Bonds Break Date shall be disregarded.

Debt Service Requirements shall be calculated on the assumption that no Bonds Outstanding at the time of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Bonds, except as provided above for Short Term Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Debt Service Requirements shall include debt service requirements on Previous Ordinance Bonds, including without limitation, Outstanding Board Bonds at the time of such calculation.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies in a written certificate delivered to the City to be modified pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that the Debt Service Requirements for any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be calculated in accordance with the provisions contained in paragraph (ii) above of the definition of Debt Service Requirements, as certified by the City's financial advisor in a written certificate delivered to the City; and provided further, that any obligation of the City to make termination payments that are not payable in installments over the remaining term of that relevant transaction or to deliver collateral under a Qualified Hedge Agreement shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations.

"Designated Index" shall mean the United States Consumer Price Index for all Urban Consumers (also known as the CPI-U) for the Houston-Galveston-Brazoria, Texas Metropolitan Area (1982-1984=100), as published by the Bureau of Labor Statistics, U.S. Department of Labor (but if such is subject to adjustment later, then the later adjusted index, together with any correlation factor necessary to relate the later adjusted index to the earlier index, as published by the entity publishing the index, shall be used), or if such publication is discontinued, the Designated Index shall then refer to comparable statistics on changes in the cost of living for urban consumers as the same may be computed and published (on the most frequent basis

available) by an agency of the United States or by a responsible financial periodical of recognized authority, which agency or periodical shall be selected by the City.

“First Lien Bonds” shall mean each series of First Lien Bonds from time to time hereafter issued, but only to the extent such First Lien Bonds remain Outstanding within the meaning of this Ordinance.

“Fiscal Year” shall mean the City’s fiscal year, which currently runs from July 1 to June 30, but which may be changed from time to time by the City.

“Fourth Lien Obligations” shall mean Obligations authorized by Section 6.3 of this Ordinance.

“Gross Revenues” shall mean all revenues and income of every nature now and hereafter derived or received by the City from the operation and ownership of the components of the System; the interest income from the investment or deposit of money in the funds created pursuant to this Ordinance and the Previous Ordinance; and any other revenues hereafter pledged to the payment of Obligations issued pursuant to this Ordinance and the Previous Ordinance. Gross Revenues shall not include Restricted Receipts. Gross Revenues shall also include all payments received by the City, except for termination payments and receipts of collateral, pursuant to Qualified Hedge Agreements.

“Interest Payment Date” shall mean the dates designated in the Supplemental Ordinances.

“Maintenance and Operation Expenses” shall mean the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, wages, pension fund contributions, interest, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Bonds or other Obligations), and all payments (including payments of amounts equal to all or a part of the debt service on bonds issued by other political subdivisions and authorities of the State of Texas) under contracts which are now or hereafter defined for a system such as the System as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense. Maintenance and Operation Expenses shall include, without limitation, all payments under contracts for the impoundment, conveyance or treatment of water or otherwise which are now or hereafter treated as operating expenses under the laws of the State of Texas and the treatment of such payments as Maintenance and Operation Expenses shall not be affected in any way if, subsequent to the entering into such contracts, the City acquires as a part of the System title to any properties or facilities used to impound, convey or treat water under such contracts, or if the City contracts to acquire title to such properties or facilities as a part of the System upon the final payment of debt service on the bonds issued to finance such properties or facilities.

“Master Ordinance” shall mean this Ordinance and any amendments hereto pursuant to Section 7.15.

"Maximum Annual Debt Service Requirements" shall mean the greatest combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any particular future Fiscal Year or in the then current Fiscal Year for the particular Bonds (First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any combination of the foregoing) for which such calculation is made.

"Net Revenues" shall mean (i) all Gross Revenues remaining after deducting Maintenance and Operation Expenses, plus (ii) any Restricted Receipts deposited to the Revenue Fund that may be used to pay Debt Service Requirements on Obligations.

"Obligations" shall mean Previous Ordinance Bonds and obligations authorized pursuant to this Ordinance, including, without limitation, First Lien Bonds, Second Lien Bonds, Third Lien Obligations, Fourth Lien Obligations, Credit Agreements, and Qualified Hedge Agreements.

"Ordinance" shall mean the Master Ordinance and all Supplemental Ordinances.

"Outstanding," when used with reference to the Previous Ordinance Bonds, First Lien Bonds, Second Lien Bonds, Third Lien Obligations, or Fourth Lien Obligations, as the case may be, shall mean, as of a particular date, all such Obligations theretofore delivered except: (a) any such Obligation canceled by or on behalf of the City at or before said date; (b) any such Obligation defeased pursuant to the defeasance provisions of the Previous Ordinance or the Supplemental Ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such Obligation in lieu of or in substitution for which another Obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such Obligation.

"Owner" or "Registered Owner," when used with respect to any Obligation, shall mean the person or entity (including any entity acting as an underwriter of Bonds) in whose name such Obligation is registered in the Register. Any reference to a particular percentage or proportion of the Owners of the Obligations of a particular class or series of Bonds shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds or the Obligations of such class or series then Outstanding.

"Paying Agent/Registrar" shall mean a bank, trust company, or other entity designated pursuant to a Supplemental Ordinance as the agent of the City to receive and disburse to Owners of the Bonds the principal and premium, if any, and interest on the Bonds. The City reserves the option to act as its own Paying Agent/Registrar.

"Previous Ordinance" shall mean, collectively, the City's ordinances, as amended, heretofore or hereafter adopted, that authorized or shall authorize the issuance of the Previous Ordinance Bonds.

"Previous Ordinance Bonds" shall mean on any date all of the City's Water and Sewer System Junior Lien Revenue Bonds, if any, that are Outstanding under the Previous Ordinance, including Outstanding Board Bonds.

"Qualified Hedge Agreement" shall mean, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the City determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty (in the case of clauses (i) through (v), whether from or initiated at the option of the City or the counterparty). A Qualified Hedge Agreement may only be entered into with an institution that has long term credit ratings, or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings, in one of the two highest generic rating categories by at least one Rating Agency then rating the Bonds. Any obligations of the City to make scheduled payments under a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Bonds to which the Qualified Hedge Agreement relates, and each Qualified Hedge Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles Five, Six, and Seven of this Ordinance, except that any obligation of the City to make termination payments that are not payable in installments over the remaining term of the relevant transaction or to deliver collateral shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments under this Ordinance.

