ORDINANCE NO. 2011-05-12-0384

AN ORDINANCE BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS AUTHORIZING THE ISSUANCE OF "CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2011A" IN THE PRINCIPAL AMOUNT OF $18,095,000; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS BY A JUNIOR LIEN ON AND PLEDGE OF THE NET REVENUES OF THE CITY'S WATER SYSTEM ON A PARITY WITH CERTAIN CURRENTLY OUTSTANDING OBLIGATIONS; PROVIDING THE TERMS AND CONDITIONS OF SUCH BONDS AND RESOLVING OTHER MATTERS INCIDENT AND RELATING TO THE ISSUANCE, PAYMENT, SECURITY, SALE, AND DELIVERY OF SUCH BONDS, INCLUDING THE APPROVAL OF AN APPLICATION TO THE TEXAS WATER DEVELOPMENT BOARD; AUTHORIZING THE EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT AND ONE OR MORE ESCROW AGREEMENTS; COMPLYING WITH THE REQUIREMENTS OF THE DEPOSITORY TRUST COMPANY'S LETTER OF REPRESENTATIONS; COMPLYING WITH THE REGULATIONS PROMULGATED BY THE TEXAS WATER DEVELOPMENT BOARD; DELEGATING THE AUTHORITY TO CERTAIN MEMBERS OF THE SAN ANTONIO WATER SYSTEM STAFF TO EXECUTE CERTAIN DOCUMENTS RELATING TO THE SALE OF THE BONDS; ENACTING OTHER PROVISIONS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS ORDINANCE; AND PROVIDING FOR AN EFFECTIVE DATE

WHEREAS, the City Council (the *City Council*) of the City of San Antonio, Texas (the *City*) has heretofore issued, and there are currently outstanding, revenue bonds supported by a first and prior lien on and pledge of the pledged revenues (the *Pledged Revenues*) of the City's combined utility systems (the *System*), on a parity with certain currently outstanding revenue bonds and revenue and refunding bonds (the *Senior Lien Obligations*); and

WHEREAS, the City Council of the City has heretofore issued, and there are currently outstanding, revenue and refunding bonds (the *Junior Lien Obligations*) supported by a junior lien on and pledge of the net revenues (the *Net Revenues*) of the System; and

WHEREAS, the City Council of the City has heretofore issued, and there are outstanding from time to time, revenue bonds and related obligations (the *Subordinate Lien Obligations*) supported by a subordinate lien on and pledge of the Net Revenues of the System; and

WHEREAS, the City has heretofore issued, and there is currently outstanding, a series of commercial paper notes (the *Commercial Paper*) which is equally and ratably secured by a lien on and pledge of the Net Revenues of the System subordinate to the lien securing the payment of the Senior Lien Obligations and Junior Lien Obligations; and

WHEREAS, the City has heretofore issued, sold, and delivered, and there are currently outstanding obligations in the aggregate principal amount of at least $2,000,000 in Commercial Paper Notes, being the obligations set forth on Schedule I hereto which is incorporated by reference for all purposes to this ordinance (the *Refunded Commercial Paper*); and

WHEREAS, pursuant to the provisions of Chapter 1207, as amended, Texas Government Code, (*Chapter 1207*), the City Council is authorized to issue revenue and refunding bonds and deposit the proceeds of sale under an escrow agreement to provide for the payment of the Refunded Commercial Paper, and such deposit, when made in accordance with Chapter 1207, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Commercial Paper; and

WHEREAS, Chapter 1207 requires that the deposit of the proceeds from the sale of the revenue and refunding bonds be deposited directly with any designated escrow agent for the Refunded Commercial Paper that is not the depository bank of the City; and

WHEREAS, U.S. Bank, National Association, Dallas, Texas, which is not a depository bank of the City, is appointed and will serve as the Paying Agent/Registrar (hereinafter defined) and Escrow Agent (hereinafter defined) for the revenue and refunding bonds; and

WHEREAS, the City Council also hereby finds and determines that the Refunded Commercial Paper is scheduled to mature or is subject to being redeemed, not more than twenty (20) years from the date of the revenue and refunding bonds herein authorized; and

WHEREAS, City Council also hereby finds and determines that such refunding will convert currently outstanding commercial paper notes into long term fixed rate revenue refunding bonds and thereby increase the capacity of the System's Commercial Paper program and as permitted by the provisions of Section 1207.008, as amended, Texas Government Code, it is not practicable to calculate the savings from the conversion from variable rate to fixed rate debt; and

WHEREAS, the City Council of the City has determined that revenue bonds payable from and equally and ratably secured solely by a junior lien on and pledge of the Net Revenues (hereinafter defined) of the System should be issued for the purpose of building, improving, extending, enlarging, and repairing the System; and

WHEREAS, the City is empowered by the provisions of Chapters 1207, 1371, and 1502, as amended, Texas Government Code, and the City's Home Rule Charter to issue revenue bonds; and

WHEREAS, the Texas Water Development Board (the *Purchaser*) has agreed to purchase the revenue and refunding bonds thereby making a loan to the City at an interest rate that is substantially below the current market rate for similar forms of indebtedness which will enable the City to complete the proposed improvements to the System and to currently refund the Refunded Commercial Paper; and

WHEREAS, the City Council hereby further finds and determines that the revenue and refunding bonds herein authorized to be issued can and should be issued as Additional Junior

Lien Obligations (hereinafter defined) on a parity with certain currently outstanding Junior Lien Obligations that are payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System in that (a) the City is not in default as to any covenant, condition, or obligation prescribed in the ordinance authorizing the issuance of the Junior Lien Obligations; and (b) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts required to be deposited therein; and

WHEREAS, the City Council hereby finds and determines that revenue and refunding bonds, in the principal amount of $18,095,000 should be issued and sold to the Purchaser at this time; and

WHEREAS, the Board of Trustees of the San Antonio Water System (the *Board*) has pursuant to a resolution adopted on May 3, 2011 recommended that the revenue and refunding bonds should be issued by the City and also recommended that the City take certain other actions; and

WHEREAS, in full recognition and consideration of all covenants and conditions prescribed in the proceedings and instruments pertaining to the outstanding and unpaid Senior Lien Obligations and Junior Lien Obligations, pursuant to authority conferred by the laws of the State of Texas and at the request of the Board, the City Council of the City deems it necessary to issue and sell the Bonds in the total principal amount of $18,095,000, for the purpose of providing funds (i) to construct improvements to the System, (ii) to fund the increase in the Required Reserve Amount (defined herein) attributable to the issuance of the Bonds, (iii) for the discharge and final payment of the Refunded Commercial Paper, and (iv) to pay certain costs of issuance related thereto; and

WHEREAS, this City Council is now authorized and empowered to proceed with the passage and adoption of this Ordinance authorizing (i) the issuance of the Bonds in the total principal amount of $18,095,000, (ii) the execution and delivery of the Paying Agent/Registrar Agreement, the Escrow Agreement, the Escrow Deposit Letter, and the Representation Letter relating to the Bonds, (iii) the sale of the Bonds to the Purchaser and compliance with the Purchaser's rules and regulations, and (iv) delegation to any Authorized Official the authority to undertake certain matters on the City's behalf, including execution of an Approval Certificate (hereinafter defined); and

WHEREAS, the City Council hereby finds and determines that the issuance of the revenue and refunding bonds authorized herein and the adoption of this Ordinance is in the best interests of the citizens of the City; now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO THAT:

SECTION 1: Authorization - Designation - Principal Amount - Purpose. Revenue improvement and refunding bonds of the City shall be and are hereby authorized to be issued in

the aggregate principal amount of EIGHTEEN MILLION NINETY FIVE THOUSAND AND NO/100 DOLLARS ($18,095,000), to be designated and bear the title of CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2011A (the *Bonds*), pursuant to an ordinance adopted by the City Council (the *Ordinance*) for the purpose of (i) building, improving, extending, enlarging, or repairing the City's System, (ii) funding the increase in the Required Reserve Amount attributable to the issuance of the Bonds, (iii) discharging and making final payment of the Refunded Commercial Paper, and (iv) paying the costs of issuing the Bonds. The Bonds shall be payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, solely by a lien on and pledge of the Net Revenues (hereinafter defined) of the System (hereinafter defined) that is junior and inferior to the lien on and pledge thereof securing the payment of the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City. The Bonds are authorized to be issued pursuant to the authority conferred by and in conformity with the laws of the State of Texas, particularly Chapters 1207, 1371, and 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the Ordinance.

SECTION 2: Fully Registered Obligations - Authorized Denominations - Stated Maturities - Interest Rates - Date. The Bonds are issuable in fully registered form only; shall be dated May 15, 2011 (the *Bond Date)* and shall be in denominations of $5,000 or any integral multiple thereof, and the Bonds shall become due and payable on May 15 in each of the years and in principal amounts (the *Stated Maturities)* and bear interest on the unpaid principal amounts to the earlier of redemption or Stated Maturity, at the per annum rates, while Outstanding, in accordance with the following schedule:

Years of Stated Maturity	Principal Amount ($)	Interest Rate (%)
2012	335,000	0.00
2013	455,000	0.00
2014	455,000	0.00
2015	455,000	0.35
2016	455,000	0.65
2017	460,000	0.95
2018	465,000	1.25
2019	475,000	1.55
2020	480,000	1.80
2021	490,000	2.00
2022	500,000	2.20
2023	510,000	2.40
2024	525,000	2.55
2025	540,000	2.70
2026	555,000	2.85
2027	570,000	2.95

Years of Stated Maturity	Principal Amount ($)	Interest Rate (%)
2028	590,000	3.05
2029	605,000	3.15
2030	625,000	3.25
2031	645,000	3.30
2032	670,000	3.40
2033	690,000	3.50
2034	715,000	3.55
2035	745,000	3.65
2036	770,000	3.70
2037	800,000	3.70
2038	830,000	3.70
2039	860,000	3.70
2040	895,000	3.70
2041	930,000	3.90

As authorized by Chapter 1371, as amended, Texas Government Code, any Authorized Official is hereby authorized, appointed and designated as an officer of the City authorized to act on behalf of the City in selling and delivering the Bonds authorized herein and carrying out the procedures specified in this Ordinance, including approval of the aggregate principal amount of each maturity of the Bonds and the rate of interest to be borne on the principal amount of each such maturity. Each Authorized Official, acting for and on behalf of the City, is authorized to execute the "Approval Certificate", being a completed version of the form thereof attached hereto as Schedule II and to complete and execute the Credit Facility, if any, the form of which is attached hereto as Exhibit F and is hereby approved. The Bonds shall be issued in the maximum principal amount of $18,095,000 and sold at par less the Purchaser's fee, with interest to accrue from the Closing Date, and the net effective per annum interest rate shall not exceed a rate greater than 7.00% per annum, and the Bonds' final maturity shall not extend beyond May 15, 2042. The execution of the Approval Certificate shall evidence the sale date of the Bonds by the City to the Purchaser in accordance with the provisions of Chapters 1207 and 1371, as amended, Texas Government Code. It is further provided, however, that notwithstanding the foregoing provisions, the Bonds shall not be delivered unless prior to delivery, the Bonds have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations, as required by Chapter 1371, as amended, Texas Government Code. Upon execution of the Approval Certificate, Co-Bond Counsel is authorized to complete this Ordinance to reflect such final terms.

SECTION 3: Payment of Bonds - Interest Payments - Paying Agent/Registrar. The principal of, premium, if any, and interest on the Bonds, due and payable by reason of Stated Maturity, redemption, or otherwise, shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and such payment of principal of and interest on the Bonds shall be without exchange or collection charges to the Holder (as hereinafter defined) of the Bonds.

The Bonds shall bear interest on the unpaid principal amount thereof at the per annum rates shown above in Section 2, computed on the basis of a 360-day year of twelve 30-day months, and interest thereon shall be payable semiannually on May 15 and November 15 of each year (the *Interest Payment Date*), commencing May 15, 2012, while the Bonds are Outstanding. Interest on each Bond issued and delivered to a Holder shall accrue from the Closing Date (anticipated to occur on or about August 18, 2011) or from the latest Interest Payment Date that interest on such Bond (or its Predecessor Bond) has been paid that precedes the registration date appearing on such Bond in the "Registration Certificate of Paying Agent/Registrar" (Section 8D hereof), unless the registration date appearing thereon is an Interest Payment Date for which interest is being paid, in which case interest on such Bond shall accrue from the registration date appearing thereon and provided further that with respect to the initial payment of interest on a Bond.

