

ORDINANCE AUTHORIZING THE ISSUANCE OF \$2,250,000 VILLAGE OF JAMAICA BEACH, TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 1994

BE IT ORDAINED BY THE VILLAGE COUNCIL OF THE VILLAGE OF JAMAICA BEACH, TEXAS:

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1: Findings and Determinations. It is hereby officially found and determined that:

(a) The Village of Jamaica Beach, Texas (the "City"), owns and operates a water and sewer system (hereinafter defined as the System).

(b) The City is authorized by Article 1111 et seq, Vernon's Texas Civil Statutes, as amended, to issue bonds payable from the net revenues such system, and is authorized by Article 1112 to issue such bonds without an election to provide money for acquisitions, extensions, construction, improvement or repair of such system.

(c) The Village Council, by ordinance adopted May 23, 1994, authorized the giving of notice under Article 2368a, Vernon's Texas Civil Statutes, as amended, and Chapter 252, Texas Local Government Code, as amended, of its intention to issue the bonds authorized by this Ordinance, and such notice was published as required by law.

(d) The City has not received any petition for a referendum concerning the issuance of such bonds.

(e) The bonds authorized by this ordinance are Additional Prior Lien Bonds as that term is defined in the ordinance authorizing the City's Series 1987 Water and Sewer System Revenue Bonds (the "1987 Ordinance") and the registered owner of all of such Series 1987 Bonds has waived the requirement set out in Section 6.1(c) of the 1987 Ordinance.

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

The term "Act" shall mean Articles 1111 through 1118, Vernon's Texas Civil Statutes, as amended.

The term "Additional Prior Lien Bonds" shall mean the additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.1 of this Ordinance.

The term "Average Annual Principal and Interest Requirements" shall mean the average annual principal and interest requirements for all Prior Lien Bonds, which, upon the issuance of the Bonds, are hereby determined to be \$308,309, and which shall be recomputed upon the issuance of each series of Additional Prior Lien Bonds and set forth in each ordinance authorizing the issuance of Additional Prior Lien Bonds.

The term "Bonds" or "Series 1994 Bonds" shall mean the Village of Jamaica Beach, Texas, Waterworks and Sewer System Revenue Bonds, Series 1994, authorized by this Ordinance.

The term "Business Day" shall mean any day which is not a Saturday, Sunday, a day on which banking institutions in the city where the principal corporate trust office of the Registrar is located are authorized by law or executive order to close, or a legal holiday.

The term "City" shall mean the Village of Jamaica Beach, Texas, and where appropriate, the Village Council thereof and any successor to the City as owner of the System.

The term "Code" shall mean the Internal Revenue Code of 1986, as amended.

The term "Comptroller" shall mean the Comptroller of Public Accounts of the State of Texas.

The term "Gross Revenues" shall mean all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System (but excluding any utility deposits), the interest income from the investment or deposit of money in the any funds created or maintained pursuant to this Ordinance and any other revenues hereafter pledged to the payment of all Prior Lien Bonds.

DEFINITIONS AND INTERPRETATIONS

ARTICLE II

The term "Prime Rate" shall mean the rate of interest announced from time to time by Texas Commerce Bank National Association, Houston, Texas ("TCB"), as its prime lending rate for domestic commercial loans, each change in such rate to be effective as of the opening of business on the day such change occurs; provided that the Prime Rate as established by such bank shall not

The term "Paying Agent" shall mean the Registrar.

The term "Owner" or "Registered Owner", when used with respect to any Bond shall mean the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under this Ordinance, exclusive of Bonds held by the City.

The term "Outstanding" when used with reference to prior lien Bonds, shall mean, as of a particular date, all such bonds theretofore and thereupon delivered except (a) any such bond cancelled by or on behalf of the City at or before said date, (b) any such bond defeased or no longer considered outstanding pursuant to the provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law and (c) any such bond in lieu of or in substitution for which another bond shall have been delivered pursuant to the ordinance authorizing the issuance of such bond.

The term "Ordinance" shall mean this bond ordinance and all amendments hereof and supplements hereto.

The term "Net Revenues" shall mean all Gross Revenues remaining after deducting the Maintenance and Operation Expenses.

The term "Maintenance and Operation Expenses" shall mean the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, 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 condition which would otherwise impair the payment of bonds payable from Net Revenues), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense.

The term "Interest Payment Date", when used in connection with any Bond, shall mean April 1, 1995, and each October 1 and April 1 thereafter until maturity or earlier redemption.

Section 3.1: Authorization and Authorized Amount. The Bonds shall be issued in fully registered form, without coupons, in the total authorized aggregate amount of \$2,250,000 for the purpose of

TERMS OF THE BONDS

ARTICLE III

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 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. 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 Prior Lien Bonds and the validity of the Lien on and pledge of the Net Revenues to secure the payment of the Prior Lien Bonds.

The term "System" shall mean the water and sewer system of the City, including all future extensions, replacements, additions and improvements to the System.

The term "Series 1987 Bonds" shall mean the city's water and sewer system revenue bonds, Series 1987.

The term "Registrar" shall mean First Interstate Bank of Texas, N.A., Houston, Texas, and its successors in that capacity.

The term "Register" shall mean the books of registration kept by the Registrar in which are maintained the names and addresses of, and the principal amounts of the Bonds registered to, each Owner.