"Rating Agency" shall mean Fitch Ratings, Moody's Investors Service, Standard & Poor's, or any other nationally recognized rating agency.

"Refundable Obligations" shall mean any series of Obligations 25% or more of the original principal amount of which is due on any date; provided that, in calculating the principal amount of such Obligations due or required to be redeemed, prepaid, or otherwise paid on any date, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized on any date.

"Register" shall mean the registration books maintained by a Paying Agent/Registrar for Obligations issued under a Supplemental Ordinance.

"Required Payments" shall mean any payments required to be made under the Previous Ordinance, including without limitation (i) all payments required to be made by the City as Maintenance and Operating Expenses under the Previous Ordinance, including without

limitation under outstanding contracts on the effective date of this Master Ordinance for the impoundment, conveyance, or treatment of water or otherwise which are treated as operating expenses under the laws of the State of Texas, and (ii) all payments required to be made by the City to pay debt service requirements on Previous Ordinance Bonds in accordance with the terms of the Previous Ordinance and to comply with Section 5.8 of the Previous Ordinance.

“Reserve Fund Participants” shall mean any series of Bonds for which the City elects to fund a shared Bond Reserve Fund.

“Reserve Fund Requirements” shall mean the amount required by a Supplemental Ordinance to be deposited, accumulated and reaccumulated and maintained in the First Lien Bond Reserve Fund, the Second Lien Bond Reserve Fund and any reserve funds created for Third Lien Obligations or Fourth Lien Obligations.

“Reserve Fund Surety Policy” shall mean any surety bond or any insurance policy which has liquidity features equivalent to an irrevocable and unconditional letter of credit, or any irrevocable and unconditional letter of credit, deposited in a reserve fund created pursuant to Section 5.3 of this Ordinance in lieu of or in partial substitution for monies on deposit therein, which is rated at the time of deposit of such Reserve Fund Surety Policy in the highest rating category by each Rating Agency rating the Outstanding Bonds to which the Reserve Fund Surety Policy relates at the time of deposit of such Reserve Fund Surety Policy.

“Restricted Receipts” shall mean (i) revenues related to the System received by the City that pursuant to law or contractual agreements that may not be used to pay Maintenance and Operation Expenses and (ii) any interest earnings on the revenues described in clause (i) above.

“Second Lien Bonds” shall mean each series of Second Lien Bonds from time to time hereafter issued, but only to the extent such Second Lien Bonds remain Outstanding within the meaning of this Ordinance.

“Short Term Obligations” shall mean each series of bonds, notes and other obligations issued pursuant to a commercial paper or other similar financing program under Section 6.2 of this Ordinance, the payment of principal of which is scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced through the issuance of additional Obligations.

“Special Project” shall mean, to the extent permitted by law, any utility system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or revenues of the System and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes or revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction, and installation under such financing transaction.

“Supplemental Ordinance” shall mean any ordinance supplementing this Ordinance to provide for the issuance of Bonds or other Obligations authorized by this Ordinance.

"System" shall mean all properties, facilities, improvements, equipment, interests, rights and powers constituting the combined water and sewer system of the City, and all future extensions, replacements, betterments, additions, improvements, enlargements, acquisitions, purchases and repairs to the System, including without limitation, all those heretofore or hereafter acquired as a result of the annexation and dissolution of water districts or the acquisition of the properties or assets of any other public, private or non-profit entities. The System shall not include any Special Project. The System shall include other utility systems provided for in Chapter 1502 of the Texas Government Code which the City may from time to time elect to combine with the System so long as the revenues of such other utility systems are included in Gross Revenues under this Ordinance.

"Third Lien Obligations" shall mean Obligations authorized by Section 6.3 of this Ordinance.

Section 2.2. Interpretations. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance and the Table of Contents of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. References to any constitutional, statutory or regulatory provision means such provision as it exists on the date this Ordinance is adopted by the City and including any future amendment thereto or successor provision thereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Bonds.

ARTICLE III

TERMS OF THE BONDS

Section 3.1. Name. The name, amount, purpose, and legal authorization for each series of Bonds shall be specified in the Supplemental Ordinance authorizing such series.

Section 3.2. Numbers; Date, and Denomination. Each series of Bonds shall be numbered and dated and shall be in principal denominations as specified in the authorizing Supplemental Ordinance.

Section 3.3. Terms. Each Series of Bonds shall bear interest from the dates and at the rates per annum and shall mature on the date or dates to be set forth in the authorizing Supplemental Ordinance. Bonds may bear interest at a fixed, variable, auction, term or commercial paper rate or any other rate provided for in the authorizing Supplemental Ordinance.

Section 3.4. Redemption Prior to Maturity. Each Series of Bonds may be subject to redemption in the manner provided in the authorizing Supplemental Ordinance.

Section 3.5. Manner of Payment, Characteristics, Execution, and Authentication. Each authorizing Supplemental Ordinance shall designate a Paying Agent/Registrar for such series of

Bonds. The Bonds shall be payable, shall have the characteristics, shall be signed and executed, shall be sealed, and shall be authenticated, all as provided and in the manner indicated in the authorizing Supplemental Ordinance. To the extent required by Texas law, Bonds initially delivered shall also have attached or affixed thereto the registration certificate of the Comptroller of Public Accounts of the State of Texas. If any officer of the City whose manual or facsimile signature shall appear on the Bonds, as provided in the authorizing Supplemental Ordinance, shall cease to be such officer before the authentication of the Bonds or before the delivery of the Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond. The definitive Bonds shall be printed, lithographed, engraved, or typewritten or produced by any combination of these methods, or produced in any other manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof, but the initial Bonds submitted to the Attorney General of Texas may be typewritten, photocopied, or otherwise reproduced.

