

ORDINANCE AUTHORIZING THE ISSUANCE OF VILLAGE OF JAMAICA BEACH, TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 1999; AUTHORIZING THE REDEMPTION PRIOR TO MATURITY OF CERTAIN OUTSTANDING BONDS; AND CONTAINING OTHER MATTERS RELATED THERETO

WHEREAS, the Village Council of the Village of Jamaica Beach, Texas (the "City") has heretofore issued its Waterworks and Sewer System Revenue Bonds, Series 1987 ("Series 1987 Bonds") and its Waterworks and Sewer System Revenue Bonds, Series 1994("Series 1994 Bonds") (collectively the "Refunded Bonds"); and

WHEREAS, the City desires to refund the Refunded Bonds in advance of their maturities; and

WHEREAS, Article 717k, Vernon's Texas Civil Statutes, as amended, authorizes the City to issue refunding bonds payable from revenues, without an election, for the purpose of refunding the Refunded Bonds in advance of their maturities, and to accomplish such refunding by depositing directly with any paying agent for the Refunded Bonds the proceeds of such refunding bonds, together with other available funds, in an amount sufficient to provide for the payment or redemption of the Refunded Bonds, and provides that such deposit shall constitute the making of firm banking and financial arrangements for the discharge and final payment or redemption of the Series 1987 Bonds; and

WHEREAS, the City desires to authorize the execution of an escrow agreement and provide for the deposit of proceeds of the refunding bonds, together with other funds, to pay the Refunded Bonds; and

WHEREAS, upon the issuance of the refunding bonds herein authorized and the deposit of funds referred to above, the Refunded Bonds shall no longer be regarded as being outstanding, except for the purpose of being paid pursuant to such deposit, and the pledges, liens, trusts and all other covenants, provisions, terms and conditions of the ordinances authorizing the issuance of the Refunded Bonds shall be, with respect to the Refunded Bonds, discharged, terminated and defeased; Now, Therefore

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

ARTICLE I

RECITALS: CONSIDERATION

It is hereby found and determined that the matters and facts set out in the preamble to this Ordinance are true and correct.

It is hereby found and determined that the refunding contemplated in this Ordinance will benefit the City by providing a present value savings of \$147,736.69 in the debt service payable by the City and a reduction in the average annual principal and interest requirements on the Parity Bonds (as defined herein), and that such benefit is sufficient consideration for the refunding of the Refunded Bonds.

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:

"Act" means Article 717k, Vernon's Texas Civil Statutes, as amended.

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

"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 \$259,455.98, 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.

"Bond Purchase Agreement" means the agreement between the City and the Purchaser described in Section 8.1 of this Ordinance.

"Bonds" or "Series 1999 Bonds" means the Village of Jamaica Beach, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 1999, authorized by this Ordinance.

"Business Day" means 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.

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

"Code" means the Internal Revenue Code of 1986, as amended.

"Comptroller" means the Comptroller of Public Accounts of the State of Texas.

"Gross Revenues" 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 any funds created or maintained pursuant to this Ordinance and any other revenues hereafter pledged to the payment of all Prior Lien Bonds.

"Interest Payment Date", when used in connection with any Bond, means April 1, 2000, and each October 1 and April 1 thereafter until maturity or earlier redemption.

"Maintenance and Operation Expenses" 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.

"Maximum Annual Principal and Interest Requirements" shall mean the greatest amount of principal and interest requirements for all Prior Lien Bonds, calculated for any future fiscal year, which, upon the issuance of the Bonds, are hereby determined to be \$258,475, 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.

"MSRB" means the Municipal Securities Rulemaking Board.

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

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Ordinance" means this bond ordinance and all amendments hereof and supplements hereto.

"Outstanding" when used with reference to Prior Lien Bonds, means, as of a particular date, all such bonds theretofore and thereupon delivered except (a) any such bond canceled 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.

"Owner" or "Registered Owner", when used with respect to any Bond means 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.

"Prior Lien Bonds" mean the Bonds, the Series 1994 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.

"Purchaser" means Moody National Bank of Galveston.

"Record Date" means, for any Interest Payment Date, the close of business on the 15th day of the month next preceding each Interest Payment Date.