The selection and appointment of U.S. Bank National Association, Dallas, Texas, to serve as the initial Paying Agent/Registrar for the Bonds is hereby approved and confirmed, and the City agrees and covenants to cause to be kept and maintained at the corporate trust office of the Paying Agent/Registrar books and records (the *Security Register)* for the registration, payment, and transfer of the Bonds, all as provided herein, in accordance with the terms and provisions of a Paying Agent/Registrar Agreement, attached, in substantially final form, as Exhibit A hereto, and such reasonable rules and regulations as the Paying Agent/Registrar and the City may prescribe. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are Outstanding, and any successor Paying Agent/Registrar shall be (i) a national or state banking institution or (ii) an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers. Such Paying Agent/Registrar shall be subject to supervision or examination by federal or state authority and authorized by law to serve as a Paying Agent/Registrar.

The City reserves the right to appoint a successor Paying Agent/Registrar upon providing the previous Paying Agent/Registrar with a certified copy of a resolution or ordinance terminating such agency. Additionally, the City agrees to promptly cause a written notice of this substitution to be sent to each Holder of the Bonds by United States Mail, first-class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Both principal of, premium, if any, and interest on the Bonds, due and payable by reason of Stated Maturity, redemption or otherwise, shall be payable only to the registered owner of the Bonds appearing on the Security Register (the *Holder* or *Holders*) maintained on behalf of the City by the Paying Agent/Registrar as hereinafter provided (i) on the Record Date (hereinafter defined) for purposes of payment of interest thereon, and (ii) on the date of surrender of the Bonds for purposes of receiving payment of principal thereof upon redemption of the Bonds or at the Bonds' Stated Maturity. The City and the Paying Agent/Registrar, and any agent of either, shall treat the Holder as the owner of a Bond for purposes of receiving payment and all other purposes whatsoever, and neither the City nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary.

Principal of, and premium, if any, on the Bonds shall be payable only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at its corporate trust office. Interest on

the Bonds shall be paid to the Holder whose name appears in the Security Register at the close of business on the last business day of the month next preceding an Interest Payment Date for the Bonds (the *Record Date)* and shall be paid (i) by check sent by United States Mail, first-class postage prepaid, by the Paying Agent/Registrar, to the address of the Holder appearing in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested in writing by the Holder at the Holder's risk and expense. While the Bonds are held by the Purchaser (as defined in Section 33 hereof), payment of principal of, premium, if any, and interest on the Bonds shall be made by federal funds wire transfer, at no cost to the Purchaser, to an account at a financial institution located in the United States designated by the Purchaser.

If the date for the payment of the principal of, premium, if any, or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date any such payment on the Bonds was due.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a *Special Record Date)* will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the *Special Payment Date* - which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first-class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

SECTION 4: Redemption.

A. Optional Redemption. The Bonds having Stated Maturities on and after May 15, 2022 shall be subject to redemption prior to Stated Maturity, in inverse order of Stated Maturity, at the option of the City, on May 15, 2021, or on any date thereafter, as a whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date of redemption.

B. Special Mandatory Redemption. In the event that the Purchaser at such time remains the sole holder of the Bonds and the final accounting delivered by the City to the Purchaser in the form and manner specified in Section 34(4) of this Ordinance evidences that the total cost of the project to be financed with Bond proceeds is less than the amount of Bond proceeds available for paying such costs, then the City shall, as soon as practicable (but in no event later than six months after the Purchaser's acceptance of the aforementioned accounting) redeem Bonds in the amount of such excess to the nearest multiple of the authorized denomination for the Bonds. Bonds redeemed pursuant to this provision shall be redeemable on any date, in inverse order of Stated Maturity, as a whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity, selected at random and

by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date of redemption.

C. Exercise of Redemption Option. At least forty-five (45) days prior to a date set for the redemption of Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of its decision to exercise the right or of the requirement, as applicable, to redeem Bonds, the principal amount of each Stated Maturity to be redeemed, and the date set for the redemption thereof. The decision of the City to exercise the right to redeem Bonds shall be entered in the minutes of the governing body of the City.

D. Selection of Bonds for Redemption. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall select at random and by lot the Bonds to be redeemed, provided that if less than the entire principal amount of a Bond is to be redeemed, the Paying Agent/Registrar shall treat such Bond then subject to redemption as representing the number of Bonds outstanding which is obtained by dividing the principal amount of such Bond by $5,000.

E. Notice of Redemption. Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States Mail, first-class postage prepaid, in the name of the City and at the City's expense, by the Paying Agent/Registrar to each Holder of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided, such Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and if money sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price is held for the purpose of such payment by the Paying Agent/Registrar, then on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue, and such Bonds shall not be deemed to be Outstanding in accordance with the provisions of this Ordinance. This notice may also be published once in a financial publication, journal, or reporter of general circulation among securities dealers in the City of New York, New York (including, but not limited to, *The Bond Buyer* and *The Wall Street Journal*), or in the State of Texas (including, but not limited to, *The Texas Bond Reporter*). Additionally, this notice may also be sent by the City to any

registered securities depository and to any national information service that disseminates redemption notices.

F. Transfer/Exchange. Neither the City nor the Paying Agent/Registrar shall be required (1) to transfer or exchange any Bond during a period beginning forty-five (45) days prior to the date fixed for redemption of the Bonds or (2) to transfer or exchange any Bond selected for redemption, provided; however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond which is subject to redemption in part.

SECTION 5: Execution - Registration. The Bonds shall be executed on behalf of the City by its Mayor, its seal reproduced or impressed thereon, and attested by its City Clerk. The signature of either officer on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who were, at the time of the Bond Date, the proper officers of the City shall bind the City, notwithstanding that such individuals or either of them shall cease to hold such offices prior to the delivery of the Bonds to the Purchaser, all as authorized and provided in Chapter 1201, as amended, Texas Government Code.

No Holder of a Bond shall be entitled to any right or benefit under this Ordinance, or no Bond shall be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 8C, executed by the Comptroller of Public Accounts of the State of Texas or his duly authorized agent by manual signature, or a certificate of registration substantially in the form provided in Section 8D, executed by the Paying Agent/Registrar by manual signature, and either such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified or registered and delivered.

SECTION 6: Registration - Transfer - Exchange of Bonds - Predecessor Bonds. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of every owner of the Bonds, or, if appropriate, the nominee thereof. Any Bond may, in accordance with its terms and the terms hereof, be transferred or exchanged for Bonds of other authorized denominations upon the Security Register by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender for transfer of any Bond at the corporate trust office of the Paying Agent/Registrar, the City shall execute and the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of authorized denomination and having the same Stated Maturity and of a like interest rate and aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds may be exchanged for other Bonds of the same series and of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange upon surrender of the Bonds to be exchanged at the corporate trust office of the Paying Agent/Registrar. Whenever any Bonds are so surrendered for exchange, the City shall execute,

and the Paying Agent/Registrar shall register and deliver, the Bonds, to the Holder requesting the exchange.

All Bonds issued upon any transfer or exchange of Bonds shall be delivered at the corporate trust office of the Paying Agent/Registrar, or be sent by registered mail to the Holder at his request, risk, and expense, and upon the delivery thereof, the same shall be the valid and binding obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under this Ordinance, as the Bonds surrendered upon such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holder, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any fee, tax or other governmental charges required to be paid with respect to such transfer or exchange.

Bonds canceled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be Predecessor Bonds, evidencing all or a portion, as the case may be, of the same debt evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term Predecessor Bonds shall include any Bond registered and delivered pursuant to Section 32 in lieu of a mutilated, lost, destroyed, or stolen Bond which shall be deemed to evidence the same obligation as the mutilated, lost, destroyed, or stolen Bond.

SECTION 7: Initial Bonds(s). The Bonds herein authorized shall be issued initially either (i) as a single fully-registered Bond in the total principal amount of $18,095,000 with principal installments to become due and payable as provided in Section 2 and numbered T-1, or (ii) as one (1) fully-registered Bond for each year of Stated Maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (the *Initial Bond(s)*), and, in either case, the Initial Bond(s) shall be registered in the name of the Purchaser or the designee thereof. The Initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the Purchaser. Any time after the delivery of the Initial Bond(s), the Paying Agent/Registrar shall cancel the Initial Bond(s) delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the Purchaser, or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 8: FORMS.

A. Forms Generally. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Paying Agent/Registrar, and the form of Assignment to be printed on each of the Bonds shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and may have such letters, numbers, or other marks of identification (including insurance legends in the event the Bonds, or any Stated Maturities

thereof, are insured and identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may, consistent herewith, be established by the City or determined by the officers executing the Bonds as evidenced by their execution thereof. Any portion of the text of any Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds shall be typewritten, printed, lithographed, or engraved, produced by any combination of these methods, or produced in any other similar manner, all as determined by the officers executing the Bonds as evidenced by their execution thereof, but the Initial Bond(s) submitted to the Attorney General of Texas may be typewritten or photocopied or otherwise reproduced.

B. Form of Definitive Bond.

REGISTERED NO._____ REGISTERED AMOUNT $_____

United States of America
State of Texas
CITY OF SAN ANTONIO, TEXAS
WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS,
SERIES 2011A

Bond Date:	Interest Rate:	Stated Maturity:	CUSIP No.
May 15, 2011	_____	_____	_____

REGISTERED OWNER:_____

PRINCIPAL AMOUNT: _____ DOLLARS

The City of San Antonio, Texas (the *City),* a body corporate and municipal corporation in the State of Texas, for value received, hereby promises to pay to the order of the Registered Owner specified above, or the registered assigns thereof, on the Stated Maturity date specified above, the Principal Amount specified above (or so much thereof as shall not have been paid upon prior redemption), and to pay interest on the unpaid Principal Amount hereof from the interest payment date next preceding the "Registration Date" of this Bond appearing below (unless this Bond bears a "Registration Date" as of an interest payment date, in which case interest shall accrue from such date, or unless the Registration Date of this Bond is the initial delivery date of this Bond (or its Predecessor Bond) to the Purchaser, in which case interest shall accrue from such date of delivery to the Purchaser) at the per annum rate of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on May 15 and November 15 of each year commencing May 15, 2012.

Principal and premium, if any, of the Bond shall be payable to the Registered Owner hereof (the *Holder*) upon presentation and surrender, at the corporate trust office of the Paying Agent/Registrar executing the registration certificate appearing hereon or a successor thereof.

Interest shall be payable to the Holder of this Bond (or one or more Predecessor Bonds, as defined in the Ordinance hereinafter referenced) whose name appears on the Security Register maintained by the Paying Agent/Registrar at the close of business on the Record Date, which is the last business day of the month next preceding each interest payment date. All payments of principal of, premium, if any, and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by check sent on the appropriate date of payment by United States Mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by the Holder hereof at the Holder's risk and expense. While the Bonds are held by the Purchaser payment of principal of, premium, if any, and interest on the Bonds shall be made by federal funds wire transfer, at no cost to the Purchaser, to an account at a financial institution located in the United States designated by the Purchaser.

This Bond is one of the series specified in its title issued in the aggregate principal amount of $18,095,000 (the *Bonds)* pursuant to an ordinance adopted by the governing body of the City (the *Ordinance*), for the purpose of (i) building, improving, extending, enlarging, or repairing the City's System, (ii) funding the increase in the Required Reserve Amount attributable to the issuance of the Bonds, (iii) discharging and making final payment of the Refunded Commercial Paper, and (iv) paying the costs of issuing the Bonds. The Bonds are authorized to be issued pursuant to the authority conferred by and in conformity with the laws of the State of Texas, particularly Chapters 1207, 1371, and 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the Ordinance.