The approving legal opinion of Bond Counsel for the Bonds, may be printed on the back of the Bonds over the certification of the City Secretary of the City which may be executed in facsimile. CUSIP numbers and a statement of insurance, if any, also may be printed on applicable Bonds, but errors or omissions in the printing of the opinion, the numbers, or the statement of insurance shall have no effect on the validity of the Bonds.

Section 3.6. Ownership. The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making payment of the principal and premium, if any, thereof, and for the further purpose of making payment of interest thereon, for the purpose of giving notice to the Owners of the Bonds, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with this section shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Section 3.7. Registration Transfer and Exchange. So long as any Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its principal corporate trust office, in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Bonds in accordance with the terms of this Ordinance.

Each Bond shall be transferable only upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within 72 hours after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate

principal amount or maturity amount, as the case may be, and bearing or accruing interest at the same rate as the Bond or Bonds so presented.

Each Bond shall be exchangeable upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and bearing or accruing interest at the same rate and in any authorized denomination, in an aggregate principal amount or maturity amount, as the case may be, equal to the unpaid principal amount or maturity amount, as the case may be, of the Bond or Bonds presented for exchange. The Paying Agent/Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this Section. Each exchanged or replaced Bond delivered by the Paying Agent/Registrar in accordance with this Section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The City or the Paying Agent/Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

Section 3.8. Cancellation. All Bonds paid or redeemed in accordance with this Ordinance, and all Bonds in lieu of which exchanged Bonds or replacement Bonds are authenticated and delivered in accordance herewith, shall be canceled upon the making of proper records regarding such payment or redemption. The Paying Agent/Registrar shall retain the cancelled Bonds in accordance with its document retention policies.

Section 3.9. Replacement Bonds. Upon the presentation and surrender to the Paying Agent/Registrar of a damaged or mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Paying Agent/Registrar.

If any Bond is destroyed, lost, or stolen, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

- (a) Furnished to the City and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;
- (b) Furnished such security or indemnity as may be required by the Paying Agent/Registrar and the City to save them harmless;

(c) Paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar, and any tax or other governmental charge that may be imposed; and

(d) Met any other reasonable requirements of the City and the Paying Agent/Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

If any such damaged, mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a replacement Bond, authorize the Paying Agent/ Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

ARTICLE IV

FORM OF BONDS

Each series of Bonds shall be in substantially the form set out in the Supplemental Ordinance, with such omissions, insertions and variations as may be permitted or required pursuant to the terms of such ordinance for each series of the Bonds (including appropriate variations required for any Bonds issued as capital appreciation bonds).

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

Section 5.1. Pledge Securing Bonds. The City hereby covenants and agrees that Gross Revenues of the System shall, as collected and received by the City, be deposited and paid into the special funds hereinafter established, after satisfying any requirements of the Previous Ordinance. For so long as the Previous Ordinance Bonds remain Outstanding, the City hereby covenants and agrees that gross revenues (as defined under the Previous Ordinance) shall be applied in the manner set forth in the Previous Ordinance to provide for the payment of all Required Payments, and then Gross Revenues shall be applied in the manner hereinafter set forth in order to provide for the payment of all remaining Maintenance and Operation Expenses that have not been paid as Required Payments. Net Revenues shall be applied to provide for the payment of principal of, interest on and any redemption premiums on the First Lien Bonds, any

parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; to provide for the payment of principal of, interest on and any redemption premiums on the Second Lien Bonds, any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; and to provide for the disposition of the remaining Net Revenues in accordance with this Ordinance. The First Lien Bonds shall constitute special obligations of the City that shall be payable solely from and shall be equally and ratably secured by a lien on the Net Revenues as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund for and pledged to the payment of the First Lien Bonds as hereinafter provided, and the First Lien Bonds shall be, in all respects, on a parity with and of equal dignity with one another. The Second Lien Bonds shall constitute special obligations of the City that shall be payable solely from and, subject only to the senior and superior lien on Net Revenue pledged to the payment of the First Lien Bonds and other obligations payable from the First Lien Bond Interest and Sinking Fund, shall be equally and ratably secured by a lien on the Net Revenues, as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund for and pledged to the payment of the Second Lien Bonds as hereinafter provided, and the Second Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the First Lien Bonds and the Second Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the First Lien Bonds or the Second Lien Bonds out of any funds raised or to be raised by taxation. Chapter 1208, Texas Government Code, applies to the issuance and delivery of the First Lien Bonds and the Second Lien Bonds and the pledge of the Net Revenues granted under this Ordinance, and such pledge is therefore valid, effective, and perfected.

Section 5.2. Rates and Charges. So long as any Bonds remain Outstanding, the City shall fix, charge, and collect rates and charges for the use and services of the System which are calculated to be fully sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(a) 120% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds and First Lien Bonds then Outstanding, or

(b) 110% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds, First Lien Bonds, and Second Lien Bonds then Outstanding,

plus an amount equal to the sum of all deposits required to be made to the First Lien Bond Reserve Fund and to the Second Lien Bond Reserve Fund in such Fiscal Year; provided that in calculating the Net Revenues required by paragraphs (a) and (b) above all or any portion of such Net Revenues that exceed 100% of the combined Debt Service Requirements may be attributed to amounts on deposit in the General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance, and provided further that in no event shall Net Revenues ever be less than the amount required to establish and maintain the First Lien

Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as hereinafter provided, to establish and maintain the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund as hereinafter provided and, to the extent that funds for such purpose are not otherwise available, to pay all other Outstanding Obligations payable from the Net Revenues of the System, including all amounts owed as a repayment obligation by the City pursuant to a Reserve Fund Surety Policy or a Credit Agreement, as and when the same become due.

Effective for monthly billing cycles for the System commencing on April 1, 2005 and on April 1 of each year thereafter and subject to the terms of existing contracts, the requirements of the immediately preceding paragraph of this Section 5.2, applicable Texas law and the authority of the City Council of the City to adopt other rates and charges, rates and charges for the use and services of the System shall be adjusted based on the percentage change (if any) in the Designated Index or other appropriate index for the preceding calendar year. The calculation required by this Section 5.2 shall be made annually at the time City's Annual Budget for the System is adopted and shall be included in the Annual Budget for the System.