The term "Record Date" shall mean, for any interest payment Date, the fifteenth day of the month next preceding each interest Payment Date.

The term "Prior Lien Bonds" shall mean the Bonds, the Series 1987 Bonds, and each series of Additional Prior Lien Bonds from time to time hereafter issued, but only to the extent such Prior Lien Bonds remain outstanding within the meaning of this Ordinance.

The term "Prime Rate" shall mean the lowest interest rate available to its best or most preferred commercial customers. If for any reason the TCB Prime Rate does not exist on April 1, 2001, or on April 1, 2008, the Prime Rate shall be that of Bank of America, San Francisco, California, if available, and if not, then the Prime Rate shall be that of the Chase Manhattan Bank, N.A., New York, New York.

Bond Number	Principal Amount	Year of Maturity
R-1	\$ 30,000	1996
R-2	35,000	1997
R-3	35,000	1998
R-4	40,000	1999
R-5	45,000	2000
R-6	45,000	2001
R-7	50,000	2002
R-8	50,000	2003
R-9	55,000	2004
R-10	100,000	2005
R-11	130,000	2006
R-12	140,000	2007
R-13	145,000	2008
R-14	155,000	2009
R-15	165,000	2010
R-16	180,000	2011
R-17	190,000	2012
R-18	205,000	2013
R-19	220,000	2014
R-20	235,000	2015

Section 3.3: Initial Bonds; Numbers and Denomination. The Bonds shall be initially issued bearing the numbers and in the principal amounts set forth in the following schedule, and may be transferred and exchanged as set out in this Ordinance. The Bonds shall mature, subject to prior redemption in accordance with this Ordinance, on April 1 in each of the years and in the amounts set out in such schedule. Bonds delivered on transfer of or in exchange for other Bonds shall be numbered in order of their authentication by the Registrar, shall be in the denomination of \$5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Bond or Bonds in lieu of which they are delivered.

Section 3.2: Designation, Date, and Interest Payment Dates. The Bonds shall be designated as "Village of Jamaica Beach, Texas, Waterworks and Sewer System Revenue Bonds, Series 1994," and shall be dated July 1, 1994. The Bonds shall bear interest at the rates set out in the form of bond in Section 4.1 of this Ordinance from the later of July 1, 1994, or the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360 day year of twelve 30 day months, payable on April 1, 1995, and semiannually thereafter on October 1 and April 1 of each year until maturity or earlier redemption.

constructing improvements and extensions to the System, under and in strict conformity with the Constitution and Laws of the State of Texas, particularly Articles 1111 through 1118, Vernon's Texas Civil Statutes, as amended.

If the date for the payment of principal or interest on any Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date such payment was due.

Section 3.7. Payment of Principal and Interest. The Registrar is hereby appointed as the registrar and paying agent for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable at the principal corporate trust office of the Registrar. The interest on each Bond shall be payable by check payable on the Interest Payment Date, mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Registrar.

Section 3.6: Authentication. Only such Bonds as shall bear thereon a certificate of authentication substantially in the form provided in Article 4 of this Ordinance, manually executed by an authorized representative of the Registrar, shall be entitled to the benefits of this Ordinance or shall be valid or obligatory for any purpose. Such duly executed certificate of authentication shall be conclusive evidence that the Bond so authenticated was delivered by the Registrar hereunder.

Section 3.5: Approval by Attorney General; Registration by Comptroller. The Bonds to be initially issued shall be delivered to the Attorney General of Texas for examination and approval and shall be registered by the Comptroller. The manually executed registration certificate of the Comptroller substantially in the form provided in Article 4 of this Ordinance shall be affixed or attached to the Bonds to be initially issued.

Section 3.4: Execution of Bonds; Seal. The Bonds shall be signed on behalf of the City by the Mayor and countersigned by the City Secretary, by their manual, lithographed, or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the City had been manually impressed upon each of the Bonds. If any officer of the City whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 3.8. Successor Registrars. The City covenants that at all times while any Bonds are outstanding it will provide a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to act as Registrar for the Bonds. The City reserves the right to change the Registrar for the Bonds on not less than 60 days written notice to the Registrar, so long as any such notice is effective not less than 60 days prior to the next succeeding principal or interest payment date on the Bonds. Promptly upon the appointment of any successor Registrar, the previous Registrar, shall deliver the Register or a copy thereof to the new Registrar, and the new Registrar shall notify each owner, by United States mail, first class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

Section 3.9. Special Record Date. If interest on any Bond is not paid on any interest Payment Date and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the city. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class, postage prepaid, not later than five (5) days prior to the Special Record Date, to each Owner or record of an affected Bond as of the close of business on the day prior to the mailing of such notice.

Section 3.10. Ownership; Unclaimed Principal and Interest. Subject to the further provisions of this Section, the City, the 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 and receiving payment of the principal of or interest on such Bond, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the 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 3.10 shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Bond to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Bonds remaining unclaimed by the owner after the expiration of three years from the date such amounts have become due and payable shall be reported and disposed of by the Registrar in accordance with the applicable provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

Section 3.13. Mutilated, Lost, or Stolen Bonds. Upon the presentation and surrender to the Registrar of a mutilated Bond, the 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

Section 3.12. Cancellation of Bonds. All Bonds paid or redeemed in accordance with this Ordinance, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding such payment or redemption. The Registrar shall furnish the City with appropriate certificates of destruction of such Bonds.