The Bonds stated to mature on and after May 15, 2022 may be redeemed prior to their Stated Maturities, in inverse order of Stated Maturity, at the option of the City, on May 15, 2021, or on any date thereafter, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity selected at random and by lot by the Paying Agent/Registrar) at the redemption price of par, together with accrued interest to the date of redemption, and upon thirty (30) days prior written notice being given by United States Mail, first-class postage prepaid, to Holders of the Bonds to be redeemed, and subject to the terms and provisions relating thereto contained in the Ordinance. If this Bond is subject to redemption prior to Stated Maturity and is in a denomination in excess of $5,000, portions of the principal sum hereof in installments of $5,000 or any integral multiple thereof may be redeemed, and, if less than all of the principal sum hereof is to be redeemed, there shall be issued, without charge therefor, to the Holder hereof, upon the surrender of this Bond to the Paying Agent/Registrar at its corporate trust office, a new Bond or Bonds of like Stated Maturity and interest rate in any authorized denominations provided in the Ordinance for the then unredeemed balance of the principal sum hereof.

In addition to the foregoing right to optional redemption, in the event that the Purchaser at such time remains the sole holder of the Bonds and the final accounting delivered by the City to the Purchaser in the form and manner specified in the Ordinance evidences that the total cost of the project to be financed with Bond proceeds is less than the amount of Bond proceeds available for paying such costs, then the City shall, as soon as practicable (but in no event later than six months after the Purchaser's acceptance of the aforementioned accounting) redeem Bonds in the amount of such excess to the nearest multiple of the authorized denomination for

the Bonds. Bonds redeemed pursuant to this provision shall be redeemable on any date, in inverse order of Stated Maturity, as a whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date of redemption.

If this Bond (or any portion of the principal sum hereof) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date this Bond (or the portion of the principal sum hereof to be redeemed) shall become due and payable, and, if money for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption is held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable hereon from and after the redemption date on the principal amount hereof to be redeemed. If this Bond is called for redemption, in whole or in part, the City or the Paying Agent/Registrar shall not be required to issue, transfer, or exchange this Bond within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance hereof in the event of its redemption in part.

The Bonds of this series are special obligations of the City payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, solely by a lien on and pledge of the net revenues (the *Net Revenues*) derived from the operation of the City's combined utility system (the *System*) that is junior and inferior to the lien on and pledge of the Pledged Revenues securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, but prior and superior to the lien on and pledge of the Net Revenues securing the payment of the currently outstanding Subordinate Lien Obligations or any Additional Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City. In the Ordinance, the City reserves and retains the right to issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations and Inferior Lien Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions set forth in the Ordinance or as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City or System, except with respect to the Net Revenues.

The Holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

Reference is hereby made to the Ordinance, copies of which are on file in the corporate trust office of the Paying Agent/Registrar, and to all of the provisions of which the Holder by his acceptance hereof hereby assents, for definitions of terms; the description and nature of the Net Revenues of the System pledged for the payment of the Bonds; the terms and conditions under which the City may issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations; the terms and conditions relating to the transfer or exchange of the Bonds; the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the City and the Paying Agent/Registrar; the terms and provisions upon which this Bond may be redeemed or discharged at or prior to the Stated

Maturity thereof, and deemed to be no longer Outstanding thereunder; and for the other terms and provisions specified in the Ordinance. Capitalized terms used herein have the same meanings assigned in the Ordinance.

This Bond, subject to certain limitations contained in the Ordinance, may be transferred on the Security Register upon presentation and surrender at the corporate trust office of the Paying Agent/Registrar, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the Holder hereof, or his duly authorized agent, and thereupon one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued to the designated transferee or transferees.

The City and the Paying Agent/Registrar, and any agent of either, shall treat the Holder hereof whose name appears on the Security Register (i) on the Record Date as the owner hereof for purposes of receiving payment of interest hereon, (ii) on the date of surrender of this Bond as the owner hereof for purposes of receiving payment of principal hereof at its Stated Maturity, or its redemption, in whole or in part, and (iii) on any other date as the owner hereof for all other purposes, and neither the City nor the Paying Agent/Registrar, or any such agent of either, shall be affected by notice to the contrary. In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a *Special Record Date)* will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the *Special Payment Date* - which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first-class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, covenanted, and represented that all acts, conditions, and things required to be performed, exist, and be done precedent to the issuance of this Bond in order to render the same a legal, valid, and binding special obligation of the City have been performed, exist, and have been done, in regular and due time, form, and manner, as required by law, and that issuance of the Bonds does not exceed any constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of and lien on the Net Revenues of the System. In case any provision in this Bond or any application thereof shall be deemed invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Ordinance shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the City Council of the City has caused this Bond to be duly executed under the official seal of the City.

CITY OF SAN ANTONIO

By: _____
Mayor

ATTESTED:

_____
City Clerk

(CITY SEAL)

C. *Form of Registration Certificate of Comptroller of Public Accounts to Appear on Initial Bond(s) Only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER OF	§	
PUBLIC ACCOUNTS	§	
	§	REGISTER NO. _____
THE STATE OF TEXAS	§	

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 duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

_____
Comptroller of Public Accounts
of the State of Texas

(SEAL)

*NOTE TO PRINTER: Do Not Print on Definitive Bonds.

D. Form of Certificate of Paying Agent/Registrar to Appear on Definitive Bonds Only.

CERTIFICATE OF PAYING AGENT/REGISTRAR

This Bond has been duly issued under the provisions of the within-mentioned Ordinance; the Bond or Bonds of the above-entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

Registered this date:

U.S. BANK NATIONAL ASSOCIATION,
as Paying Agent/Registrar

_____

By: _____
Authorized Signature

*NOTE TO PRINTER: Print on Definitive Bonds.

E. Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee): _____ (Social Security or other identifying number): _____ the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

_____

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular.

Signature guaranteed:

_____

F. The Initial Bond(s) shall be in the form set forth in paragraph B of this Section, except that the form of a single fully registered Initial Bond shall be modified as follows:

(a) immediately under the name of the Initial Bond(s) the headings "Interest Rate" and "Stated Maturity" shall both be completed "as shown below";

(b) the first two paragraphs shall read as follows:

Registered Owner: _____

Principal Amount: _____

The City of San Antonio, Texas, a body corporate and municipal corporation in the State of Texas, for value received, hereby promises to pay to the order of the Registered Owner named above, or the registered assigns thereof, the Principal Amount specified above on the fifteenth day of May in each of the years and in principal amounts and bearing interest at per annum rates in accordance with the following schedule:

Years of Stated Maturity	Principal Amounts ($)	Interest Rates (%)

(Information to be inserted from schedule in Section 2 hereof).

(or so much thereof as shall not have been paid upon prior redemption) and to pay interest on the unpaid Principal Amount hereof from the interest payment date next preceding the "Registration Date" of this Bond appearing below (unless this Bond bears a "Registration Date" as of an interest payment date, in which case interest shall accrue from such date, or unless the Registration Date of this Bond is the initial delivery date of this Bond (or its Predecessor Bond) to the Purchaser, in which case interest shall accrue from such date of delivery to the Purchaser), at the per annum rate of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on May 15 and November 15 of each year, commencing May 15, 2012.

Principal of this Bond shall be payable to the Registered Owner hereof (the *Holder*), upon its presentation and surrender, at the corporate trust office of U.S. Bank National Association, Dallas, Texas (the *Paying Agent/Registrar).* Interest shall be payable to the Holder of this Bond whose name appears on the Security Register maintained by the Paying Agent/Registrar at the close of business on the Record Date, which is the last business day of the month next preceding each interest payment date. All payments of principal of and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by check sent on or prior to the appropriate date of payment by United States Mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder hereof. While the Bonds are held by the Purchaser, payment of principal of, premium, if any, and interest on the Bonds shall be made by federal funds wire transfer, at no cost to the Purchaser, to an account at a financial institution located in the United States designated by the Purchaser.

G. Insurance Legend. If bond insurance is obtained by the Purchaser or the City for the Bonds, the definitive Bonds and the Initial Bond(s) shall bear an appropriate legend as provided by the insurer.

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 38 and 55 of this Ordinance have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Ordinance to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. The term *Additional Junior Lien Obligations* shall mean (i) bonds, notes, warrants, certificates of obligation or other obligations hereafter issued by the City payable wholly or in part from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, by a junior and inferior lien and pledge of the Net Revenues of the System, that is junior and inferior to the lien on and pledge thereof securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, all as further provided in Section 21 of this Ordinance, and (ii) any obligations issued to refund the foregoing that are payable from and secured by a junior lien on and pledge of the Net Revenues of the System as determined by the City Council in accordance with any applicable law.

B. The term *Additional Senior Lien Obligations* shall mean (i) any bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 21 of this Ordinance and which are equally and ratably secured solely by a prior and first lien on and pledge of the Pledged Revenues of the System and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a prior and first lien on and pledge of the Pledged Revenues as determined by the City Council in accordance with applicable law.

C. The term *Additional Subordinate Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Senior Lien Obligations and Junior Lien Obligations and any Additional Senior Lien Obligations or Additional Junior Lien Obligations hereafter issued by the City, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Inferior Lien Obligations hereafter issued by the City, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

D. The term *Authorized Officials* shall mean any of the Mayor, the City Clerk, the City Manager, City's Director of Finance, or the President/Chief Executive Officer of the Board or the Senior Vice President/Chief Financial Officer of the Board.

E. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirements on the Bonds when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such Bonds. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

F. The term *Board* shall mean the Board of Trustees of the System created and described in Section 42 of this Ordinance.

G. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Ordinance.

H. The term *Bonds* shall mean the $18,095,000 "CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2011A", dated May 15, 2011, authorized by this Ordinance.

I. The term *City* shall mean the City of San Antonio, Texas, located in the State of Texas and, where appropriate, the City Council of the City.

J. The term *Closing Date* shall mean the date of physical delivery of the Initial Bonds for the payment in full by the Purchaser.

K. The term *CPS Contract* shall mean the Wastewater Contract executed on September 15, 1990 between the Alamo Conservation and Reuse District and the City Public Service Board of San Antonio. Pursuant to Ordinance No. 74983 the City Council abolished the Alamo Conservation and Reuse District and assumed all of such entity's assets and obligations by creating the Department of Water Reuse as a new City department and a part of the System pursuant to the provisions of the City's Home Rule Charter.

L. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Debt.

M. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a rating agency having an outstanding rating on any Debt would rate such Debt fully insured by a standard policy issued by the insurer in its highest generic rating category for such obligations (provided that, at such time that, except for the

Series 2010 Bonds, the Series 2010A Bonds, the Series 2011 Junior Lien Bonds, and the Bonds, the Previously Issued Junior Lien Obligations are no longer Outstanding, the requirement of a credit rating in the highest general category shall no longer be of any effect) or (ii) a letter or line of credit issued by any financial institution, provided that a rating agency having an outstanding rating on any Debt would rate such Debt in one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of such Debt and the interest thereon.

N. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

O. The term *Debt* shall mean

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money (including indebtedness payable from Pledged Revenues and/or Net Revenues arising under Credit Agreements) and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining *Debt*, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

P. The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations;

assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto.

Q. The term *Depository* shall mean one or more official depository banks of the Board.

R. The term *Designated Financial Officer* shall mean the chief executive officer of the Board, the chief financial officer of the Board, or such other financial or accounting official of the Board so designated by the City Council.

S. The term *Engineer* shall mean an individual, firm, or corporation engaged in the engineering profession, being a registered professional engineer under the laws of the State of Texas, having specific experience with respect to water, wastewater, reuse water, and/or stormwater drainage systems similar to the System and such individual, firm, or corporation may be employed by, or may be an employee of, the City or the Board.