Section 5.3. Special Funds. The following special Funds shall be established, maintained and accounted for on the books of the City as hereinafter provided so long as any of the Bonds or other Obligations remain Outstanding:

- (a) Revenue Fund;
- (b) First Lien Bond Interest and Sinking Fund;
- (c) First Lien Bond Reserve Fund;
- (d) Second Lien Bond Interest and Sinking Fund;
- (e) Second Lien Bond Reserve Fund;
- (f) Third Lien Obligation Interest and Sinking Fund;
- (g) Third Lien Obligation Reserve Fund (if and when required);
- (h) Fourth Lien Obligation Interest and Sinking Fund (if and when required);
- (i) Fourth Lien Obligation Reserve Fund (if and when required);
- (j) Interest and Sinking Funds and Reserve Funds for any additional Obligations that will be junior and subordinate to Fourth Lien Obligations (if and when required); and
- (k) General Purpose Fund.

All of such Funds shall be maintained as separate accounts on the books of the City. The First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the First Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the

proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be pledged to the payment of the First Lien Bonds and such parity Obligations. The Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Second Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be and are hereby pledged to the payment of the Second Lien Bonds and such parity Obligations. All of the Funds named above shall be used solely as herein provided so long as any First Lien Bonds or Second Lien Bonds or such parity Obligations remain Outstanding. The City reserves the right to establish, maintain, and account for on the books of the City such additional funds and accounts as may be necessary or desirable in the efficient administration of the System and flow of funds governing all Outstanding Obligations.

Section 5.4. Flow of Funds. After making any Required Payments in accordance with the terms of the Previous Ordinance, Gross Revenues of the System shall be deposited as collected into the Revenue Fund and shall be applied (i) to pay Maintenance and Operation Expenses, to the extent not already paid, and (ii) to establish and maintain an operating reserve equal to two month's budgeted Maintenance and Operation Expenses. The remaining balance, together with Restricted Receipts, shall be applied in the following manner and in the following order of priority:

- (a) First, to make all deposits into the First Lien Bond Interest and Sinking Fund required by Section 5.5 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;
- (b) Second, to make all deposits into the First Lien Bond Reserve Fund required by Section 5.6 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;
- (c) Third, to make all deposits into the Second Lien Bond Interest and Sinking Fund required by Section 5.7 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;
- (d) Fourth, to make all deposits into the Second Lien Bond Reserve Fund required by Section 5.8 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;
- (e) Fifth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Third Lien Obligations authorized by Section 6.3 hereof, in order to provide for the payment of and security for such Third Lien Obligations;
- (f) Sixth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Fourth Lien Obligations described in Section 6.3 hereof, in order to provide for the payment of and security for such Fourth Lien Obligations; and

- (g) Seventh, to deposit any remaining Net Revenues into the General Purpose Fund.

Section 5.5. First Lien Bond Interest and Sinking Fund. On or before the last Business Day immediately preceding (i) an Interest Payment Date so long as any First Lien Bonds remain Outstanding, and (ii) any date when any payments are due and payable under a Qualified Hedge Agreement relating to First Lien Bonds, there shall be transferred into the First Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

- (a) Such amounts as will be sufficient to pay the amount of interest scheduled to become due on the First Lien Bonds on such Interest Payment Date; plus
- (b) Such amounts, if any, as will be sufficient to pay the amount of principal of the First Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any First Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of First Lien Bonds; plus
- (c) Such amounts, if any, as shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund.

Moneys credited to the First Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase First Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the First Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund. On or before each date principal becomes due and/or Interest Payment Date on the First Lien Bonds, the City shall transfer from the First Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the First Lien Bonds on such date.

Section 5.6. First Lien Bond Reserve Fund. On or before the last Business Day of each month so long as any First Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the First Lien Bond Reserve Fund from the Revenue Fund amounts equal to one-sixtieth (1/60th) of the Reserve Fund Requirements for the First Lien Bonds unless or until there has been accumulated in the First Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the First Lien Bonds; provided that additional deposits into the First Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirement resulting from the issuance of any

Additional First Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional First Lien Bonds. After such amount has accumulated in the First Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the First Lien Bond Reserve Fund, and any excess amounts in such Fund may be transferred to the Revenue Fund. But if and whenever the balance in the First Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the Reserve Fund Requirements on the First Lien Bonds until the First Lien Bond Reserve Fund has been restored to such amount. The First Lien Bond Reserve Fund shall be used to pay the principal of and interest on the First Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the First Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last First Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the First Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the First Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the First Lien Bond Reserve Fund causes the amount then on deposit in the First Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all First Lien Bonds, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such Obligations preceding an Interest Payment Date pursuant to Chapter 1207, Texas Government Code), or to the General Purpose Fund.

Section 5.7. Second Lien Bond Interest and Sinking Fund. On or before the last business day immediately preceding (i) an Interest Payment Date, so long as any Second Lien Bonds remain Outstanding, and (ii) on any date when any payment is due and payable under a Qualified Hedge Agreement relating to Second Lien Bonds, there shall be transferred into the Second Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

- (a) such amounts as will be sufficient to pay the amount required to pay the amount of interest scheduled to become due on the Second Lien Bonds on such Interest Payment Date; plus
- (b) such amounts, if any, as will be sufficient to pay the amount of the next maturing principal of the Second Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any Second Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of Additional Second Lien Bonds; plus

- (c) such amounts, if any, shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund.

Moneys credited to the Second Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase Second Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the Second Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund. On or before each principal becomes due and/or Interest Payment Date on the Second Lien Bonds, the City shall transfer from the Second Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the Second Lien Bonds on such date.

The Paying Agent/Registrar shall totally destroy all paid Second Lien Bonds and shall provide the City with an appropriate certificate of destruction.