The City or the 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 Registrar for such transfer or exchange shall be paid by the City.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal corporate trust office of the Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this Section 3.11. Each Bond delivered in accordance with this Section 3.11 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.

Each Bond shall be transferable only upon the presentation and surrender thereof at the principal corporate trust office of the 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 Registrar. Upon due presentation of any Bond in proper form for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three (3) Business Days 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, bearing interest at the same rate as the Bond or Bonds so presented.

Section 3.11. Registration, Transfer, and Exchange. So long as any Bonds remain outstanding, the Registrar shall keep the Register at its principal corporate trust office and, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of this Ordinance.

Each replacement Bond delivered in accordance with this Section 3.13 shall be entitled to the benefits and security of this

If any such mutilated, lost, apparently destroyed or wrongfully taken 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 Registrar to pay such Bond.

It, 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 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 Registrar in connection therewith.

(4) met any other reasonable requirements of the City and the Registrar.

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

(2) furnished such security or indemnity as may be required by the Registrar and the City to save them harmless;

(1) furnished to the City and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;

If any Bond is lost, apparently destroyed, or wrongfully taken, 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 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:

city or the 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 Registrar.

Section 4.1: Forms. The form of the Bonds, including the form of the Registrar's authentication certificate, the form of

FORM OF BONDS AND CERTIFICATES

ARTICLE IV

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty days prior to the date fixed for redemption by sending written notice by first class mail, postage prepaid, to the owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding of a particular maturity are to be redeemed, the numbers of the Bonds or portions thereof of such maturity to be redeemed. Any notice given as provided in this Section 3.14 shall be conclusively presumed to have been duly given, whether or not the owner receives such notice. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Principal amounts may be redeemed only in integral multiples of \$5,000. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 3.11 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Section 3.14: Redemption. The city reserves the right, at its option, to redeem Bonds, in whole or from time to time in part, on any date, at par plus accrued interest on the amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the city shall determine the particular Bonds or portions thereof to be redeemed.

Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

The Village of Jamaica Beach, Texas, a municipal corporation duly incorporated under the laws of the State of Texas (herein the "City") for value received, promises to pay, but solely from certain Net Revenues as hereinafter provided, to the Registered Owner identified above or registered assigns, on the Maturity Date specified above, upon presentation and surrender of this Bond at the principal corporate trust office of First Interstate Bank of Texas, N.A., Houston, Texas (the "Registrar"), the principal amount identified above, in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due the United States of America, and to pay, solely from such Net Revenues, interest thereon at the rates shown on the reverse hereof, calculated on the basis of a 360 day year of twelve 30 day months, from the later of July 1, 1994, or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this Bond is payable by check on April 1 and October 1, beginning on April 1, 1995, mailed to the registered owner as shown on the books of registration kept by the Registrar as of the fifteenth day of the month next preceding each interest payment date.

DOLLARS

PRINCIPAL AMOUNT:

REGISTERED OWNER:

CUSIP:

ISSUE DATE: July 1, 1994

MATURITY DATE:

VILLAGE OF JAMAICA BEACH, TEXAS
 WATERWORKS AND SEWER SYSTEM REVENUE BOND
 SERIES 1994

REGISTERED

REGISTERED

AMOUNT

NUMBER

UNITED STATES OF AMERICA
 STATE OF TEXAS
 COUNTY OF GALVESTON

FORM OF BOND

assignment, and the form of the Comptroller's Registration Certificate for the bonds to be initially issued, shall be substantially as follows, with such additions, deletions and variations as may be necessary or desirable and not prohibited by this Ordinance:

NOTICE OF ANY REDEMPTION shall be given at least thirty (30) days prior to the date fixed for redemption by first class mail,

THE CITY RESERVES THE RIGHT to redeem Bonds, in whole or from time to time in part, in integral multiples of \$5,000, on any date, at par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. Reference is made to the Ordinance for complete details concerning the manner of redeeming the Bonds.

THIS BOND SHALL BEAR INTEREST until maturity or earlier redemption: at the rate of six and three-fourths percent from the Issue Date through March 31, 2001; from April 1, 2001, through March 31, 2008, at the rate of 85% of the April 1, 2001, Prime Rate of Texas Commerce Bank National Association, Houston, Texas ("TCB"), as the term Prime Rate is defined in the Ordinance; and from April 1, 2008, until maturity or earlier redemption at the rate of 85% of the April 1, 2008, Prime Rate of TCB; provided, however, that from and after April 1, 2001, the rate of interest on this Bond shall never be less than 6% nor more than 10%.

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS aggregating \$2,250,000, issued for the purposes of improving and extending the City's water and sewer system, under and in strict conformity with the constitution and laws of the state of Texas, particularly Articles 1111 to 1118, both inclusive, Vernon's Texas Civil Statutes, as amended, and pursuant to an ordinance adopted by the Village Council of the City on June 14, 1994 (the "Ordinance").