T. The term *Fiscal Year* shall mean the twelve month accounting period used by the Board in connection with the operation of the System, currently ending on December 31 of each year, which may be any twelve consecutive month period established by the Board, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

U. The term *Government Securities* means direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, which are non-callable prior to their stated maturities and which may be United States Treasury Obligations such as the State and Local Government Series and may be in book-entry form; however, when the Previously Issued Junior Lien Obligations issued on or before June 3, 1999, are no longer Outstanding, the term Government Securities, as used herein, shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

V. The term *Gross Revenues* for any period means all revenue during such period in respect or on account of the operation or ownership of the System, *excluding* refundable meter deposits, restricted gifts, grants in aid of construction, any amounts payable to the United States as rebate pursuant to the provisions of Section 38, any impact fees charged by the System pursuant to the provisions of Chapter 395, as amended, Local Government Code, payments received pursuant to the CPS Contract together with earnings and interest thereon, and earnings and income derived from the investment or deposit of money in the Construction Fund and, until the Reserve Fund contains the Required Reserve Amount, the Reserve Fund, *but including*, earnings and income derived from the investment or deposit of money in the Bond Fund, the Reserve Fund after it contains the Required Reserve Amount, and any earnings and income from any special fund or account created and established for the payment or security of the Senior Lien Obligations, the Junior Lien Obligations, the Bonds, the Subordinate Lien Obligations, or Inferior Lien Obligations, unless the ordinance which authorizes the issuance of any such obligations specifically provides that any such earnings and income are to be deposited to another fund or account other than the System Fund.

W. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

X. The term *Inferior Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations or any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City, (ii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

Y. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being May 15 and November 15 of each year, commencing May 15, 2012, while any of the Bonds remain Outstanding.

Z. The term *Junior Lien Obligations* shall mean the Bonds, the Previously Issued Junior Lien Obligations, and any Additional Junior Lien Obligations hereafter issued by the City or bonds issued to refund any of the foregoing (as determined within the sole discretion of the City Council in accordance with applicable law) if issued in a manner so as to be payable from and equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System.

AA. The term *Maintenance and Operating Expenses* shall mean all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, *including* (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, *but only if*, in the case of repairs and extensions, that are, in the judgment of the Board

(reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of water supply, treatment of sewage, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the City or the Board hereunder, (5) the payments made on or in respect of obtaining and maintaining any Credit Facility, and (6) any legal liability of the City or the Board arising out of the operation, maintenance, or condition of the System, *but excluding* any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on the Bonds or any Debt.

BB. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

CC. The term *Ordinance* shall mean this ordinance adopted by the City Council on May 12, 2011.

DD. The term *Outstanding*, when used in this Ordinance with respect to Bonds shall mean as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 40 of this Ordinance by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and for which replacement Bonds have been registered and delivered as provided in Section 32 of this Ordinance.

EE. The term *Pledged Revenues* means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Senior Lien Obligations, and excluding those revenues excluded from Gross Revenues.

FF. The term *Previously Issued Junior Lien Obligations* shall mean (i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a junior and inferior lien on and pledge of the Pledged Revenues of the System, identified as follows:

(1) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001", dated March 1, 2001, in the original principal amount of $9,715,000;

(2) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001-A", dated March 1, 2001, in the original principal amount of $15,435,000;

(3) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002", dated March 1, 2002, in the original principal amount of $15,650,000;

(4) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002-A", dated March 1, 2002, in the original principal amount of $12,090,000;

(5) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003", dated March 1, 2003, in the original principal amount of $34,000,000;

(6) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004", dated July 1, 2004, in the original principal amount of $10,635,000;

(7) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A", dated July 1, 2004, in the original principal amount of $26,365,000;

(8) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007", dated December 15, 2006, in the original principal amount of $8,070,000;

(9) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A", dated December 15, 2006, in the original principal amount of $35,375,000;

(10) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008", dated May 15, 2008, in the original principal amount of $30,000,000;

(11) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A", dated May 15, 2008, in the original principal amount of $23,260,000;

(12) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009", dated November 1, 2009, in the original principal amount of $54,300,000;

(13) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009A", dated November 1, 2009, in the original principal amount of $35,000,000;

(14) "City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2010", dated February 1, 2010, in the original principal amount of $59,145,000;

(15) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A", dated December 1, 2010, in the original principal amount of $17,930,000; and

(16) upon issuance, the Bonds and the Series 2011 Junior Lien Bonds;

and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System as determined by the City Council in accordance with any applicable law.

GG. The term *Prudent Utility Practice* shall mean any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term *Prudent Utility Practice*, as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

HH. The term *Purchaser* shall mean the initial purchaser or purchasers of the Bonds named in Section 33 of this Ordinance.

II. The term *Rating Agency* shall mean any nationally recognized securities rating agency which has assigned a rating to the Senior Lien Obligations.

JJ. The term *Required Reserve Amount* shall mean the amount required to be deposited and maintained in the Reserve Fund under the provisions of Section 14 of this Ordinance.

KK. The term *Required Reserve Fund Deposits* shall mean the monthly deposits, if any, required to be deposited and maintained in the Reserve Fund under the provisions of Section 14 of this Ordinance.

LL. The term *Senior Lien Obligations* shall mean (i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a prior and first lien on and pledge of the Pledged Revenues of the System, identified as follows:

(1) "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2001", dated March 1, 2001, in the original principal amount of $58,700,000;

(2) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002" dated February 1, 2002 in the original principal amount of $300,510,000;

(3) "City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A" dated February 15, 2002 in the original principal amount of $137,820,000;

(4) "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004", dated May 15, 2004 in the original principal amount of $84,700,000;

(5) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005", dated November 15, 2005 in the original principal amount of $298,220,000;

(6) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007", dated January 15, 2007 in the original principal amount of $311,160,000; and

(7) "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009", dated January 15, 2009 in the original principal amount of $163,755,000;

(8) "City of San Antonio, Texas Water System Revenue Bonds, Series 2009A", dated November 1, 2009 in the original principal amount of $12,250,000;

(9) "City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds)", dated November 1, 2009 in the original principal amount of $102,750,000;

(10) "City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)", dated November 15, 2010 in the original principal amount of $110,000,000; and

(11) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2011", dated March 15, 2011 in the original principal amount of $46,555,000;

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues of the System as determined by the City Council in accordance with any applicable law.

MM. The term *Series 1992 Bonds* shall mean the "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1992" originally issued in the aggregate principal amount of $635,925,000 pursuant to Ordinance No. 75686 that are no longer outstanding.

NN. The term *Series 2011 Junior Lien Bonds* shall mean the "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2011".

OO. The term *Special Project* shall mean, to the extent permitted by law, any water, sewer, wastewater reuse, or municipal drainage system property, improvement, or facility declared by the City, upon the recommendation of the Board, not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues, or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues, or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction, and installation under such financing transaction.

PP. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on May 15 of each year, as set forth in Section 2 of this Ordinance.

QQ. The term *Subordinate Lien Obligations* shall mean (i) the currently outstanding and unpaid obligations of the City that are payable wholly or in part from a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and the Junior Lien Obligations or any Additional Senior Lien Obligations or Additional Junior Lien Obligations, all as further provided in Section 24 of the Ordinance, identified as follows:

(1) City of San Antonio, Texas Water System Commercial Paper Notes, Series A", originally authorized in the aggregate principal amount of $350,000,000, including the currently outstanding Commercial Paper Notes and Loan Notes (each as defined in the ordinance authorizing the issuance of the Commercial Paper Notes);

and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

RR. The term *System* shall mean all properties, facilities, and plants currently owned, operated, and maintained by the City and/or the Board for the supply, treatment, and transmission and distribution of treated potable water, chilled water, and steam, for the collection and treatment of wastewater, and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the City, all water (in any form) owned by the City, and any other projects and programs of the Board; provided, however, that the City expressly retains the right to incorporate (1) a stormwater system as provided by the provisions of Section 402.041 through 402.054, as amended, Local Government Code, or other similar law, and (2) any other related

system as provided by the laws of the State of Texas as a part of the System. The System shall not include any Special Project or any water or water-related properties and facilities owned by the City as part of its electric and gas systems.

SECTION 10: Pledge of Net Revenues. A. The City hereby covenants and agrees that the Net Revenues of the System are, subject to the prior lien and pledge of such Pledged Revenues securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, hereby irrevocably pledged to the payment and security of the currently outstanding Junior Lien Obligations including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the currently outstanding Junior Lien Obligations, and the interest thereon, shall constitute a lien on and pledge of the Net Revenues of the System and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Net Revenues of the System for the payment and security of the currently outstanding Junior Lien Obligations shall be junior and inferior to the lien on and pledge of the Net Revenues securing payment of the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City, but prior in right and claim as to any other indebtedness (including the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations any Inferior Lien Obligations hereafter issued by the City), liability, or obligation of the City or the System.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues granted by the City under this section, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are Outstanding such that the pledge of the Net Revenues granted by the City under this section is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the currently outstanding Junior Lien Obligations are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Pledged Revenues, together with any other lawfully available funds, sufficient to satisfy the rate covenant contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and to pay the principal of and interest on the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations

hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund or account created for the payment and security of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on an pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the currently outstanding Junior Lien Obligations as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of the Additional Junior Lien Obligations hereafter issued by the City, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues of the System;

E. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the any Inferior Lien Obligations hereafter issued by the City as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the City, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured by a lien on and pledge of the Net Revenues of the System in accordance with applicable law;

F. To produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 15 of this Ordinance; and

G. To pay, together with any other lawfully available funds, any other legally incurred Debt payable from the Net Revenues of the System and/or secured by a lien on the System.

SECTION 12: System Fund. The City hereby covenants, agrees, and reaffirms that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account (previously created, established, and to be maintained with the Depository) known as the "City of San Antonio, Texas Water System Revenue Fund" (the *System Fund*) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the City. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1113, as amended), to be a first charge on and claim against the Gross Revenues, including a two-month reserve amount based upon the budgeted amount of Maintenance and Operating Expenses for the current Fiscal Year, which amount shall be retained in the System Fund.

SECOND: to the payment of the amounts required to be deposited into the special funds and accounts created and established for the payment, security and benefit of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City.

THIRD: to the payment of the amounts required to be deposited into the special funds and accounts created and established for the payment, security and benefit of the currently outstanding Junior Lien Obligations, the Bonds, the Series 2011 Junior Lien Bonds, and any Additional Junior Lien Obligations hereafter issued by the City.

FOURTH: to the payment of the amounts that must be deposited in any special funds and accounts created and established for the payment, security and benefit of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City.

FIFTH: to the payment of the amounts that must be deposited in any special funds and accounts created and established for the payment, security, and benefit of any Inferior Lien Obligations hereafter issued by the City.

SIXTH: to the payment of the amounts to be transferred to the City's General Fund as provided in Section 15 hereof and into the Renewal and Replacement Fund created and established by Section 16 hereof.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations.

SECTION 13: Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the currently outstanding Junior Lien Obligations as the same become due and payable, the City agrees to maintain, at the Depository, a separate and special Fund or account to be created and known as the "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2011A Interest and Sinking Fund" (the *Bond Fund*). The City covenants that there shall be deposited by the Designated Financial Officer into the Bond Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the currently outstanding Junior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the currently

outstanding Junior Lien Obligations to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchaser. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the currently outstanding Junior Lien Obligations shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Junior Lien Obligations (principal and interest) or, (ii) the Junior Lien Obligations are no longer Outstanding.

Any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Net Revenues of the System.

SECTION 14: Reserve Fund. To accumulate and maintain a reserve for the payment of the currently outstanding Junior Lien Obligations (the *Required Reserve Amount*) equal to the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds or the most recently issued series of Additional Junior Lien Obligations then Outstanding) for the Bonds, the City has heretofore agreed to create, establish, and maintain, and hereby confirms that such prior creation and establishment of, a separate and special fund or account known as the "City of San Antonio, Waterworks and Sewer System Junior Lien Revenue Bond Reserve Fund" (the *Reserve Fund*), which fund or account shall be maintained at the Depository. All funds deposited into the Reserve Fund (excluding earnings and income derived or received from deposits or investments which will be transferred to the System Fund established in Section 12 of this Ordinance during such period as there is on deposit in the Reserve Fund the Required Reserve Amount) shall be used solely for the payment of the principal of and interest on the currently outstanding Junior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on any Junior Lien Obligations.