"Refunded Bonds" means the City's Water and Sewer System Revenue Bonds, Series 1987, in the aggregate principal amount of \$525,000, maturing on April 1 in each of the years 2000 through 2005, both inclusive, and the City's Waterworks and Sewer System Revenue Bonds, Series 1994, in the aggregate principal amount of \$2,110,000, maturing on April 1 in each of the years 2000 through 2015, both inclusive.

"Register" means 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.

"Registrar" means Moody National Bank of Galveston, and its successors in that capacity.

"Reserve Fund Surety Policy" means any surety bond, insurance policy or letter of credit in a principal amount equal to the Maximum Annual Principal and Interest Requirements and which is payable on demand of the City for the benefit of the Owners of the Prior Lien Bonds and which is approved by the Attorney General of Texas to the extent required by applicable law, including without limitation and to the extent applicable, Article 717q, Texas Revised Civil Statutes, provided that the rating either for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or for obligations insured, secured or guaranteed by such issuer have a rating in one of the three highest letter categories by each of the major municipal securities evaluation services (or, if they are no longer in existence, by comparable services).

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Series 1987 Bonds" mean the Village of Jamaica Beach, Texas, Water and Sewer System Revenue Bonds, Series 1997.

"Series 1994 Bonds" mean the Village of Jamaica Beach, Texas, Waterworks and Sewer System Revenue Bonds, Series 1994.

"SID" means the Municipal Advisory Council of Texas, which has been designated by the State of Texas as, and determined by the SEC staff to be, a state information depository within the meaning of the Rule.

"System" means the water and sewer system of the City, including all future extensions, replacements, additions and improvements to the System.

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.

ARTICLE III

TERMS OF THE BONDS

Section 3.1: Authorization and Authorized Amount. The Bonds shall be issued, pursuant to the Act, in fully registered form in the aggregate principal amount of \$2,700,000 for the purpose of refunding the Refunded Bonds.

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 Refunding Bonds, Series 1999", and shall be dated June 1, 1999. The Bonds shall bear interest at the rate of 5.50% per annum from the later of June 1, 1999, 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, 2000, and semiannually thereafter on October 1 and April 1 of each year until maturity or earlier redemption.

Section 3.3: Initial Bonds: Numbers and Denomination. 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 the following 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.

<u>Bond Number</u>		<u>Principal Amount</u>	<u>Year of Maturity</u>
R-1	\$	130,000	2000
R-2		115,000	2001
R-3		120,000	2002
R-4		130,000	2003
R-5		135,000	2004
R-6		140,000	2005
R-7		150,000	2006
R-8		160,000	2007
R-9		165,000	2008
R-10		175,000	2009
R-11		185,000	2010
R-12		195,000	2011
R-13		205,000	2012
R-14		220,000	2013
R-15		230,000	2014
R-16		245,000	2015

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 3.5.: 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 3.6: Authentication. Except for the Bonds to be initially issued, which need not be authenticated, 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 3.7. 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 Register.

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 3.8. 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 3.11. 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 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.

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.

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.

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 canceled 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.

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 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.

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:

- (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;
- (2) furnished such security or indemnity as may be required by the Registrar and the City to save them harmless;
- (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
- (4) met any other reasonable requirements of the City and the 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 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.

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.

Each replacement Bond delivered in accordance with this Section 3.13 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.

Section 3.14: Redemption. The City reserves the right, at its option, to redeem Bonds maturing on or after April 1, 2006, in whole or from time to time in part, on April 1, 2005 or any date thereafter, 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.

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.

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.

ARTICLE IV

FORM OF BONDS AND CERTIFICATES

Section 4.1: Forms. The form of the Bonds, including the form of the Registrar's Authentication Certificate, the form of Assignment, and the form of Registration Certificate of the Comptroller, which shall be attached or affixed to the Bonds initially issued, shall be, respectively, substantially as follows, with such additions, deletions and variations as may be necessary or desirable and not prohibited by this Ordinance:

FORM OF BOND

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF GALVESTON

NUMBER
R- _____
REGISTERED

AMOUNT
\$ _____
REGISTERED

VILLAGE OF JAMAICA BEACH, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BOND
SERIES 1999

MATURITY DATE:

INTEREST RATE:
5.50%

DATED DATE:
June 1, 1999

REGISTERED OWNER:

PRINCIPAL AMOUNT:

DOLLARS

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 Moody National Bank of Galveston (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 rate shown above, calculated on the basis of a 360 day year of twelve 30 day months, from the later of June 1, 1999, 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, 2000, 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.