(Back Panel of Bond)

City Secretary

XXXXXXXXXX

COUNTERSIGNED:

Mayor

XXXXXXXXXX

(AUTHENTICATION
CERTIFICATE)

(SEAL)

VILLAGE OF JAMAICA BEACH, TEXAS

IN WITNESS WHEREOF, the City has caused its corporate seal to be impressed, printed, or lithographed hereon and has caused this Bond to be executed by the manual or facsimile signatures of the Mayor and City Secretary.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH PROVISIONS SHALL HAVE THE SAME FORCE AND EFFECT AS IF SET FORTH AT THIS PLACE.

addressed to the registered owners of each Bond to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar. When Bonds or portions thereof have been called for redemption, and due provision has been made to redeem the same, the principal amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the amounts called for redemption shall terminate on the date fixed for redemption.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the principal corporate trust office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THE BONDS ARE EXCHANGEABLE at the principal corporate trust office of the Registrar for bonds in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THE REGISTRAR shall not be required to transfer or exchange any Bond called for redemption during the period beginning 45 days prior to the date fixed for redemption and ending on the date fixed for redemption; provided, however, that this limitation shall not apply to the exchange by the Owner of the unredeemed portion of a Bond called for redemption in part.

THIS BOND AND THE SERIES OF WHICH IT IS A PART are special obligations of the City that, together with the City's outstanding Water and Sewer System Revenue Bonds, Series 1987, are payable from and are equally and ratably secured by a first lien on the revenues of the City's waterworks and sewer system remaining after deduction of the operation and maintenance expenses of that system (the "Net Revenues"), as defined and provided in the Ordinance, which Net Revenues are required to be set aside and pledged to the payment of the Bonds, the Series 1987 Bonds, and all additional bonds issued on a parity therewith, in the interest and sinking Fund and the Reserve Fund maintained for the payment of all such Bonds, all as more fully described and provided for in the Ordinance. This Bond and the series of which it is a part, together with the interest thereon, are payable solely from such Net Revenues and do not constitute an indebtedness or general obligation of the City. The owner hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

THE CITY HAS RESERVED THE RIGHT to issue additional parity revenue bonds, subject to the restrictions contained in the Ordinance, which may be equally and ratably payable from, and secured by a first lien on and pledge of, the Net Revenues in the same manner and to the same extent as this Bond and the series of which it is a part.

For value received, the undersigned hereby sells, assigns, and transfers unto _____ (Please print or type name, address, and zip code of Transferee) _____ (Please insert Social Security or Taxpayer Identification Number of Transferee)

ASSIGNMENT

FORM OF ASSIGNMENT

By _____
Authorized Signature
Date of Authentication _____

First Interstate Bank of Texas, N.A.

Bond.
It is hereby certified that this Bond has been delivered pursuant to the Bond Ordinance described in the text of this

AUTHENTICATION CERTIFICATE

FORM OF AUTHENTICATION CERTIFICATE

Comptroller of Public Accounts
of the State of Texas

(SEAL)

WITNESS MY SIGNATURE AND SEAL THIS _____

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

FORM OF REGISTRATION CERTIFICATE

IT IS HEREBY DECLARED AND REPRESENTED THAT THIS BOND HAS BEEN DULY AND VALIDLY ISSUED AND DELIVERED; THAT ALL ACTS, CONDITIONS, AND THINGS REQUIRED OR PROPER TO BE PERFORMED, EXIST, AND BE DONE PRECEDENT TO OR IN THE ISSUANCE AND DELIVERY OF THIS BOND HAVE BEEN PERFORMED, EXISTED, AND BEEN DONE IN ACCORDANCE WITH LAW; THAT THE BONDS DO NOT EXCEED ANY STATUTORY LIMITATION; AND THAT PROVISION HAS BEEN MADE FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THIS BOND AND ALL OF THE BONDS BY THE CREATION OF THE AFORESAID LIEN ON AND PLEDGE OF THE NET REVENUES.

Section 5.2: Rates and Charges. So long as any Prior Lien Bonds remain outstanding, the City shall fix, charge and collect

out of any funds raised or to be raised by taxation. The Prior Lien Bonds shall never have the right to demand payment parity with and of equal dignity with one another. The owners of Lien Bond Interest and Sinking Fund and Reserve Fund as hereinafter and pledged to the payment of the Prior Lien Bonds in the Prior Net Revenues shall, in the manner herein provided, be set aside for by the City, from the operation and ownership of the System, which Lien on and pledge of, the Net Revenues, as collected and received solely from, and shall be equally and ratably secured by a first Bonds and all expenses of paying same. The Prior Lien Bonds shall constitute special obligations of the City that shall be payable of principal, interest and any redemption premium of the Prior Lien Bonds and all expenses of paying same, to provide for the payment of principal, interest and any redemption premium of the Prior Lien Bonds and all expenses of paying same, to provide for the payment of all Maintenance and Operation Expenses and to provide for the payment of all the special funds hereinafter provided, and shall be applied in the manner set out herein, as collected and received by the City, be deposited and paid into covenants and agrees that all gross Revenues of the System shall, Section 5.1: Pledge and Source of Payment. The City hereby

SECURITY AND SOURCE OF PAYMENT FOR ALL PRIOR LIEN BONDS

ARTICLE V

Section 4.2: Legal Opinion and Cusip Numbers. The approving opinion of Vinson & Elkins L.L.P., Houston, Texas, and CUSIP Numbers may be printed on the Bonds, but errors or omissions in the printing of such opinion or such numbers shall have no effect on the validity of the Bonds.