The City may provide a Credit Facility issued in amounts equal to all or part of the Required Reserve Amount for the Bonds in lieu of depositing cash into the Reserve Fund; provided, however, that no such Credit Facility may be so substituted unless the substitution of the Credit Facility will not, in and of itself, cause any ratings then assigned to the Bonds by any Rating Agency to be lowered, the provider of such Credit Facility meets the Purchaser's financial guarantor requirements (as specified in 31 TAC §375.19) if the Purchaser at such time remains a Holder of Bonds, the Purchaser's Executive Administrator has theretofore consented in writing to such substitution if the Purchaser at such time remains a Holder of Bonds, and the ordinance authorizing the substitution of the Credit Facility for all or part of the Required Reserve Amount for the Bonds contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the City by reason of payments made under such Credit Facility does not exceed the highest lawful rate of interest

which may be paid by the City at the time of the delivery of the Credit Facility. The City reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Credit Facility as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Credit Facility, the payment of which will result in the reinstatement of such Credit Facility, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund the Required Reserve Amount for the Bonds.

Until the issuance of any Additional Junior Lien Obligations, the Required Reserve Amount shall be increased by $627,893.00, representing the increased portion of the Required Reserve Amount attributable to the issuance of the Bonds, and which amount shall be deposited to the Reserve Fund at Closing from Bond proceeds (being the *Required Reserve Fund Deposits*). At such time, the Require Reserve Amount shall be fully satisfied when considering amounts then on deposit in the Reserve Fund, and additionally recognizing and taking into account the Reserve Fund deposits from the following existing surety policies: (i) a Surety Policy issued by MBIA Insurance Corporation for the Series 1999 Bonds, (ii) a Surety Policy issued by MBIA Insurance Corporation for the Series 1999-A Bonds, (iii) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2001 Bonds, (iv) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2001-A Bonds, (v) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2002 Bonds, (vi) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2002-A Bonds, (vii) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2003 Bonds, (vii) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2004 Bonds, (vii) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2004-A Bonds, (viii) a Surety Policy issued by XL Capital Assurance Inc. for the Series 2007 Bonds, (ix) a Surety Policy issued by XL Capital Assurance Inc. for the Series 2007A Bonds, and (x) a Surety Policy issued by Assured Guaranty Municipal Corp. for the Series 2010 Refunding Bonds.

Except as hereinafter provided, as and when Additional Junior Lien Obligations are delivered or incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of the necessary amount of the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Junior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the tenth day of each month following the month of delivery of the then proposed Additional Junior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Junior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

When and so long as the cash and investments in the Reserve Fund equal the Required Reserve Amount, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Junior Lien Obligations as provided in the preceding paragraph), the City covenants and agrees to cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund Deposits to said Fund or account from the Net

Revenues of the System, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve Amount covenanted by the City to be maintained in the Reserve Fund with any such deficiency payments being made on or before the tenth day of each month until the Required Reserve Amount has been fully restored. The City further covenants and agrees that, subject only to the prior payments to be made to the Bond Fund and as required by the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of any Additional Junior Lien Obligations.

During such time as the Reserve Fund contains the Required Reserve Amount, the City may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the System Fund; provided, however, to the extent that such excess amount represents Bond proceeds, then such amounts must be transferred to the Bond Fund or otherwise used in accordance with then-applicable Texas law.

In the event a Credit Facility issued to satisfy all or a part of the City's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount for the Bonds, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207, as amended, Texas Government Code), or to the Renewal and Replacement Fund; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund.

Notwithstanding any provision of this Ordinance to the contrary, the City shall, upon receipt of prior written consent of the Purchaser alone (in its capacity as the sole holder of the all Previously Issued Junior Lien Obligations except for the Series 2010 Refunding Bonds, as defined in this Ordinance), be permitted to issue Additional Junior Lien Obligations not benefited by the additional pledge of the Reserve Fund. In such instance, those Additional Junior Lien Obligations not additionally secured by the Reserve Fund shall be designated as such and excluded from all calculations identified in and requirements of this Section and other applicable sections of any ordinance authorizing the issuance of Junior Lien Obligations.

SECTION 15: Payments to City General Fund.

A. The Designated Financial Officer of the Board shall transfer no later than the last business day of each month, an amount of money calculated, subject to the second paragraph of Section 16, not to exceed 5% (or such lesser amount as may be determined from time to time by the City Council) of the Gross Revenues (after making each of the payments required by the provisions of subparagraphs First through Sixth of Section 12 hereof) for the preceding month to be utilized by the City in the manner permitted by the provisions of Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1113a, as amended). The amount so transferred shall be net of all amounts owed by the City to the Board for the utility services described in Section 25E hereof; provided, however, that the Board shall

provide the City with a sufficiently detailed statement of charges for such utility services to permit the City to allocate the charges for such utility services to the appropriate office, division, or department of the City.

B. To the extent that the available Net Revenues in any month are insufficient for the Board to make all or part of the transfer required by the preceding paragraph, the Board shall make up such shortfall (i) in the next month in which available Net Revenues exceed the amounts required to make the transfer to the City pursuant to the preceding paragraph and the *pari passu* payment to the Renewal and Replacement Fund under Section 16 or (ii) to the extent such shortfall has not been made up by the last month of the Fiscal Year, solely from any surplus funds deposited into the Renewal and Replacement Fund for such Fiscal Year. The Board's obligation to make up any shortfall in a Fiscal Year shall not carry over to a subsequent Fiscal Year.

SECTION 16: Renewal and Replacement Fund. There has previously been created and established and there shall be maintained on the books of the Board, and accounted for separate and apart from all other funds of the City and the Board, a separate fund to be entitled the "City of San Antonio, Texas Water System Renewal and Replacement Fund" (the *Renewal and Replacement Fund*). The Renewal and Replacement Fund shall be used for the purpose of (1) paying the costs of improvements, enlargements, extensions, additions, replacements, or other capital expenditures related to the System, or (2) paying the costs of unexpected or extraordinary repairs or replacements of the System for which System funds are not available, or (3) paying unexpected or extraordinary expenses of operation and maintenance of the System for which System funds are not otherwise available, or (4) depositing any funds received by the City pursuant to the CPS Contract, and such funds, including any interest or income thereon, shall be maintained in a separate, segregated account of the Renewal and Replacement Fund and shall only be used to pay Maintenance and Operating Expenses of the water reuse facilities of the System or the debt service requirements on any obligations incurred as permitted by the CPS Contract and in no event shall any such amount, including interest and income thereon, be transferred to the general fund of the City except as permitted by the CPS Contract, or (5) paying bonds or other obligations of the System for which other System revenues are not available, or (6) in the last month of any Fiscal Year to make up any shortfall as required by Section 15B, or (7) for any other lawful purpose in support of the System. The Renewal and Replacement Fund shall be maintained at the Depository.

Deposits to the Renewal and Replacement Fund shall be *pari passu* with the gross amount payable to the City pursuant to Section 15 (prior to the deduction of any charges for utility services provided pursuant to Section 25E) until the full amount payable to the City under such Section has been paid. That is, such deposits to the Renewal and Replacement Fund shall be made equally and ratably, without preference, and on a dollar-for-dollar basis with the gross amount payable to the City pursuant to Section 15, prior to the deduction of any charges for services, until the full amount to be paid to the City in a Fiscal Year under Section 15 has been transferred to the City's General Fund. Thereafter, all surplus Net Revenues shall be deposited to the Renewal and Replacement Fund.

SECTION 17: Deficiencies - Excess Net Revenues.

A. If on any occasion there shall not be sufficient Net Revenues of the System (after making all payments pertaining to the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City) to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues of the System, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months.

B. Subject to making the required deposits to the Bond Fund and the Reserve Fund when and as required by this Ordinance, or any ordinance authorizing the issuance of any Additional Junior Lien Obligations, or the payments required by the provisions of the ordinances authorizing the issuance of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and any Inferior Lien Obligations hereafter issued by the City, the excess Net Revenues of the System may be used by the City for any lawful purpose in accordance with the provisions of the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations.

SECTION 18: Payment of Bonds. While any of the Bonds are outstanding, any Designated Financial Officer or Authorized Official shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the business day next preceding the date a debt service payment is due on the Bonds.

SECTION 19: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Ordinance shall, at the option of the City, be placed in time deposits, certificates of deposit, guaranteed investment contracts or similar contractual agreements as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal

Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of any Additional Parity Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds Similarly Secured.

SECTION 20: Application of the Covenants and Agreements of the Senior Lien Obligations. It is the intention of the City Council and accordingly hereby recognized and stipulated that the provisions, agreements, and covenants contained herein bearing upon the management and operations of the System, and the administering and application of Gross Revenues derived from the operation thereof, shall to the extent possible be harmonized with like provisions, agreements, and covenants contained in the ordinance authorizing the issuance of the currently outstanding Senior Lien Obligations, and to the extent of any irreconcilable conflict between the provisions contained herein and in the ordinance authorizing the issuance of the currently outstanding Senior Lien Obligations, the provisions, agreements and covenants contained therein shall prevail to the extent of such conflict and be applicable to this Ordinance, especially the priority of rights and benefits conferred thereby to the holders of the currently outstanding Senior Lien Obligations. It is expressly recognized that prior to the issuance of any Additional Senior Lien Obligations, that the City must comply with each of the conditions precedent contained in this Ordinance and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, as appropriate.

SECTION 21: Issuance of Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations. The City hereby expressly reserves the right to hereafter issue bonds, notes, warrants, certificates of obligation, or similar obligations, payable, wholly or in part, as appropriate, from and secured by a pledge of and lien on the Net Revenues of the System with the following priorities, without limitation as to principal amount, but subject to any terms, conditions, or restrictions applicable thereto under existing ordinances, laws, or otherwise:

A. Additional Senior Lien Obligations payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues of the System upon satisfying each of the conditions precedent contained in the ordinance authorizing the issuance of the currently outstanding Senior Lien Obligations;

B. Additional Junior Lien Obligations (except for Additional Junior Lien Obligations that are insured by a municipal bond insurance policy, which need not satisfy the provisions of paragraph B(2) or B(3) hereof), payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System, upon satisfying each of the following conditions precedent:

(1) the Director of Finance of the City (or other official of the City having primary responsibility for the fiscal affairs of the City) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the

proceeds of any Additional Junior Lien Obligations to satisfy the City's obligations under this Ordinance, the City is not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the City payable form and secured by a lien on and pledge of the Net Revenues of the System and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

(2) with respect to Additional Junior Lien Obligations sold to the Purchaser that are not insured by a municipal bond insurance policy, the City has secured from a Certified Public Accountant a certificate or opinion to the effect that, according to the books and records of the City, the Net Revenues of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted, are at least equal to one and one-fourth (1-1/4) times the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion;

(3) with respect to Additional Junior Lien Obligations sold to any other entity other than the Purchaser and that are not insured by a municipal bond insurance policy, the City has secured from a Certified Public Accountant a certificate or opinion to the effect that, according to the books and records of the City, the Net Revenues of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted, are at least equal to the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion;

(4) the ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for deposits to be made to the Bond Fund in amounts sufficient to

pay the principal of and interest on such Additional Junior Lien Obligations as same mature; and

(5) the ordinance authorizing the issuance of the Additional Junior Lien Obligations provides that the amount to be accumulated and maintained in the Reserve Fund shall be in an amount equal to not less than the Average Annual Debt Service Requirements for the payment of the Junior Lien Obligations then outstanding, inclusive (if required under Section 14 of this Ordinance) of the changes in the amounts resulting from the issuance of the proposed Additional Junior Lien Obligations, and provides that any additional amount to be maintained in the Reserve Fund shall be accumulated within sixty (60) months from the date the Additional Junior Lien Obligations are delivered.

C. Additional Subordinate Lien Obligations secured by a subordinate and inferior lien on and pledge of the Net Revenues upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and Subordinate Lien Obligations or this Ordinance, as appropriate.

D. Inferior Lien Obligations secured by a lien on and pledge of the Net Revenues of the System upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or this Ordinance.

SECTION 22: Issuance of Special Project Obligations. Nothing in this Ordinance shall be construed to deny the City the right and it shall retain the right to issue Special Project obligations, provided, however, the City will not issue Special Project obligations unless the City concludes, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet water, wastewater, water reuse, or stormwater drainage requirements and the cost of such will be reasonable.