Section 5.8. Second Lien Bond Reserve Fund. On or before the last Business Day of each month so long as any Second Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the Second Lien Bond Reserve Fund from the Revenue Fund amounts equal to at least one-sixtieth (1/60th) of the Reserve Fund Requirements for the Second Lien Bonds unless or until there has been accumulated in the Second Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the Second Lien Bonds; provided that additional deposits into the Second Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirements resulting from the issuance of any Additional Second Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional Second Lien Bonds. After such amount has accumulated in the Second Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the Second Lien Bond Reserve Fund, and any excess amounts in the Fund may be transferred to the Revenue Fund. But if and whenever the balance in the Second Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the Reserve Fund Requirements on the Second Lien Bonds until the Second Lien Bond Reserve Fund has been restored to such amount. The Second Lien Bond Reserve Fund shall be used to pay the principal of and interest on the Second Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the Second Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Second Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the Second Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the Second Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the Second Lien Bond Reserve Fund causes the amount then on deposit in the Second Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all Second Lien Bonds, the City may transfer such excess amount to any fund established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, Texas Government Code), or to the General Purpose Fund.

Section 5.9. General Purpose Fund. Subject to the payment to the provider of a Reserve Fund Surety Policy of any interest on amounts advanced and any expenses incurred under the Reserve Fund Surety Policy required to be paid pursuant to an agreement between the City and the provider of such Reserve Fund Surety Policy, and subject to the provisions of Sections 5.5, 5.6, 5.7, and 5.8 hereinabove in this Article, from any moneys remaining in the Revenue Fund, at least annually within 90 days following the end of each Fiscal Year, there shall be set aside and credited to the General Purpose Fund, the remaining revenues in the Revenue Fund. Moneys accounted for in the General Purpose Fund, subject to any limitations herein or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any combination of the following:

(a) Capital Costs. To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the System, or any part thereof, and any equipment therefor, authorized by law;

(b) Major Maintenance Costs. To pay the costs of extraordinary and major repairs, renewals, replacements, or maintenance items pertaining to any properties of the System of a type not recurring annually or at shorter intervals and not paid as Maintenance and Operation Expenses;

(c) Debt Service Requirements. To pay any Bonds or other Obligations or securities pertaining to the System and payable from Net Revenues (regardless of whether such securities are secured by a lien thereon), as to Debt Service Requirements and any other appurtenant charge pertaining to such Debt Service Requirements on any Interest Payment Date, or any redemption date or redemption dates, or by purchase in the open market, or by creating an escrow to provide for the payment of or to defease such Bonds, other Obligations or securities or otherwise;

(d) Legal Obligations. To pay any obligations pertaining to the System and arising from a judgment against the City or any officer, employee, or other agent of the City acting within the scope of his official duties, rights, or privileges, or the scope of his employment, as the case may be, in any suit, action, or special proceedings in equity or at law, in any court of competent jurisdiction, or a settlement by the City of any claim to avoid or to settle such a suit, action, or special proceedings, except to the extent revenues

are otherwise available to defray such an obligation, including, without limitation, insurance proceeds, or to pay any penalties, fines, settlements or other amounts required to be paid by the City as a result of federal or state administrative proceedings relating to the System;

(e) Assumed and Other Obligations. To pay any bonds or other obligations assumed by the City which were issued or incurred by water districts annexed and dissolved by the City, which bonds or other obligations are by their own terms secured in whole or in part by a pledge of water or sewer revenues which did not terminate upon the annexation and dissolution of such water districts, and other bonds or obligations issued or assumed by the City for combined utility system purposes which are payable from ad valorem taxes or sources other than the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, or the Second Lien Bond Reserve Fund;

(f) Lawful System Purposes. For any other lawful purpose of the System as the City may determine; and

(g) Drainage Purposes. For planning, design, construction, regulation, improvement, repair, maintenance, and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components, including, without limitation, the costs of developing, implementing, and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing, or maintaining any required permits related to the operation of the storm sewer system, and also including payment of debt service on bonds, notes, or other obligations issued for the purposes listed in this paragraph (g); provided that the aggregate amount withdrawn from the General Purpose Fund pursuant to this paragraph (g) during any Fiscal Year shall not exceed 8% of the Gross Revenues of the System for the immediately preceding Fiscal Year.

Section 5.10. Application of General Purpose Fund. Moneys shall be withdrawn from the General Purpose Fund for any one, all, or other combination of such purposes designated in Section 5.9 hereof in the same manner that other claims against the System are presented and paid. Amounts in the General Purpose Fund at the beginning of a Fiscal Year which are deposited into the Revenue Fund in that Fiscal Year are Gross Revenues for the Fiscal Year in which such amounts are deposited into the Revenue Fund.

Section 5.11. Investment of Funds; Transfer of Investment Income. (a) Money in the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the General Purpose Fund may, at the option of the City, be invested in investments as permitted by state law, consistent with the City's investment policy; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of moneys in the First Lien Bond Reserve Fund or the Second Lien Bond Reserve Fund mature later than the final maturity date of the First Lien Bonds or the Second Lien Bonds, as the case may be. All such investments shall be valued in terms of current market value no less frequently than the last Business Day of the City's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series may be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in such funds may

be invested, together with money in other funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository of the City, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such fund. If necessary, such investments shall be promptly sold to prevent any default.

(b) All interest and income derived from such deposits and investments shall be credited to the Revenue Fund monthly, and shall constitute Gross Revenues of the System.

Section 5.12. Security for Uninvested Funds. So long as any Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the General Purpose Fund shall be secured by the pledge of security as provided by law for cities in the State of Texas.

Section 5.13. Reservation of Right to Issue Board Bonds on a Parity with Previous Ordinance Bonds. The City reserves the right to issue Board Bonds at any time and from time to time to the Texas Water Development Board on a parity with the Previous Ordinance Bonds, anything in this Ordinance or any Supplemental Ordinance to the contrary notwithstanding. Except for the right to issue the Board Bonds, the City hereby covenants and agrees not to issue any bonds or other obligations under the terms of the Previous Ordinance.