NOTICE: Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company. Registered Owner NOTICE: The signature above must correspond to the name of the registered owner as shown on the face of this Bond in every particular, without any alteration, enlargement or change whatsoever.

Signature Guaranteed:

DATED:

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints attorney to transfer said Bond on the books kept for registration thereof, with full power of substitution in the premises.

Section 5.4: Flow of Funds. All Gross Revenues of the System shall be deposited as collected into the Revenue Fund. Money from time to time on deposit to the credit of the Revenue Fund shall be applied as follows in the following order of priority:

The Revenue Fund shall be maintained as a separate account on the books of the City. The Prior Lien Bond Interest and Sinking Fund and the Prior Lien Bond Reserve Fund shall be maintained at an official depository bank of the City, separate and apart from all other funds and accounts of the City, shall constitute trust funds which shall be held in trust for the benefit of the owners of the Prior Lien Bonds and the proceeds of which shall be and are hereby pledged to the payment of the Prior Lien Bonds. All of the Funds named above shall be used solely as provided in this Ordinance so long as any Prior Lien Bonds remain outstanding.

- (a) Waterworks and Sewer System Revenue Fund (the "Revenue Fund");
- (b) Prior Lien Waterworks and Sewer System Revenue Bond Interest and Sinking Fund (the "Prior Lien Bond Interest and Sinking Fund"); and
- (c) Prior Lien Waterworks and Sewer System Revenue Bond Reserve Fund (the "Prior Lien Bond Reserve Fund").

Section 5.3: Special Funds. The following special funds shall be maintained and accounted for as hereinafter provided so long as any of the Prior Lien Bonds remain outstanding:

- (a) to pay all Maintenance and Operation Expenses; and
- (b) to produce Net Revenues in each fiscal year at least equal to the amount necessary to meet the debt service requirements on all bonds payable from Net Revenues, and at least equal to 125% of the Average Annual Principal and Interest Requirements, to maintain the funds established and required by this Ordinance, and to pay any other outstanding obligations payable from the Net Revenues of the System.

The City covenants that it will not grant or permit any free service from the System except for public buildings and institutions operated by the City.

rates and charges for the use and services of the System, which shall be fully sufficient at all times:

(a) First, to pay Maintenance and Operation Expenses and to provide for the payment of all obligations incurred by the City for Maintenance and Operation Expenses, which may include an operating reserve equal to one month's estimated Maintenance and Operation Expenses.

(b) Second, to make all deposits into the Prior Lien Bond Interest and Sinking Fund required by the ordinance authorizing the issuance of the Series 1987 Bonds, this Ordinance, and any ordinance authorizing the issuance of Additional Prior Lien Bonds.

(c) Third, to make all deposits into the Prior Lien Reserve Fund required by the ordinance authorizing the issuance of the Series 1987 Bonds, this Ordinance, and any ordinance authorizing the issuance of Additional Prior Lien Bonds.

(d) Fourth, to make all deposits required by any ordinances authorizing the issuance of subordinate Lien obligations.

(e) Fifth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the Prior Lien Bond Interest and Sinking Fund and the Prior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Prior Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the Prior Lien Bond Interest and Sinking Fund or the Prior Lien Bond Reserve Fund, interest income on the amounts in such Funds may be transferred to the Revenue Fund, and such Prior Lien Bonds shall not be regarded as being outstanding except for the purpose of being paid with the money on deposit in such Funds.

Section 5.5: Prior Lien Bond Interest and Sinking Fund. On or before the last Business Day of each month so long as any Prior Lien Bonds remain outstanding, there shall be transferred into the Prior Lien Bond Interest and Sinking Fund from the Revenue Fund the following:

(1) amounts which, together with amounts on deposit therein, will be sufficient to pay the interest scheduled to become due on the Prior Lien Bonds on the next interest payment date; and

Section 5.6: Prior Lien Bond Reserve Fund. Immediately upon the delivery of the Bonds there shall be deposited into the Prior Lien Bond Reserve Fund, from funds other than proceeds of the Bonds, the sum of \$179,307. On or before the last Business Day of each month thereafter so long as any Prior Lien Bonds remain outstanding, after making the transfers into the Prior Lien Bond Interest and Sinking Fund required in the preceding Section, there shall be transferred into the Prior Lien Bond Reserve Fund from the Revenue Fund (after taking into account any other amounts in the Prior Lien Bond Reserve Fund) such amounts, in equal monthly installments, as will be sufficient to accumulate therein, by no later than sixty (60) months from the date of each series of Prior Lien Bonds, money and investments in an aggregate amount at least equal to the Average Annual Principal and Interest Requirements. After such amount has accumulated in the Prior Lien Bond Reserve Fund and so long thereafter as the Prior Lien Bond Reserve Fund contains such amount, no further deposits shall be required to be made into the Prior Lien Bond Reserve Fund; but if and whenever the balance in the Prior Lien Bond Reserve Fund is reduced below such amount, monthly deposits into the Prior Lien Bond Reserve Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of such deficiency until the Prior Lien Bond

Money deposited to the credit of the Prior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (either at maturity or prior redemption or to purchase Prior Lien Bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Prior Lien Bonds, plus all bank charges and other costs and expenses relating to such payment. On or before each principal and/or interest payment date for the Prior Lien Bonds, the City shall transfer from the Prior Lien Bond Interest and Sinking Fund to the paying agents for the Prior Lien Bonds amounts equal to the principal, interest and redemption premiums payable on the Prior Lien Bonds on such date, together with an amount equal to all bank charges and other costs and expenses relating to such payment. The paying agents shall totally destroy all paid Prior Lien Bonds and shall provide the City with appropriate certificates of destruction.