SECTION 23: Maintenance of System - Insurance. The City covenants and agrees that while the Junior Lien Obligations remain outstanding the Board will maintain and operate the System in accordance with Prudent Utility Practice and will maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business in an amount sufficient to protect the Purchaser's interest in the project financed with the proceeds of the Bonds; and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the holders of the Bonds until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City or the

Board to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City or the Board from doing so.

SECTION 24: Records and Accounts - Annual Audit. The City covenants, agrees, and affirms its covenants that so long as any of the Bonds remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Chapter 1502, as amended, Texas Government Code, or other applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that following (and in no event later than 120 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Copies of each annual audit shall be furnished, without charge, to the (ii) Executive Director of the Municipal Advisory Council of Texas at her office in Austin, Texas, (iii) the Texas Water Development Board, Attention Executive Administrator within 120 days of the close of each Fiscal Year, and, upon written request, to (iv) any subsequent Holder of Bonds. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 25: Special Covenants. The City hereby further covenants that:

A. It has the lawful power to pledge the Net Revenues supporting the Bonds and has lawfully exercised this power under the laws of the State of Texas, including the power existing under Chapters 1207, 1371, and 1502, as amended, Texas Government Code, and the City's Home Rule Charter;

B. The Bonds shall be equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System in a manner that one Bond shall have no preference over any other Bond;

C. Other than for the payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and the Subordinate Lien Obligations, the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the City or of the System;

D. As long as any Bonds, or any interest thereon, remain Outstanding, the City will not sell, lease, or encumber the System or any substantial part thereof (except as provided in Section 21 of this Ordinance) provided that this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System;

E. No free service (except water provided to the City for municipal fire-fighting purposes and certain stormwater utility service) of the System shall be allowed, and, should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made, if necessary, by the City pursuant to Section 15;

F. To the extent that it legally may, the City further covenants and agrees that, so long as any of the Bonds, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing utility systems other than those owned by the City, and the operation of any such systems by anyone other than the City is hereby prohibited.

SECTION 26: Limited Obligations of the City. The Bonds are limited, special obligations of the City payable from and equally and ratably secured solely by a junior lien on and pledge of the Net Revenues of the System, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the City.

SECTION 27: Security of Funds. All money on deposit in the Funds or accounts for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, specifically Chapter 2257, Texas Government Code, as amended, and money on deposit in such Funds or accounts shall be used only for the purposes permitted by this Ordinance.

SECTION 28: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Bond Fund or Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 29: Notices to Holders Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 30: Bonds Are Negotiable Instruments. Each of the Bonds authorized herein shall be deemed and construed to be a "security" and as such a negotiable instrument with the meaning of Chapter 8 of the Texas Uniform Commercial Code.

SECTION 31: Cancellation. All Bonds surrendered for payment, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly canceled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already canceled, shall be promptly canceled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Paying Agent/Registrar. All canceled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City.

SECTION 32: Mutilated, Destroyed, Lost, and Stolen Bonds. If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the City shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond or payment in lieu thereof, under this Section, the City may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

SECTION 33: Confirmation of Sale. The sale of the Bonds to the Texas Water Development Board (the *Purchaser*) for the purchase price of $17,766,323.00, which represents a purchase price of par, less the Purchaser's origination fee of $328,677.00, plus no accrued interest, pursuant to a loan commitment received from the Purchaser is hereby confirmed.

Delivery of the Bonds shall be made to the Purchaser as soon as practicable after the adoption of this Ordinance, upon payment therefor in accordance with the terms of sale.

SECTION 34: Compliance with Purchaser's Rules and Regulations. The City will comply with all of the requirements contained in the resolution or resolutions adopted by the Purchaser with respect to the issuance of the Bonds. In addition, in compliance with the Purchaser's Clean Water State Revolving Loan Fund Program (Tier II) Rules, the City agrees and covenants so long as the Purchaser is the sole Holder of the Bonds:

(1) to keep and maintain full and complete records and accounts pertaining to the construction of the project financed with the proceeds of sale of the Bonds, including the Construction Fund (defined herein), in accordance with the standards set forth by the Government Accounting Standard Board;

(2) to create and establish at the Depository a "City of San Antonio, Texas Clean Water State Revolving Loan Fund Program Construction Fund" (the *Construction Fund*) for the receipt and disbursement of all proceeds from the sale of the Bonds and all other funds acquired by the City in connection with the planning and construction of the projects financed, in whole or in part, by the Purchaser pursuant to the loan evidenced by the Bonds and all funds deposited to the credit of the Construction Fund shall be disbursed only for the payment of costs and expenses incurred in connection with the planning and building of such projects as approved by the Purchaser and as otherwise allowed by the rules;

(3) to provide the Purchaser with copies of "as built plans" pertaining to the projects financed, in whole or in part, with any funds of the Purchaser;

(4) upon completion of the construction of the projects financed, in whole or in part, by the loan evidenced by the Bonds, to provide a final accounting to the Purchaser of the total costs of the projects. If the projects as finally completed are built at a total cost less than the amount of available funds for building the projects, or if the Executive Administrator of the Purchaser disapproves construction of any portion of such projects as not being in accordance with the plans and specifications, the City agrees to immediately, with filing of the final accounting, return to the Purchaser the amount of any such excess and/or the cost determined by the Executive Administrator of the Purchaser relating to the parts of such projects not built in accordance with the plans and specifications, to the nearest multiple of the authorized denominations for the Bonds, upon the surrender and cancellation of a like amount of the appropriate series of such Bonds held by the Purchaser in inverse order of their Stated Maturities. In determining the amount of available funds for building the project, the City agrees to account for all amounts deposited to the credit of the Construction Fund, including all loan funds extended by the Purchaser, all other funds available from the projects as described in the project engineer's or fiscal representative's sufficiency of funds statement and all interest earned by the City on money in the Construction Fund;

(5) in addition to the provisions of Section 23 hereof, to maintain adequate insurance coverage on the projects financed with the proceeds of the Bonds in amounts adequate to protect the Purchaser's interest;

(6) in addition to the requirements contained in Section 24 hereof, to maintain current, accurate, and complete records and accounts necessary to demonstrate compliance with financial assistance related legal and contractual provisions;

(7) to implement any water conservation program required by the Purchaser until all financial obligations to the Purchaser have been discharged;

(8) to comply with any special conditions specified by the Purchaser's environmental determination until all financial obligations to the Purchaser have been discharged;

(9) to abide by the Purchaser's rules and relevant state statutes, including but not limited to, the Purchaser's pre-design funding procedures;

(10) loan proceeds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site and the City also agrees, to the extent permitted by law, to indemnify, hold harmless and protect the Purchaser from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport and/or removal and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the City, relating to the project; and

(11) to comply, and take steps to assure that its contractors shall comply, with subchapter IV of chapter 31 of title 40 of the United States Code (the *Davis-Bacon Act*), with respect to projects financed with the proceeds of the Bonds.

SECTION 35: Escrow Deposit Letter Approval and Execution. The Escrow Deposit Letter, dated as of the date of this Ordinance (the *Escrow Deposit Letter*), by and between the City and U.S. Bank National Association, Dallas, Texas (the *Escrow Agent*), attached hereto as Exhibit B and incorporated herein by reference as a part of this Ordinance for all purposes, is hereby approved as to form and content, and such Escrow Deposit Letter in substantially the form and substance attached hereto, together with such changes or revisions as may be necessary to accomplish the refunding of the Refunded Commercial Paper or otherwise benefit the City, is hereby authorized to be executed by the Mayor and City Clerk and on behalf of the City and as the act and deed of the City Council; and the Escrow Deposit Letter as executed by said officials shall be deemed approved by the City Council and constitute the Escrow Deposit Letter herein approved.

Furthermore, the Mayor, City Clerk, or City Manager, any one or more of said officials, and the Escrow Agent are hereby authorized and directed to make the necessary arrangements for the purchase of the Federal Securities referenced in the Escrow Deposit Letter and the delivery thereof to the Escrow Agent on the Closing Date for deposit to the credit of the Escrow Fund established in the Escrow Deposit Letter, including the execution of subscription forms for the purchase and issuance of the "United States Treasury Securities - State and Local

Government Series" for deposit to the Escrow Fund; all as contemplated and provided by the provisions of the Acts, this Ordinance, and the Escrow Deposit Letter.

SECTION 36: Application of Bond Proceeds.

A. Proceeds from the sale of the Bonds shall, promptly upon receipt by the City, be applied as follows:

(1) An amount identified in instructions from the Designated Financial Officer shall be deposited in the Construction Fund for the payment of certain costs of issuance relating to the Bonds and certain other costs relating to the improvement of the System and such amount may be deposited in the Escrow Agreement authorized by the provisions of Section 52 hereof.

(2) The amount identified in Section 14, if any, shall be deposited to the Reserve Fund to satisfy the increase in the Required Reserve Amount attributable to the issuance of the Bonds.

(3) The remaining proceeds from the sale of the Bonds shall be applied, together with other legally available funds of the City, to establish an Escrow Fund to refund the Refunded Commercial Paper, as more fully provided in the Escrow Deposit Letter.

Any proceeds of the Bonds remaining after making all such deposits and payments shall be deposited into the Bond Fund.

SECTION 37: Defeasance of Refunded Commercial Paper. Certain of the Refunded Commercial Paper described in the preamble hereof will mature on various dates at the price of par and accrued interest to the maturity date. The Mayor shall give written notice to the Escrow Agent that these Refunded Commercial Paper shall be paid at maturity, and the City Council ordains that such obligations are to be defeased, and such order to defease the Refunded Commercial Paper on the dates herein specified shall be irrevocable upon the delivery of the Bonds.

SECTION 38: Covenants to Maintain Tax-Exempt Status.

A. Definitions. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, applicable to the Bonds.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of

(1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations; and

(2) the Bonds means the yield on the Bonds calculated pursuant to Section 1.148-4 of the Regulations.

B. Not to Cause Interest to Become Taxable. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City shall comply with each of the specific covenants in this Section.

C. No Private Use or Private Payments. Except as would not cause the Bonds to become "private activity bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Bonds:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

D. No Private Loan. Except as would not cause the Bonds to become "private activity bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

E. Not to Invest at Higher Yield. Except as would not cause the Bonds to become "private activity bonds" within the meaning of section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of the Bonds.

F. Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

G. Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

H. Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States out of the Bond Fund or its general fund, as permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

I. Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection H of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

J. Bonds Not Hedge Bonds.

(1) The City reasonably expects to spend at least 85% of the spendable proceeds of the Bonds within three years after such Bonds are issued.

(2) Not more than 50% of the proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for a period of 4 years or more.

K. Temporary Periods. The City will or will not waive temporary periods with respect to the Bonds as provided in the City's Tax Exemption Certificate.

L. Current Refunding of the Refunded Obligations. A portion of the Bonds are issued exclusively to refund the Refunded Commercial Paper, and the Bonds will be issued, and the proceeds thereof used, within 90 days after the Closing Date for the redemption of the Refunded Commercial Paper. In the issuance of the Bonds, the City has employed no "device" to obtain a material financial advantage (based on arbitrage), within the meaning of section 149(d)(4) of the Code, apart from savings attributable to lower interest rates. The City has complied with the covenants, representations, and warranties contained in the documents executed in connection with the issuance of the Refunded Commercial Paper.

M. Elections. The City hereby directs and authorizes the Mayor, Mayor Pro Tem, City Clerk, City Manager, City Attorney, President/Chief Executive Office of the Board, Designated Financial Officer, or Chief Financial Officer of the City, either or any combination of them, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document. Such elections shall be deemed to be made on the Closing Date.

SECTION 39: Control and Custody of Bonds. The Mayor shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas and shall take and have charge and control of the Bonds pending their approval by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery of the Bonds to the Purchaser.

Furthermore, any Authorized Official or City Attorney, either or all, are hereby authorized and directed to furnish and execute such documents relating to the City and its financial affairs as may be necessary for the issuance of the Bonds, the approval of the Attorney General and their registration by the Comptroller of Public Accounts and, together with the Board's co-financial advisor, co-bond counsel, and the Paying Agent/Registrar, make the necessary arrangements for the delivery of the Initial Bonds to the Purchaser.