ARTICLE VI

ADDITIONAL BONDS AND OTHER OBLIGATIONS

Section 6.1. Additional First Lien Bonds and Additional Second Lien Bonds. The City reserves the right to issue, for any lawful System purpose, including the refunding of any previously issued First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any other bonds or obligations of the City issued in connection with the System or payable from Net Revenues, or to pay obligations incurred under or pursuant to any Credit Agreement or Qualified Hedge Agreement, one or more series of (i) Additional First Lien Bonds on a parity with the Outstanding First Lien Bonds payable from, and secured by a first lien on, the Net Revenues of the System senior and superior to the lien securing the Second Lien Bonds; and (ii) Additional Second Lien Bonds on a parity with the Outstanding Second Lien Bonds; provided, however, that no Additional First Lien Bonds or Additional Second Lien Bonds may be issued unless:

- (a) The First Lien Bond Reserve Fund (and, for the issuance of Additional Second Lien Bonds, the Second Lien Bond Reserve Fund) each contains the amount of money then required to be on deposit therein;
- (b) For either the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period immediately preceding the month in which the Supplemental

Ordinance authorizing such Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, is adopted (the "Base Period") either:

- (1) Net Revenues are certified by the City Controller of the City to have been equal to not less than the greater of (A) 120% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds and any Previous Ordinance Bonds or (B) 110% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds, Second Lien Bonds, and any Previous Ordinance Bonds, after giving effect to the issuance of the Additional First Lien Bonds or Additional Second Lien Bonds to be issued; or
- (2) Net Revenues, adjusted to give effect to any rate increase, new customers, or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, to the same extent as if such rate increase, new customers, or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least the greater of (A) or (B) in paragraph (1) above, as certified by an independent consulting engineer or independent firm of consulting engineers;

provided that all or any portion of the Net Revenues required by clauses (1) and (2) of paragraph (b) above that exceed 100% of the Maximum Annual Debt Service Requirements may be attributed to amounts on deposit in the General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance; provided, further, that this requirement shall not apply to the issuance of any series of Additional Second Lien Bonds for the purpose of refunding Outstanding First Lien Bonds, or to the issuance of any series of Additional First Lien Bonds or Additional Second Lien Bonds for refunding purposes, that will not have the result of increasing the Average Annual Debt Service Requirements on the First Lien Bonds or the Second Lien Bonds; and

- (c) Provision is made in the Supplemental Ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds then proposed to be issued for (1) additional payments into the First Lien Bond Interest and Sinking Fund or Second Lien Bond Interest and Sinking Fund, as the case may be, sufficient to provide for the payment of the increased principal of and interest on the First Lien Bonds or Second Lien Bonds resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, and (2) additional payments into the First Lien Bond Reserve Fund or Second Lien Bond Reserve Fund, as the case may be, sufficient to provide for the accumulation therein of the increased Reserve Fund Requirements resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, by not later than 60 months from

the date of issuance of such Additional First Lien Bonds or Additional Second Lien Bonds.

(d) Special Provisions for Refunding Short Term Obligations. The provisions of paragraph (b) above shall not apply to the issuance of Additional First Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or the issuance of Additional Second Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or Second Lien Bonds.

(e) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify in a written certificate delivered to the City that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence; and

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(f) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements in connection with any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas; and

(ii) the City's financial advisor shall certify in a written certificate delivered to the City that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article Six if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account the Qualified Hedge Agreement.

Section 6.2. Short Term Obligations. The City reserves the right to issue, from time to time, one or more series of Additional First Lien Bonds and/or Additional Second Lien Bonds in accordance with Section 6.1 hereof as Short Term Obligations.

Section 6.3. Third Lien Obligations and Fourth Lien Obligations. The City reserves the right to issue, for any lawful purpose, Third Lien Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the First Lien Bonds and the Second Lien Bonds. The City also reserves the right to issue Fourth Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of First Lien Bonds, Second Lien Bonds, and Third Lien Obligations.

Section 6.4. Supplemental Ordinance. Bonds payable from Net Revenues shall be issued only after authorization thereof by a Supplemental Ordinance stating the purpose or purposes of the issuance of such additional Bonds, directing the application of the proceeds thereof to such purpose or purposes, directing the execution and authentication thereof, and fixing and determining the date, principal amount, maturity or maturities, designation, and numbers thereof, the maximum rate or the rate or rates of interest to be borne thereby, any prior redemption privileges of the City with respect thereto, and other provisions thereof. Upon such authorization such additional Bonds may at one time or from time to time be executed by and on behalf of the City and authenticated and delivered by the City or upon its order. All additional Bonds shall bear such date, shall bear such numbers and series designation, letters, or symbols prefixed to their numbers distinguishing them from each other security, shall be payable at such place or places, may be subject to redemption prior to maturity on such terms and conditions, and shall bear interest at such rate or at such different or varying rates per annum, as may be fixed by ordinance or other document of the City. Third Lien Obligations, Fourth Lien Obligations, Qualified Hedge Agreements, and Credit Agreements shall be issued pursuant to Supplemental Ordinances or pursuant to separate ordinances that shall provide for the timing of transfer from the Revenue Fund to the debt service funds and reserve funds, if any, established for such Obligations consistent with the order of priority set forth in Section 5.4 hereof.

Section 6.5. Special Project Obligations. The City reserves the right to issue other obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

ARTICLE VII

COVENANTS AND PROVISIONS RELATING TO BONDS AND OTHER OBLIGATIONS

Section 7.1. Punctual Payment of Bonds and Other Obligations. The City covenants that it will punctually pay or cause to be paid the interest on and principal of all Bonds and other Obligations according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any Supplemental Ordinance authorizing the issuance of such Bonds and other Obligations.

Section 7.2. Power to Own and Operate System; Ratemaking Power. The City covenants that it currently owns the System and has all necessary power and authority to own and operate the System as herein described and provided and that it possesses, and shall exercise, all necessary power and authority to establish, fix, increase, impose and collect rates and charges for the use and services of the System in the amounts required to comply with the covenants and provisions contained herein.

Section 7.3. Maintenance of System. So long as any Bonds or other Obligations remain Outstanding, the City covenants that it will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the City will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the System.

Section 7.4. Sale or Encumbrance of System. So long as any Bonds remain Outstanding, the City covenants that it will not sell, dispose of or, except as permitted in Article VI, further encumber the System; provided, however, that this provision shall not prevent the City from disposing of any portion of the System which is being replaced or is deemed by the City to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Net proceeds from any such disposition may be deposited in the General Purpose Fund. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation, political subdivision or other entity to operate the System or to lease and/or operate or to lease and lease back to the City all or part of the System shall not be considered as an encumbrance of the System.