(ii) amounts which, together with amounts on deposit therein, will be sufficient to pay the next maturing principal of the Prior Lien Bonds, including the principal amounts of, and any redemption premiums on, any Prior Lien Bonds payable as a result of the exercise or operation of any redemption provision contained in the ordinance authorizing the issuance of the Series 1987 Bonds, this Ordinance, or in any ordinance authorizing the issuance of Additional Prior Lien Bonds.

Reserve Fund has been restored to such amount. Whenever the Prior Lien Bond contains more than such amount, the city may transfer any excess amount to the Revenue Fund. The Prior Lien Bond Reserve Fund shall be used to pay the principal of and interest on the Prior Lien Bonds at any time when there is not sufficient money available in the Prior Lien Bond Interest and Sinking Fund for such purpose and it may be used to pay and retire the last Prior Lien Bonds to mature to be redeemed.

Section 5.7: Deficiencies in Funds. If in any month there shall not be deposited into the Prior Lien Bond Interest and Sinking Fund and the Prior Lien Bond Reserve Fund the full amounts required by this Ordinance, amounts equivalent to such deficiency shall be set apart and paid into such Fund or Funds from the first available and unallocated money in the Revenue Fund, and such payment shall be in addition to the amounts otherwise required to be paid into such Funds during any succeeding month or months. To the extent necessary, the rates and charges for the system shall be increased to make up for any such deficiencies.

Section 5.8: Investment of Funds; Transfer of Investment Income. Money in each Fund maintained pursuant to Article V of this Ordinance, may, at the option of the city, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America or any of its agencies or instrumentalities, or in any other obligations permitted by law; 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 money in the Prior Lien Bond Reserve Fund mature later than the final maturity date of the Prior Lien Bonds. All such investments shall be valued in terms of current market value no less frequently than the last Business Day of the fiscal year, except that any direct obligations of the United States of America- State and Local Government Series shall be continuously valued at their par value or principal fact amount. All such investments shall be promptly sold when necessary to prevent any default in connection with the Prior Lien Bonds.

Section 5.9: Security for Uninvested Funds. So long as any Prior Lien Bonds remain outstanding, all uninvested money on deposit in, or credited to, the Funds maintained pursuant to this Article V shall be secured by a pledge of security as provided by law in the State of Texas.

Section 6.1: Additional Prior Lien Bonds. The City reserves the right to issue, for any lawful purpose (including the refunding of any previously issued Prior Lien Bonds or any other bonds or obligations of the City issued in connection with or payable from the revenues of the System), one or more series of Additional Prior Lien Bonds payable from and secured by a first lien on the Net Revenues of the System, on a parity with the Bonds, the Series 1987 Bonds, and any other Additional Prior Lien Bonds then outstanding; provided, however, that no Additional Prior Lien Bonds may be issued unless:

- (a) The Additional Prior Lien Bonds mature on April 1, and interest is payable on April 1 and October 1;
- (b) The Prior Lien Bond Interest and Sinking Fund and the Prior Lien Reserve Fund each contains the amount of money then required to be on deposit therein;

(c) For either the preceding fiscal year or any consecutive 12 calendar month period ending not more than ninety (90) days preceding the adoption of the ordinance authorizing such Additional Prior Lien Bonds, Net Revenues are certified by the City Administrator to have been at least equal to 125% of the Average Annual Principal and Interest Requirements after giving effect to the issuance of the Additional Prior Lien Bonds to be issued; provided, however, that the requirements of this paragraph 6.1(c) shall not apply to the issuance of any series of refunding bonds that will not have the result of increasing the Average Annual Principal and Interest Requirements on the Prior Lien Bonds; and

(d) Provision is made in the ordinance authorizing the Additional Prior Lien Bonds then proposed to be issued for additional payments into the Prior Lien Bond Interest and Sinking Fund sufficient to provide for the payment of principal of and interest on such Additional Prior Lien Bonds and for additional payments into the Prior Lien Bond Reserve Fund so that the Prior Lien Bond Reserve Fund will in not later than five years from the date of such Additional Prior Lien Bonds contain a balance of not less than the Average Annual Principal and Interest Requirements.