THIS BOND is one of a duly authorized issue of Bonds, aggregating \$2,700,000 (the "Bonds"), issued for the purpose of refunding the City's outstanding waterworks and sewer system revenue bonds, pursuant to an ordinance adopted by the City Council (the "Ordinance"), which Ordinance is of record in the official minutes of the City Council.

THE CITY RESERVES THE RIGHT to redeem Bonds maturing on or after April 1, 2006, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2005 or any date thereafter, 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.

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

THIS BOND AND THE SERIES OF WHICH IT IS A PART are special obligations of the City that 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 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.

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.

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.

(AUTHENTICATION
CERTIFICATE)

(SEAL)

VILLAGE OF JAMAICA BEACH, TEXAS

XXXXXXXXXXXXXXXXXXXX
Mayor

XXXXXXXXXXXXXXXXXXXX
City Secretary

FORM OF REGISTRATION CERTIFICATE

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

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.

WITNESS MY SIGNATURE AND SEAL this _____.

(SEAL)

XXXXXXXXXXXX
Comptroller of Public Accounts
of the State of Texas

FORM OF AUTHENTICATION CERTIFICATE

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

Moody National Bank of Galveston

By _____
Authorized Signature
Date of Authentication _____

FORM OF ASSIGNMENT

ASSIGNMENT

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)
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.

DATED: _____

Signature Guaranteed: _____

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.

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.

ARTICLE V

SECURITY AND SOURCE OF
PAYMENT FOR ALL PRIOR LIEN BONDS

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

Section 5.2: Rates and Charges. So long as any Prior Lien Bonds remain outstanding, the City shall fix, charge and collect rates and charges for the use and services of the System, which shall be fully sufficient at all times:

- (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.

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) 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").

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.

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:

- (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 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 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:

- (i) 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
- (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 this Ordinance or in any ordinance authorizing the issuance of Additional Prior Lien Bonds.

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.

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 \$258,475 (the Maximum Annual Principal and Interest Requirement). 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 Maximum 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 Reserve Fund has been restored to such amount. Whenever the Prior Lien Bond Reserve Fund 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, to pay Maintenance and Operation Expenses for which no other funds are available, to pay costs of repairs, replacements and capital improvements to the System, and it may be used to pay and retire the last Prior Lien Bonds to mature to be redeemed.

The City may satisfy the above requirements by depositing, to the extent permitted by a future change in law, the proceeds of a Reserve Fund Surety Policy. In the event the City has satisfied the above requirements by purchasing a Reserve Fund Surety Policy, in any month in which the Prior Lien Bond Reserve Fund contains less than the Maximum Annual Principal and Interest Requirements (or the amount required to attain the Maximum Annual Principal and Interest

Requirements as provided above), then on or before the last Business Day of such month there shall be transferred into the Prior Lien Bond Reserve Fund from the Revenue Fund, in equal monthly installments, amounts sufficient to enable the City to pay all reimbursement obligations under the Reserve Fund Surety Policy within a sixty (60) month period (or shorter period required by the Reserve Fund Surety Policy) and such additional amounts as shall be sufficient to enable the City within a sixty (60) month period (or shorter period required by the Reserve Fund Surety Policy) to re-establish in the Prior Lien Bond Reserve Fund the Maximum Annual Principal and Interest Requirements.

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 face 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.

ARTICLE VI

ADDITIONAL BONDS

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, 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 Maximum Annual Principal and Interest Requirements, unless such requirement is waived by the purchaser of the Additional Prior Lien Bonds.

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.

Section 6.3: Restoration Bonds. In addition to the Additional Prior Lien Bonds which the City may issue pursuant to Section 6.1 of this Ordinance, in the event a hurricane, tropical storm or other natural calamity causes extensive damage to the City and/or the System, the City may issue Additional Prior Lien Bonds in the principal amount of the principal and interest due in the next 12 calendar months without meeting the requirements of Section 6.1 of this Ordinance. Additional Prior Lien Bonds issued pursuant to this Section 6.3 shall bear interest at the rate and shall mature in accordance with the agreement with the purchaser of such Additional Prior Lien Bonds.