Section 7.5. Insurance. The City covenants that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance may be applied to repair or replace the insured property that is damaged or destroyed, or may be deposited in the General Purpose Fund. The cost of all such insurance, together with any additional insurance, shall be a part of the Maintenance and Operation Expenses.

Section 7.6. Accounts, Records, and Audits. So long as any Bonds or other Obligations remain Outstanding, the City covenants that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof. The City shall after the close of each Fiscal Year prepare financial statements of the System, and have those financial statements audited by an independent certified public accountant or independent firm of certified public accountants. After the audit, the City shall furnish a copy of these audited financial statements, together with the independent certified public accountant's report thereon, without cost, to the Municipal Advisory Council of Texas, each Rating Agency then

rating the Bonds, the Texas Water Development Board, and any Owners of Bonds who shall request the same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.7. Competition. To the extent it legally may, the City covenants that it will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities to the extent that such competing facilities would impair the City's ability to pay principal of or interest on the Bonds or other Obligations.

Section 7.8. Pledge and Encumbrance of Net Revenues. The City covenants that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Obligations, and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants that, other than to the payment of the Obligations, the Net Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

Section 7.9. Covenants with Respect to Certain Assumed Water District Bonds. So long as any Bonds or other Obligations remain Outstanding, the City covenants as follows:

- (a) To the extent it legally may, the City will impose, and strictly enforce, the requirement upon all water districts located within the City's extraterritorial jurisdiction that any bonds or obligations issued or incurred by such water districts which are secured in whole or in part by pledges of or liens on water or sewer revenues shall provide that all such pledges of and liens on water or sewer revenues shall automatically terminate upon the annexation and dissolution of the district by the City;
- (b) The City shall use its best efforts to redeem, refund, or defease all annexed water district bonds assumed by the City which by their own terms are secured in whole or in part by pledges of or liens on water or sewer revenues which do not terminate upon annexation and dissolution by the City of such water district, or otherwise to provide for the discharge of such pledges or liens on water or sewer revenues; and
- (c) Pursuant to Section 43.075, Texas Local Government Code, the City shall, unless it has theretofore made adequate provision for the payment thereof, annually levy and cause to be collected taxes upon all taxable property of the City sufficient to pay principal of and interest, as they respectively become due and payable, on all assumed bonds, warrants and other obligations that were issued by water districts that have been annexed to, and dissolved by, the City, and which are by their own terms secured in whole or in part by a lien on or pledge of water or sewer revenues which did not terminate upon the annexation and dissolution by the City of such water district.

Section 7.10. Bondholders Rights and Remedies. This Ordinance shall constitute a contract between the City and the Owners of the Bonds from time to time Outstanding and this Ordinance shall be and remain irrevocable until the Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal or interest on any of the Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use and services of the System, the deposit of the revenues thereof into the special funds herein provided, and the application of such revenues in the manner required in this Ordinance. A Supplemental Ordinance may provide that, so long as an issuer of a municipal bond insurance policy shall not have defaulted in its payment obligations under such policy with the City insuring a portion of the Bonds, such issuer shall, under the terms of this Ordinance, at all times be deemed to be the exclusive owner of such Bonds for the purpose of all approvals, consents, waivers or institutions of any action and the direction of all remedies.

Section 7.11. Defeasance. The City may defease the provisions of this Ordinance and discharge its obligation to the Owners of any or all of the Bonds or other Obligations to pay principal, interest and redemption premium, if any, thereon in any manner permitted by law, including by depositing with the Paying Agent/Registrar, or if authorized by Texas law with any national or state bank having trust powers and having combined capital and surplus of at least \$50 million or with the Comptroller of Public Accounts of the State of Texas (or any successor office) either: (a) cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement, cash and/or securities authorized by § 1207.062 of the Texas Government Code, as amended at the time of issuance of such series of Bonds or Obligations. Such deposits may be invested only in obligations described above that are in principal amounts and maturities and bear interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption. Upon such deposit and upon receipt of an opinion of nationally recognized bond counsel to the effect that such Bonds or Obligations are deemed to be fully paid and are no longer outstanding, such Bonds or other Obligations shall no longer be regarded to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the System after the Obligations are retired. Payments of principal or interest on any Bonds or other Obligations made by a provider of a Credit Agreement insuring a portion of the Bonds or other Obligations shall not be deemed to have been paid hereunder and such Bonds or other Obligations shall continue to be Outstanding until paid by the City.

Section 7.12. Legal Holidays. Unless otherwise provided for in a Supplemental Ordinance, in any case where the date of maturity of interest on or principal of the Bonds or other Obligations or the date fixed for redemption of any Bonds or other Obligations shall be in

the City a legal holiday or a day on which the Paying Agent/Registrar for the Bonds or other Obligations is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day not in the City a legal holiday or a day on which such Paying Agent/Registrar is authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

Section 7.13. No Recourse Against City Officials. No recourse shall be had for the payment of principal of or interest on any Bonds or other Obligations or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Bonds or other Obligations.

Section 7.14. Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners, amend this Ordinance and any Supplemental Ordinance for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in this Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Bonds;
- (b) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Bonds;
- (c) to add to the covenants and agreements of the City contained in this Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in this Ordinance;
- (d) to subject additional revenues to the lien and pledge of this Ordinance;
- (e) to provide for the issuance of Adjustable Rate Obligations, Short Term Obligations, or Refundable Obligations;
- (f) to authorize Credit Agreements and Qualified Hedge Agreements with respect to Outstanding Bonds;
- (g) to provide for the continued tax exemption for any Outstanding Bonds;
- (h) to provide for the continued exemption from registration of any Outstanding Bonds under the federal securities laws; or
- (i) to permit other utility systems provided for in Chapter 1502 of the Texas Government Code, as amended, to be combined with the System.

Section 7.15. Amendment to Ordinance Requiring Consent. The City may, with the consent of Owners holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Owners of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, or reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Owners for consent to any such amendment, addition, or rescission. For the purposes of this Section 7.15, the Owners of the Bonds shall include the initial Owners regardless of whether such Bonds are being held for subsequent resale.