ADDITIONAL BONDS

ARTICLE VI

Section 7.4: Insurance. The city further covenants and agrees 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. The cost of all such insurance

encumbrance of the system. operate all or part of the system shall not be considered as an political subdivision to operate the system or to lease and/or contracts with a person, corporation, municipal corporation or operation of the system. Any agreement pursuant to which the city has been declared surplus or is no longer needed for the proper prevent the city from disposing of any portion of the system which the system; provided, however, that this provision shall not dispose of or, except as permitted in Article VI, further encumber Prior Lien Bonds remain outstanding, the city will not sell, Section 7.3: Sale or Encumbrance of System. So long as any

governmental, administrative, or judicial body promulgating same. all valid rules, regulations, directions or orders of any contractual provisions and agreements entered into by it and with operating and maintaining the system, the city will comply with all cost and in accordance with sound business principles. In operated, in an efficient and economical manner at a reasonable working order and will operate the same, or cause the same to be all times maintain the system, or within the limits of its authority cause the same to be maintained, in good condition and Lien Bonds remain outstanding, the city covenants that it will at Section 7.2: Maintenance of System. So long as any Prior

issuance of Additional Prior Lien Bonds. contained in this Ordinance and in any ordinance authorizing the any and all covenants, undertakings, stipulations and provisions and will faithfully do and perform, and at all times fully observe, principal of all Prior Lien Bonds according to the terms thereof will punctually pay or cause to be paid the interest on and Section 7.1: Punctual Payment of Prior Lien Bonds. The city

RELATING TO ALL PRIOR LIEN BONDS
COVENANTS AND PROVISIONS

ARTICLE VII

Section 6.2: Subordinate Lien Bonds. The city reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on and pledges of the Net Revenues that are junior and subordinate to the lien on and pledge of Net Revenues securing payment of the Prior Lien Bonds. Such subordinate lien obligations may be further secured by any other source of payment lawfully available for such purposes.

together with any additional insurance, shall be a part of the Maintenance and Operation Expenses.

Section 7.5: Accounts, Records, and Audits. So long as any Prior Lien Bonds remain outstanding, the city covenants and agrees 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. The city shall after the close of each of its fiscal years cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants. Each year promptly after such audit report is prepared, the city shall furnish a copy thereof without cost to the Municipal Advisory Council of Texas, the major municipal rating agencies and any owner of Prior Lien Bonds who shall request same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.6: Competition. To the extent it legally may, the City 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.

Section 7.7: Pledge and Encumbrance of Net Revenues. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to the payment of the Prior Lien Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The city further covenants and represents that, other than to the payment of the Prior Lien Bonds, the Net Revenues are not and will not be pledged to the payment of any debt or obligation of the city, or otherwise encumbered, unless such pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Prior Lien Bonds.

Section 7.8: Bondowners' Remedies. This Ordinance shall constitute a contract between the City and the Owners of the Prior Lien Bonds from time to time outstanding and this Ordinance shall be and remain irrevocable until the Prior Lien 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 of or interest on any of the Prior Lien 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 Prior Lien 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

Section 8.1: Sale. The Bonds are hereby sold, and shall be delivered to The Moody National Bank of Galveston, Galveston, Texas, at a price of \$2,244,375, plus accrued interest to the date of delivery, subject to the approval of the Attorney General of Texas and bond counsel. The Mayor and other appropriate officers, agents and representatives of the City are hereby authorized to do

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF BONDS

ARTICLE VIII

Section 7.11: No Recourse Against City Officials. No recourse shall be had for the payment of principal of or interest on any Prior Lien Bonds or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Prior Lien Bonds.

Section 7.10: Paying Agents May Own Prior Lien Bonds. The paying agents for the Prior Lien Bonds, in their individual or any other capacity, may become holders or pledges of the Prior Lien Bonds with the same rights they would have if they were not paying agents.

Section 7.9: Defeasance. The City may defease the provisions of this Ordinance and discharge its obligation to the Owners of any or all of the Bonds in any manner then permitted by law, including, without limitation, by depositing with any paying agent for such Bonds or with the State Treasurer of the State of Texas either: (i) cash in an amount equal to the principal amount of such Bonds plus interest thereon to the date of maturity or redemption, or (ii) pursuant to an escrow or trust agreement, cash and/or direct obligations of the United States of America, in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount of such Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in this Ordinance. Upon such deposit, such Bonds shall no longer be regarded to be outstanding or unpaid.

the foregoing, it is expressly provided that any owner of any of the Prior Lien 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 gross Revenues into the special funds herein provided, and the application of gross Revenues and Net Revenues in the manner required in this Ordinance.

any and all things necessary or desirable to provide for the issuance and delivery of the Bonds.

Section 8.2: Tax Exemption. (a) General Tax Covenant. The City intends that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code, and applicable regulations. The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, of the owners thereof for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of this Section 8.2; provided, however, that the City shall not be required to comply with any particular requirement of this Section 8.2 if the City has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Section 8.2 will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Section 8.2.

(b) Use of Proceeds. The City covenants and agrees that its use of the Net Proceeds of the Bonds will at all times satisfy the following requirements:

(1) The City will limit the amount of original or investment proceeds of the Bonds to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Bonds ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 93-19, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit;

(e) No-Arbitrage Covenant. The city shall certify, through an authorized officer, employee or agent, that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the city will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the city covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the

(d) Bonds Are Not Hedge Bonds. The city covenants and agrees that not more than 50 percent of the proceeds of the Bonds will be invested in nonpurpose investments (as defined in section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of section 149(g)(3)(A)(ii) of the Code, and the city reasonably expects that at least 85 percent of the spendable proceeds of the Bonds will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the date the Bonds are issued.

(c) No Federal Guaranty. The city covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b)(3) of the Code and such regulations.

When used in this Section 8.2, the term Net Proceeds of the Bonds shall mean the proceeds from the sale of the Bonds, including investment earnings on such proceeds, less accrued interest.