ARTICLE VII

COVENANTS AND PROVISIONS RELATING TO ALL PRIOR LIEN BONDS

Section 7.1: Punctual Payment of Prior Lien Bonds. The City will punctually pay or cause to be paid the interest on and principal of all Prior Lien Bonds 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 ordinance authorizing the issuance of Additional Prior Lien Bonds.

Section 7.2: Maintenance of System. So long as any Prior Lien Bonds 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.

Section 7.3: Sale or Encumbrance of System. So long as any Prior Lien Bonds remain outstanding, the City 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 has been declared surplus or is no longer needed for the proper operation of the System. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

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 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 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.

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.

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 7.11: 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.

ARTICLE VIII

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF BONDS

Section 8.1: Sale. The Bonds are hereby sold, and shall be delivered to Moody National Bank of Galveston (the "Purchaser") at a price of \$2,700,000, plus accrued interest to the date of delivery, subject to the approval of the Attorney General of Texas and bond counsel. The price paid by the Purchaser may be reduced by the principal amount of the Series 1994 Bonds (plus accrued interest thereon), delivered to the City by the Purchaser at the time the Bonds are delivered to the Purchaser. The Mayor and other appropriate officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to provide for the issuance and delivery of the Bonds.

Section 8.2: Federal Income Tax Exclusion.

(a) General. The City intends that the interest on the Bonds shall be excludable from gross income for federal income tax purposes pursuant to sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable Income Tax Regulations (the "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, for federal income tax purposes. In particular, the City covenants and agrees to comply with each requirement of this

Section; provided, however, that the City shall not be required to comply with any particular requirement of this Section 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 will satisfy the applicable requirements of the Code and the Regulations, 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.

(b) No Private Use or Payment and No Private Loan Financing. 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, that the proceeds of the Refunded Bonds have not been used, and that proceeds of the Refunded Bonds and the Bonds will not be used, in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Refunded Bonds and the Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

(c) No Federal Guarantee. The City covenants and agrees that it has not and will not to take any action, and has not knowingly omitted and will not 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 the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

(d) No Hedge Bonds. The City covenants and agrees that it has not and will not to take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the applicable Regulations thereunder.

(e) No Arbitrage. 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 the applicable Regulations promulgated 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 meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

(f) Arbitrage Rebate. If the City does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, 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 (i) 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 bond issue of the City or moneys which do not represent gross proceeds of any bonds 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 or on such other dates as may be permitted under applicable Regulations, 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 a 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 the applicable Regulations promulgated thereunder.

(h) Continuing Obligation. Notwithstanding any other provision of this Ordinance, the City's obligations under the covenants and provisions of this Section shall survive the defeasance and discharge of the Bonds.

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 1999, 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 1999, 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.

Section 8.4: Use of Proceeds. Proceeds from the sale of the Bonds, together with amounts on deposit in the reserve accounts and interest and sinking funds established in connection with the issuance of the Refunded Bonds, shall, promptly upon receipt by the City, be applied as follows:

- (a) Accrued interest on the Bonds shall be deposited into the Interest and Sinking Fund.
- (b) \$542,519.79 shall be deposited to an Escrow Fund established pursuant to the Escrow Agreement by and between the City and Moody National Bank of Galveston, in order to refund the Series 1987 Bonds.
- (c) The remaining proceeds from the sale of the Bonds, together with other lawfully available funds of the City, shall be used to pay all expenses arising in connection with the issuance of the Bonds and the refunding of the Refunded Bonds, and any proceeds of the Bonds remaining after making all such deposits and payments shall be deposited into the Interest and Sinking Fund.