SECTION 40: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of Net Revenues under this Ordinance and all covenants, agreements, and other obligations of the City to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at Stated Maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent

accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 38 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 41: Ordinance a Contract; Amendments - Outstanding Bonds. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, binding on the City and its successors and assigns, and it shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section. The City may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the

principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

SECTION 42: Management of System.

A. Pursuant to the authority contained in Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1115b, as amended), except as otherwise specifically provided in this Ordinance, the complete management and control of the System during such time as any Debt is outstanding shall be vested in a seven-member board of trustees to be known as the "San Antonio Water System Board of Trustees". Such board is referred to in this Ordinance as the "Board." The Mayor of the City from time to time shall ex-officio be one of the members of the Board, and the other current members of the Board as of the date of passage of this Ordinance are Willie A. Mitchell currently serving a term ended May 31, 2010 (Mr. Mitchell remains in such position until his reappointment, or his replacement is appointed, by the City Council), Robert Anguiano currently serving a term ending on May 31, 2012, Samuel E. Luna, Elizabeth M. Provencio, and Louis E. Rowe all currently serving a term ending May 31, 2013, and Alexander E. Briseño currently serving a term ending May 31, 2014. Notwithstanding the foregoing, the Members of the Board may be increased to a number greater than seven (7), to include the Mayor of the City as an ex-officio member, as otherwise appointed by the City.

B. Members of the Board must be citizens of the United States and must either reside inside the corporate limits of the City or inside the area served by the System. No person who is related within the second degree of consanguinity or affinity (or as further restricted by the City's Home Rule Charter) to any Member of the Board or any member of the City Council shall be eligible for appointment as a Member of the Board. The term of office of each Member of the Board shall be four (4) years. All terms shall commence on a June 1 and shall terminate on May 31 four years later; provided, however, in the event a replacement for a Member has not been named by the City Council prior to the expiration of such Member's term, such Member shall serve until such Member's successor shall be appointed, and such successor's term shall terminate on May 31st of the year in which such term normally would have terminated if the City Council had appointed such successor prior to the termination of such Member's term. No person who has served as a Member of the Board for a total of two (2) terms shall be eligible for appointment as a Member of the Board. Any Member who is appointed to the Board to serve out an unexpired portion of another Member's term shall not be considered to have served a term unless the unexpired portion of the term so served is two (2) years or more.

C. Removal of residence from the area served by the System by any Member of the Board shall vacate such person's office as a Member of the Board, and any Member of the Board (other than the Mayor of the City) who shall be continuously absent from all meetings of the Board for a period of four (4) consecutive months shall, unless such person has requested and been granted leave of absence by the unanimous vote of the remaining Members of the Board, be considered to have vacated such person's office as a Member of the Board.

D. All vacancies in membership on the Board, whether occasioned by failure or refusal of any person to accept appointment or by resignation, failure to continue to qualify to

serve, expiration of term of office, or otherwise, shall be filled by majority vote of all members of the City Council then holding office. Any Member of the Board other than the Mayor of the City may, by a two-thirds (2/3) vote of all members of the City Council then holding office, be removed from office, with or without cause. For purposes of this Section 42, the term *members of the City Council then holding office* shall be the number of persons authorized from time to time by the City's Home Rule Charter to be members of the City Council, whether or not all such positions are filled at any particular time.

E. Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power to control, manage, and operate the System and shall control the expenditure and application of the Gross Revenues of the System pursuant to this Ordinance. In connection with the control, management, and operation of the System and the expenditure and application of the Gross Revenues therefrom, the Board shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all the covenants, undertakings, and agreements of the City contained in this Ordinance, and, with the exception of fixing rates and charges for service rendered by the System, shall have full power and authority to make rules and regulations governing the furnishing of services of the System to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor and, to the extent authorized by law and by this Ordinance, shall have authority to make extensions, improvements, and additions to the System and to acquire by purchase or otherwise properties of every kind in connection therewith. The operational policies of the Board shall parallel those of the City Council insofar as practicable.

F. The Board shall determine the rates, fees, and charges for services rendered and to be rendered by the System, with due consideration being accorded to the terms, covenants, and conditions contained in this Ordinance and the ordinances authorizing the issuance of any Additional Senior Lien Obligations. In the event any such determination reflects a necessity for the adjustment either by an increase or a reduction of such rates, fees, and charges, then the Board shall submit to the City Council a full report of the basis upon which such proposed adjustment is predicated, accompanied by a formal request from the Board for approval and adoption of the rates, fees, and charges recommended by the Board. If the City Council approves the adjustment thus recommended by the Board, it shall pass an appropriate ordinance placing such adjusted rates, fees, and charges in effect; provided, however, that the rates, fees, and charges for services rendered by the System shall never be reduced in such amounts as will impair the performance of any of the covenants contained in this Ordinance or in any ordinance authorizing the issuance of any Additional Senior Lien Obligations.

G. The Mayor, with the concurrence of the City Council, annually shall appoint one of the other Members of the Board as the Chairman of the Board. The Board annually shall elect one of its Members as Vice-Chairman of the Board and shall appoint a Secretary and an Assistant Secretary, either or both of whom may, but need not be, a Member or Members of the Board. If a Member of the Board is not appointed as Secretary or Assistant Secretary, then an employee or employees of the Board may be so appointed. The Board may adopt rules for the orderly conduct of its meetings. The Board shall manage and conduct the affairs of the System in a manner consistent with practices ordinarily employed by the boards of directors of private utility corporations operating properties of a similar nature and with the same degree of

prudence. The Board shall have at least one meeting monthly. All meetings of the Board shall be open to the public in accordance with the requirements of Chapter 551, as amended, Texas Government Code. The Board is authorized to adopt rules of procedure and standards of conduct for persons attending and participating in its meetings and any public hearings conducted by or on behalf of the Board.

H. The Board shall appoint and employ all officers, employees, and professional consultants which it may deem desirable, including, without limitation, a chief executive officer of the System, attorneys, auditors, engineers, architects, and other advisers; provided, however, that the City Attorney shall be the chief legal adviser of the Board. The selection of additional attorneys shall be made in consultation with the City Attorney, but the decision of the Board shall be final. The Board may delegate administrative duties and authority to its employees and consultants. No officer or employee of the Board may be employed who shall be related within the second degree of consanguinity or affinity (or as further restricted by the City's Home Rule Charter) to any Member of the Board or any member of the City Council.

I. The Board shall obtain and keep continually in force an employees' fidelity and indemnity bond ("blanket" form), or its equivalent, written by a solvent and recognized insurer and covering losses to the amount of not less than One Hundred Thousand Dollars ($100,000.00).

J. The Board shall make such provision for an employee retirement plan or pensions for employees of the Board as it may in its discretion determine. The Board may continue in existence the retirement plans in effect on the date of adoption of the ordinance authorizing the issuance of the Series 1992 Bonds for the Waterworks System, the Wastewater Department of the City, and the Water Reuse Department of the City and may change the same from time to time as it may determine. The title to and ownership of funds set aside in accordance with an employee retirement plan shall be held in trust for the benefit of the members of such pension plan.

K. The Members of the Board, other than the Mayor of the City shall each receive annual compensation in the amount of $2,500.00 or such additional amount as may be determined from time to time by the City Council. The Members of the Board shall be entitled to payment by the Board of their reasonable and necessary expenses for the discharge of their duties.

L. The Members of the Board shall not be personally liable, either individually or collectively, for any act or omission in the performance of their duties as Members of the Board not willfully fraudulent or in bad faith. The Board may authorize the use of Board funds to provide defense for its Members or its employees for civil actions brought against them for any such acts and may hold such Members and employees harmless from any damages awarded against them in any civil action.

M. The City Manager, or the City Manager's designee, shall be authorized to attend meetings of the Board, and the Board shall provide the City Manager with notice of such meetings in the same manner that such notice is given by the Board to its Members.

N. The Board when expending funds for improvements and materials and supplies shall be governed by the then current provisions of applicable City policy and the laws of the State of Texas relating to notices to bidders, advertisement thereof, requirements as to the taking of sealed bids based upon specifications for such improvements or purchase, the furnishing of surety bonds by contractors, and the manner of letting contracts.

O. The City Council reserves the right to require the Board, at the System's expense and payable from the Renewal and Replacement Fund, to conform its installations in the streets, alleys, and public ways of the City to any changes created by City construction projects; provided, however, such City-ordered relocation of System facilities at System expense shall be limited, in any Fiscal Year, to an amount not to exceed 5% of the Board's annual budget for Maintenance and Operating Expenses in such Fiscal Year. Relocation costs exceeding such 5% limitation shall be funded through direct payment of such excess costs by the City, through payment to the Board of such excess cost by the City, or through the issuance of Debt.

P. No Member of the Board, or any officer, agent, or employee of the Board shall have a financial interest, direct or indirect, in any contract with the Board or shall be financially interested, directly or indirectly, in the sale to the Board of any land, materials, supplies, or services except on behalf of the Board as an officer or employee or as permitted by the provisions of Chapter 171, as amended, Local Government Code, or any other similar general Texas law in effect from time to time, or the City's Home Rule Charter, whichever is most restrictive.

Q. The Board shall prepare an annual budget to serve as a tool in controlling and administering the management and operation of the System. The annual budget shall reflect an estimate of Gross Revenues and an estimate of the disposition of these revenues in accordance with the funds flow requirements of this Ordinance. The annual budget shall be presented and approved by the Board at least sixty (60) days prior to the beginning of the Board's Fiscal Year. Immediately following approval of the annual budget by the Board, it shall be submitted to the City Council for review and consultation. The Board may subsequently modify its approved budget by giving notice thereof to the City.

R. The Board shall prepare and administer, and may amend from time to time, a master plan for the System (the *Master Plan*), addressing the water resource and capital improvement projects required to accommodate the projected growth and development of the service area of the System. The Master Plan (and any amendment thereof) shall be approved by the Board and submitted for consideration and approval by the City Council in accordance with applicable provisions of the City's Home Rule Charter then in effect.

S. The Board shall provide the City Council with a complete briefing on any matter of litigation which is being contemplated involving the Board as a plaintiff against the City or any of its agencies, and City Council approval shall be obtained by the Board prior to the formal initiation of any such matter of litigation. Unless the City Attorney recommends City Council approval with respect to a particular matter of litigation proposed to be initiated by the Board, all other matters of litigation initiated by the Board may be approved by the Board without approval of the City Council.

T. The Board shall establish an appeals process for disciplinary actions involving its employees. An appeals committee composed of at least three (3) persons who are neither employees nor Members of the Board shall be appointed by the Board, and such committee shall operate under rules established by the Board from time to time. Such committee shall make recommendations to the chief executive officer of the System, with the final determination concerning disposition of a disciplinary action being made by the chief executive officer of the System. The Board shall further establish Equal Employment Opportunity and Affirmative Action programs in compliance with applicable federal and State of Texas guidelines. All personnel policies established by the Board shall parallel those of the City in effect from time to time insofar as practicable.

U. During each Fiscal Year, the Board shall prepare and formally present to the City Council a minimum of two (2) reports regarding the status of water resource planning and development, other water related issues being undertaken or contemplated by the Board, and other matters previously requested by the City Council.

V. The City Council reserves the right, by ordinance, to abolish the Board and thereafter transfer control, maintenance, and operation of the System to a department of the City in accordance with the provisions of the laws of the State of Texas and the City's Home Rule Charter. The City Council may so abolish the Board at any regular or special meeting of the City Council upon the affirmative vote of 3/4 of the members of the City Council then holding office. Such vote must be preceded by at least two (2) public hearings conducted by the City Council at least 30 days apart. Notice of such public hearings and the subject matter to be discussed shall be published at least one (1) time prior to each such hearing in a newspaper of general circulation within the City at least 15 days prior to the hearing. Such hearings may be conducted at a regular or special meeting of the City Council or in some other location designated by the City Council, and the calling of such hearings and the authorization of the publication of such notices may be by majority vote of all members of the City Council then holding office at any regular or special meeting of the City Council. The ordinance abolishing the Board shall name the effective date of the abolition of the Board and the transfer of maintenance, control, and operation of the System to the City. By the same procedure, the City Council may subsequently reconstitute the Board and thereafter transfer control, maintenance, and operation of the System to such Board as otherwise set forth in this Ordinance.