(ii) The city will not permit an amount of proceeds of the Bonds exceeding the lesser of (a) \$5,000,000 or (b) five percent of the Net Proceeds of the Bonds to be used, directly or indirectly, to finance loans to persons other than governmental units.

(ii) The city will not permit more than five percent of the Net Proceeds of the Bonds and to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of the Bonds. Further, the amount of private-use proceeds of the Bonds in excess of five percent of the Net Proceeds of the Bonds ("excess private-use proceeds") did not and will not exceed the proceeds of the Bonds expended for the governmental purpose of the Bonds to which such excess private-use proceeds relate;

meaning of section 148(a) of the code and applicable regulations thereunder.

- (f) Arbitrage Rebate. The city expects to qualify for an exception to the requirements of the code relating to rebate to the United States, because the city will use at least 95% of the Net Proceeds of the Bonds for local governmental activities of the city and expects that the total of all tax-exempt bonds (excluding "private activity" bonds) issued by or attributable to the city during calendar year 1994 will not exceed \$5,000,000. If the city does not qualify for such exception, the city will take all necessary steps to comply with the requirement that certain amounts earned by the city on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the code), be rebated to the federal government. Specifically, the city will (1) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the city allocable to other obligations of the city or moneys which do not represent gross proceeds of any obligations of the city, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Bonds which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds and within sixty days following retirement of the Bonds, all amounts required to be rebated to the federal government. Further, the city will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.
- (g) Information Reporting. The city covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the code and applicable regulations thereunder.
- (h) Continuing Obligation. Notwithstanding any other provision of this Ordinance, the city's obligations under the covenants and provisions of this Section 8.2 shall survive the defeasance and discharge of the Bonds.

Section 9.5: No Personal Liability. No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, or on this Ordinance, against any official or employee of the City or any person executing any Bonds.

Section 9.4: Paying Agent/Registrar Agreement. The form of agreement setting forth the duties of the Registrar is hereby approved, and an appropriate official of the City is hereby authorized to execute such agreement for and on behalf of the City.

Section 9.3: Open Meeting. It is hereby officially found and determined that the meeting at which this Ordinance was adopted was open to the public, and that public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act.

Section 9.2: 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 9.1: Further Proceedings. The Mayor, the City Administrator, the City Secretary, and other appropriate officers and agents 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.

MISCELLANEOUS

ARTICLE IX

Section 8.3: Qualified Tax-Exempt Obligations. The City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b) of the Code. In connection therewith, the City represents (a) that the aggregate amount of tax-exempt obligations issued by the city during calendar year 1994, including the Bonds, which have been designated as "qualified tax-exempt obligations" under section 265(b)(3) of the Code does not exceed \$10,000,000, and (b) that the reasonably anticipated amount of tax-exempt obligations which will be issued by the city during calendar year 1994, including the Bonds, will not exceed \$10,000,000. For purposes of this Section 8.3, the term "tax-exempt obligation" does not include "private activity bonds" within the meaning of section 141 of the Code, other than "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code. In addition, for purposes of this Section 8.3, the City includes all governmental units which are aggregated with the city under the code.

(SEAL)

VILLAGE OF JAMAICA BEACH, TEXAS
City Secretary

T. D. White

ATTEST:

VILLAGE OF JAMAICA BEACH, TEXAS

Mayor

Samuel R. Blum

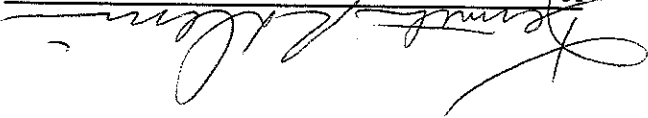
PASSED AND APPROVED this 14th day of June, 1994.

Section 9.7: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

Section 9.6: Parties Interested. Nothing in this ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the city, the Registrar, and the Owners of the Bonds, any right, remedy or claim under or by reason of this ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this ordinance shall be for the sole and exclusive benefit of the city, the Registrar, and the Owners of the Bonds.

Encl. to Attorney General

VILLAGE OF JAMAICA BEACH, TEXAS
Mayor



Very truly yours,

Please forward the Bonds by Federal Express to Clifford W. Youngblood, Vinson & Ekins L.P., 2300 First City Tower, 1001 Fannin, Houston, TX 77002-6760.

TO THE COMPTROLLER

After you have approved the Bonds, please deliver them to the Comptroller of Public Accounts of Texas for registration.

The bonds described in the above caption, hereinafter called the "Bonds", will be sent to you for approval and we enclose one executed but undated SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE. Upon approval of the Bonds, you are authorized and respectfully requested to insert the date in such certificate, which date is to be the same as your approval date. If any litigation should develop before you have approved the Bonds, we will notify you at once both by telephone and telegaph. With this assurance you can rely upon the absence of litigation at the time that you approve the Bonds unless we advise you to the contrary.

TO THE ATTORNEY GENERAL

Gentlemen:

Re: \$2,250,000 Village of Jamaica Beach, Texas, Waterworks and Sewer System Revenue Bonds, Series 1994

Comptroller of Public Accounts of Texas
Attention: Bond Registration Division
111 East 17th Street
Austin, Texas 78774

Attorney General of Texas
Attention: Public Finance Division
300 W. 15th Street, 10th Floor
Austin, Texas 78701

June 14, 1994