Section 8.5: Redemption of Refunded Bonds. The City hereby irrevocably calls the following bonds of the City for redemption prior to maturity on the dates shown below at a price of par plus accrued interest to the dates fixed for redemption and ratifies, approves and confirms the notice of such redemption given in accordance with the ordinances authorizing the issuance of such bonds:

<u>Bonds To Be Redeemed</u>	<u>Redemption Date</u>
Water and Sewer System Revenue Bonds, Series 1987 Maturities 2000 through 2005	September 1, 1999
Waterworks and Sewer System Revenue Bonds, Series 1994 Maturities 2000 through 2015	July 14, 1999, or the date of delivery of the Bonds

Section 8.6: Escrow Agreement. The City hereby approves the Escrow Agreement relating to the Series 1987 Bonds. The execution and delivery of the Escrow Agreement by the appropriate officers of the City is hereby approved, and all officers, agents, and representatives of the City are authorized to do any and all things necessary to carry out its provisions. The certification of Louis Pauls & Co., verifying the mathematical accuracy and sufficiency of the refunding program evidenced by the Escrow Agreement shall be attached thereto. The City and other appropriate

officers of the City and the Escrow Agent are hereby authorized to subscribe for, agree to purchase, and purchase direct obligations of the United States of America, including obligations the principal and interest of which are unconditionally guaranteed by the United States of America, in such amounts and maturities and bearing interest at such rates as may be provided for in the Escrow Agreement, and to execute any and all subscriptions, purchase agreements, commitments, letters of authorization and other documents necessary to effectuate the foregoing, and any actions heretofore taken for such purpose are hereby ratified and approved.

ARTICLE IX

CONTINUING DISCLOSURE UNDERTAKING

Section 9.1: Definitions. For the purposes of this Article IX, the following terms have the meanings assigned to them below:

"Annual Financial Information and Operating Data" means the financial information and operating data of the System with respect to the City of the general type included in the annual audit of the City.

Section 9.2: Annual Reports. The City shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year of the City ending in or after 1999, Annual Financial Information and Operating Data. Any financial statements so provided shall be (1) prepared in accordance with such accepted accounting practices as, in the opinion of a certified public accountant, conforms at the time to a body of generally accepted accounting principals and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statement is not complete within such period, then the City shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID within such six-month period, and audited financial statements, when the audit report on such statements becomes available.

If the City changes its fiscal year, the City will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Article IX.

The financial information and operating data to be provided pursuant to this Article IX may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

Section 9.3: Material Event Notices. The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds; and
- K. Rating changes.

The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 9.2 by the time required.

Section 9.4: Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Article IX for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give the notice required by Section 9.3 of any Bond calls and defeasance that cause the City to be no longer such an "obligated person."

The provisions of the Article IX are for the sole benefit of the Owners and beneficial owners of the Bonds, and nothing in this Article IX, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article IX and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article IX or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE IX, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligation under this Article IX shall constitute a breach of or default under this Resolution for purposes of any other provision of this Indenture.

Nothing in this Article IX is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Article IX may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City but only if (1) the provisions of this Article IX, as so amended, would have permitted an underwriter to purchase or sell Bonds in the original primary offering of the Bonds in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the beneficial owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. If the City so amends the provisions of this Article IX, it shall include with any amended financial information or operating data next provided in accordance with Section 9.2 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The City may also repeal or amend the provisions of this Article IX if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that its right to do so would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

ARTICLE X

MISCELLANEOUS

Section 10.1: 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. Notwithstanding any other provision of this Ordinance, the officers of the City are each hereby authorized to make or approve such revisions, additions, deletions and variations in the form of the documents attached hereto as exhibits as, in the opinion of Bond Counsel to the City, may be necessary or convenient to carry out or assist in carrying out the purposes of this Ordinance and the Bond Purchase Agreement, including without limitation, to conform to the requirements of the Attorney General and to conform all of the aforesaid documents to the terms of sale of the Bonds in the Bond Purchase Agreement; provided, however, that any changes to such documents resulting, in the opinion of the Bond Counsel to the City, in substantive amendments to the terms and conditions of the Bonds or such documents shall be subject to the prior approval of the City. Approval of any executed

documents by the Bond Counsel to the City shall conclusively establish that any revisions, additions, deletions and variations in the form of such executed documents have been accomplished in full compliance with the authorization contained in this Section.

Section 10.2: 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 10.3: 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 10.4: 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 10.5: 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 10.6: 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.

Section 10.7: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

PASSED AND APPROVED this 7th day of June, 1999.



Mayor
Village of Jamaica Beach, Texas

ATTEST:

T. D. White

City Secretary
Village of Jamaica Beach, Texas

(SEAL)