Section 7.16. No Free Service. The City will not grant or permit any free service from the System, except for public buildings and institutions operated by the City and properties permitted to be exempt by state law. In addition, the City will not grant or permit any free service from the System permitted by the previous sentence if to do so would violate any condition or covenant to which the City is bound in connection with any federal grant agreement or otherwise.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Continuing Disclosure Obligations. The City's continuing disclosure obligations, if any, under United States Securities and Exchange Commission Rule 15c2-12 with respect to Obligations shall be set forth in the Supplemental Ordinance with respect to such Obligations.

Section 8.2. Further Proceedings. The Mayor of the City, the City Controller of the City and the City Secretary of the City and other appropriate officials of the City are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Ordinance. If requested by the Attorney General of Texas or his representatives, the City Attorney or his designee may authorize such ministerial changes in the written text of this Ordinance as are necessary to obtain the Attorney General's approval and as he determines are consistent with the intent and purposes of this Ordinance, which determination shall be final.

Section 8.3. Severability. If any Section, paragraph, clause, or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Ordinance.

Section 8.4. Open Meeting. It is hereby found, determined and declared that a sufficient written notice of the date, hour, place and subject of the meeting of the City Council at which this Ordinance was adopted was posted at a place convenient and readily accessible at all times to the general public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code and that

this meeting has been open to the public as required by law at all times during which this Ordinance and the subject matter thereof has been discussed, considered and formally acted upon. The City Council further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 8.5. Declaration of Emergency and of Public Security Authorization. It is hereby officially found and determined that a case of emergency and urgent public necessity exists which requires the holding of the meeting at which this Ordinance is passed and further requires that this Ordinance be passed finally and take effect immediately on the date of its introduction, such emergency and urgent public necessity being that the proceeds from the sale of the Bonds are required as soon as possible and without delay for the purposes set forth herein. It is further officially found and determined that this Ordinance is a public security authorization, and therefore this Ordinance shall be effective immediately upon approval by the City Council pursuant to Section 1201.028 of the Texas Government Code.

Section 8.6. Repealer. All ordinances, or parts thereof inconsistent herewith are hereby repealed to the extent of such inconsistency.

[Execution Page Follows]

PASSED AND APPROVED THIS 21st day of April, 2004.

Bill White
Mayor

Approved as to Form:

Gary L Wood
Senior Assistant City Attorney
(Requested by Jon C. Vanden Bosch
Director of Department of
Public Works and Engineering)
(L.D. File No. 0340300230001).

AYE	NO	<u>2004-299</u>
✓		MAYOR WHITE
....	COUNCIL MEMBERS
✓		LAWRENCE
✓		GALLOWAY
	✓	GOLDBERG
✓		EDWARDS
	✓	WISEMAN
✓		KHAN
✓		HOLM
✓		GARCIA
✓		ALVARADO
✓		ELLIS
✓		QUAN
✓		SEKULA-GIBBS
✓		GREEN
✓		BERRY
CAPTION	ADOPTED	

MAY 017 Rev. 1/04

EXHIBIT A

TWDB Board Bonds

Outstanding Bonds as of June 1, 2004

Series	Amount Outstanding
Junior Lien Revenue Bonds, Series 1994A	\$ 2,490,000
Junior Lien Revenue Bonds, Series 1994B	1,000,000
Junior Lien Revenue Bonds, Series 1996C	62,300,000
Junior Lien Revenue Bonds, Series 1996D	159,970,000
Junior Lien Revenue Bonds, Series 1997E	174,975,000
Junior Lien Revenue Bonds, Series 1999C	47,400,000
Junior Lien Revenue Bonds, Series 1999B	6,030,000
Junior Lien Revenue Bonds, Series 2000A	67,640,000
Junior Lien Revenue Bonds, Series 2002C	180,000
TOTAL	\$521,985,000

Board Bonds to be issued in the future:

Clean Water SRF Commitment Number	Expiration Date Of Commitment	Amount
117100	None	\$ 19,460,000
124100	10-31-2004	50,050,000
124800	10-31-2004	24,935,000
127600	10-16-2004	14,875,000
128200	12-11-2004	71,770,000
Drinking Water SRF		
118100	None	5,955,000
TOTAL		\$187,045,000

CITY SECRETARY'S CERTIFICATE

The undersigned, the duly appointed, qualified, and acting City Secretary of the City of Houston, Texas (the "City"), hereby certifies and states as follows:

1. The undersigned is the official custodian of all of the minutes, records, and ordinances of the City.

2. The foregoing pages constitute true and correct copies of (a) as much of the minutes of the regular meeting of the City Council of the City on April 21, 2004, as reflects the introduction and passage of City of Houston Ordinance No. 2004-299 (the "Ordinance"), (b) the written request signed by the Mayor of the City that such Ordinance be passed finally on the date of its introduction, and (c) the caption and body of the Ordinance and the passage and approval thereof.

3. The persons named in the aforesaid minutes of the meeting of the City Council of the City held April 21, 2004, are the duly chosen, qualified, and acting officers and members of the City Council of the City as indicated in said minutes; said meeting was a regular meeting of the City Council of the City held at the time and place prescribed by Rule 1(a) of Section 2-2 of the Code of Ordinances of the City of Houston, each of said persons was furnished in advance of such meeting with the agenda thereof in writing, which included the fact that the Ordinance would be introduced and considered for passage at said meeting; and said meeting was open to the public as required by law and public notice of the date, hour, place and purpose thereof was duly given as required by the Open Meetings Act, Tex. Gov't Code Ann. ch. 551 (Vernon 1994).

4. Immediately after the Ordinance was passed, it was presented to the Mayor, who duly signed it, and it thereupon became effective; and the Ordinance is now in the official custody of the undersigned awaiting permanent recording in the ordinance records of the City, which constitute a part of the official records of the proceedings of the City Council of the City.

To certify which, witness my hand and the official seal of the City of Houston, Texas, this 21st day of May, 2004.



City Secretary