SECTION 43: Printed Opinion. The Purchaser's obligation to accept delivery of the Bonds is subject to its being furnished a final opinion of Fulbright & Jaworski L.L.P. approving certain legal matters as to the Bonds, said opinion to be dated and delivered as of the date of initial delivery and payment for such Bonds. Printing of a true and correct copy of said opinion on the reverse side of each of said Bonds, with appropriate certificate pertaining thereto executed by facsimile signature of the City Clerk of the City is hereby approved and authorized.

SECTION 44: CUSIP Numbers. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof, and neither the City nor attorneys approving said Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

SECTION 45: Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

SECTION 46: Benefits of Ordinance. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Board, co-bond counsel, Paying Agent/Registrar, and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Board, co-bond counsel, the Paying Agent/Registrar, and the Holders.

SECTION 47: Inconsistent Provisions. All ordinances and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters ordained herein.

SECTION 48: Governing Law. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 49: Severability. If any provision of this Ordinance or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Ordinance and the application of such provision to other persons and circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

SECTION 50: Incorporation of Preamble Recitals. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Ordinance for all purposes and are adopted as a part of the judgment and findings of the City Council.

SECTION 51: Authorization of Paying Agent/Registrar Agreement. The City Council hereby finds and determines that it is in the best interest of the City to authorize the execution of a Paying Agent/Registrar Agreement in order to properly manage and supervise the flow of funds mandated by the provisions of this ordinance. A copy of the Paying Agent/Registrar Agreement is attached hereto, in substantially final form, as Exhibit A and is incorporated by reference to the provisions of this Ordinance.

SECTION 52: Authorization of Escrow Agreement and Financing Agreement. The City Council of the City hereby finds and determines that it is in the best interest of the City to authorize the execution of an Escrow Agreement and Financing Agreement, respectively, to comply with the Purchaser's pre-design funding option rules and regulations. A copy of each of the Escrow Agreement and the Financing Agreement are attached hereto, in substantially final form, as Exhibits C and D, respectively, and are incorporated by reference to the provisions of this Ordinance. Any Authorized Official, or their designee is authorized to execute the Escrow Agreement and the Financing Agreement as the act and deed of the City Council.

SECTION 53: Application to Texas Water Development Board. The City Council ratifies and confirms its prior approval of the form and content of the Application to the Texas

Water Development Board (the *Application*) prepared in the sale of the Bonds to the Purchaser and hereby approves the form and content of any addenda, supplement, or amendment thereto.

SECTION 54: Public Meeting. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given, all as required by Chapter 551, as amended, Texas Government Code.

SECTION 55: Continuing Disclosure Undertaking.

A. Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

EMMA means the MSRB's Electronic Municipal Market Access system, accessible by the general public, without charge, on the internet through the uniform resource locator (URL) http://www.emma.msrb.org.

MSRB means the Municipal Securities Rulemaking Board.

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

SEC means the United States Securities and Exchange Commission.

B. Annual Reports.

The Board shall file annually with the MSRB, within six months after the end of each fiscal year ending in or after 2011, financial information and operating data with respect to the Board of the general type included in the final Application authorized by Section 53 of this Ordinance being the information described in Exhibit D hereto. All such information must be filed with MSRB pursuant to its Electronic Municipal Access (EMMA) System. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit D hereto, or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation and (ii) audited, if the Board 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 statements is not complete within such period, then the Board shall file unaudited statements within such period and audited financial statements for the applicable Year with the MSRB, when and if the audit report on such statements becomes available.

If the Board changes its Year, it will file notice thereof with the MSRB of the change (and of the date of the new Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

C. Notice of Certain Events. The Board shall file notice of any of the following events with respect to the Bonds, to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax exempt status of the Bonds, or other material events affecting the tax status of the Bonds;

(7) modifications to rights of holders of the Bonds, if material;

(8) Bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership, or similar event of the Board, which shall occur as described below;

(13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board.

The Board shall file notice with the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with this Section by the time required by this Section.

D. Limitations, Disclaimers, and Amendments. The City and the Board shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City and the Board remain an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Board in any event will give notice of any deposit made in accordance with the laws of the State of Texas that causes the Bonds to be no longer Outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Board's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City and the Board do 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 OR THE BOARD BE LIABLE TO THE HOLDER 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 OR THE BOARD, WHETHER NEGLIGENT OR WITH OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, 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 or the Board in observing or performing their obligations under this Section shall constitute a breach of or default under the Ordinance for purposes of any other provision of this Ordinance.

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

The provisions of this Section may be amended by the City and the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking

into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City or the Board (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City and the Board may also repeal or amend the provisions of this Section 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, and the Board also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City and the Board so amend the provisions of this Section, the Board shall include with any amended financial information or operating data next provided in accordance with this Section 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.

E. Information Format – Incorporation by Reference.

The information required under this Section shall be filed with the MSRB through EMMA in such format and accompanied by such identifying information as may be specified from time to time thereby. Under the current rules of the MSRB, continuing disclosure documents submitted to EMMA must be in word-searchable portable document format (PDF) files that permit the document to be saved, viewed, printed, and retransmitted by electronic means and the series of obligations to which such continuing disclosure documents relate must be identified by CUSIP number or numbers.

Financial information and operating data to be provided pursuant to this Section 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) available to the public through EMMA or filed with the United States Securities and Exchange Commission.

SECTION 56: Book-Entry Only System.

It is intended that the Bonds initially be registered so as to participate in a securities depository system (the *DTC System*) with The Depository Trust Company, New York, New York, or any successor entity thereto (*DTC*), as set forth herein. Each Stated Maturity of the Bonds shall be issued (following cancellation of the Initial Bonds described in Section 7) in the form of a separate single definitive Bond. Upon issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as the nominee of DTC, and all of the Outstanding Bonds shall be registered in the name of Cede & Co., as the nominee of DTC. The City and the Paying Agent/Registrar are authorized to execute, deliver, and take the actions set forth in such letters to or agreements with DTC as shall be necessary to effectuate the DTC System, including the Letter of Representations attached hereto as Exhibit E (the *Representation Letter*).

With respect to the Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any broker-dealer, bank, or other financial institution for which DTC holds the Bonds from time to time as securities depository (a *Depository Participant*) or to any person on behalf of whom such a Depository Participant holds an interest in the Bonds (an *Indirect Participant*). Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any Depository Participant with respect to any ownership interest in the Bonds, or (ii) the delivery to any Depository Participant or any other person, other than a registered owner of the Bonds, as shown on the Security Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the delivery to any Depository Participant or any Indirect Participant or any other Person, other than a Holder of a Bond, of any amount with respect to principal of, premium, if any, or interest on the Bonds. While in the DTC System, no person other than Cede & Co., or any successor thereto, as nominee for DTC, shall receive a Bond evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks or drafts being mailed to the Holder, the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

In the event that (a) the City determines that DTC is incapable of discharging its responsibilities described herein and in the Representation Letter, (b) the Representation Letter shall be terminated for any reason, or (c) DTC or the City determines that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City shall notify the Paying Agent/Registrar, DTC, and the Depository Participants of the availability within a reasonable period of time through DTC of Bond certificates, and the Bonds shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC. However, the City will not discontinue the use of DTC without prior notice and consent of the Purchaser for so long as the Purchaser is the holder of any of the Bonds. At that time, the City may determine that the Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, as may be acceptable to the City, or such depository's agent or designee, and if the City and the Paying Agent/Registrar do not select such alternate securities depository system then the Bonds may be registered in whatever name or names the Holders of Bonds transferring or exchanging the Bonds shall designate, in accordance with the provisions hereof.

Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter.

SECTION 57: Unavailability of Authorized Publication. If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the City or of the Paying Agent/Registrar shall

most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

SECTION 58: No Recourse Against City or Board Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bonds or for any claim based thereon or on this Ordinance against any official of the City, the Board, or any person executing any Bonds.

SECTION 59: Further Procedures. The officers and employees of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the initial sale and delivery of the Bonds, the Paying Agent/Registrar Agreement, the Escrow Deposit Letter, the Escrow Agreement, and the Application to the Purchaser. In addition, prior to the initial delivery of the Bonds, any Authorized Official and Co-Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance and as described in the Application to the Purchaser, (ii) obtain a rating from any of the national bond rating agencies, or (iii) obtain the approval of the Bonds by the Texas Attorney General's office. In case any officer of the City whose signature shall appear on any certificate shall cease to be such officer before the delivery of such certificate, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 60: Effective Date. The effective date of this Ordinance shall be governed by the provisions of Section 1-15 of the City Code of San Antonio, Texas. This Ordinance shall take effect immediately if passed by eight (8) affirmative votes; otherwise, this Ordinance shall take effect ten (10) days from the date of passage.

[Remainder of this page intentionally left blank]

PASSED AND ADOPTED by an affirmative vote of 11 members of the City Council of the City of San Antonio, Texas, this the 12th day of May, 2011.

CITY OF SAN ANTONIO

Mayor

JULIÁN CASTRO

ATTEST:

City Clerk

(CITY SEAL)

I, the undersigned, City Attorney of the City of San Antonio, Texas, hereby certify that I read, passed upon, and approved as to form the foregoing Ordinance prior to its adoption and passage as aforesaid.

Michael D. Bernard, City Attorney, City of San Antonio, Texas

SCHEDULE I - Table of Refunded Commercial Paper
SCHEDULE II –Approval Certificate
EXHIBIT A - Form of Paying Agent/Registrar Agreement
EXHIBIT B - Form of Escrow Deposit Letter
EXHIBIT C - Form of Escrow Agreement
EXHIBIT D – Form of Financing Agreement
EXHIBIT E - Description of Annual Financial Information
EXHIBIT F - DTC Letter of Representations
EXHIBIT G – Form of Credit Facility

Agenda Item:	**22B (in consent vote: 15, 22A, 22B)**
Date:	05/12/2011
Time:	11:07:52 AM
Vote Type:	Motion to Approve
Description:	An Ordinance authorizing the issuance of an amount up to $18,095,000.00 of obligations designated as "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2011A" (the "2011A Junior Lien Bonds") to be purchased by TWBD through the Clean Water State Revolving Fund Program for certain wastewater projects, and (as necessary or required) for SAWS to enter into a Financing Agreement with TWDB to ensure the acceptance of these funds.
Result:	Passed

Voter	Group	Not Present	Yea	Nay	Abstain	Motion	Second
Julián Castro	Mayor		x				
Mary Alice P. Cisneros	District 1		x			x	
Ivy R. Taylor	District 2		x				
Jennifer V. Ramos	District 3		x				x
Philip A. Cortez	District 4		x				
David Medina Jr.	District 5		x				
Ray Lopez	District 6		x				
Justin Rodriguez	District 7		x				
W. Reed Williams	District 8		x				
Elisa Chan	District 9		x				
John G. Clamp	District 10		x				

SCHEDULE I

TABLE OF REFUNDED COMMERCIAL PAPER

Maturity Date	Principal Amount	Interest Rate	Accrued Interest	Total
9-2-2011	$2,000,000	0.18%	$867.94	$2,000,867.94

SCHEDULE II

APPROVAL CERTIFICATE

SEE TAB NO. 2

EXHIBIT A

PAYING AGENT/REGISTRAR AGREEMENT

SEE TAB NO. 4

EXHIBIT B

ESCROW DEPOSIT LETTER

SEE TAB NO. 6

EXHIBIT C

ESCROW AGREEMENT

SEE TAB NO. 5

EXHIBIT D

FINANCING AGREEMENT

N/A

EXHIBIT E

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 55 of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or under the headings of the Application referred to) below:

The City's audited financial statements for the most recently concluded fiscal year or to the extent these audited financial statements are not available, the portions of the unaudited financial statements of the City referenced in the Application, but for the most recently concluded fiscal year.

Accounting Principles

The accounting principles referred to in such Section are generally accepted accounting principles for governmental units, as prescribed by the Government Accounting Standards Board from time to time.

EXHIBIT F

DTC LETTER OF REPRESENTATIONS

SEE TAB NO. 7

EXHIBIT G

CREDIT FACILITY

N/A