

ORDINANCE NO. 2012-06-14-0445

AN ORDINANCE ESTABLISHING A REVOLVING FINANCE PROGRAM IN A PRINCIPAL AMOUNT NOT TO EXCEED \$100,000,000 FOR THE CITY OF SAN ANTONIO, TEXAS, ACTING BY AND THROUGH THE SAN ANTONIO WATER SYSTEM FOR THE BENEFIT OF THE DISTRICT SPECIAL PROJECT, TO BE KNOWN AS THE "CITY OF SAN ANTONIO, TEXAS DISTRICT SPECIAL PROJECT WATERWORKS SYSTEM FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAM"; APPROVING AND AUTHORIZING THE ISSUANCE, FROM TIME TO TIME, UNDER SUCH PROGRAM OF OBLIGATIONS IN AN AGGREGATE PRINCIPAL AMOUNT AT ANY TIME OUTSTANDING NOT TO EXCEED \$100,000,000 TO PROVIDE INTERIM FINANCING TO PAY PROJECT COSTS FOR ELIGIBLE PROJECTS RELATING TO THE DISTRICT SPECIAL PROJECT; AUTHORIZING SUCH OBLIGATIONS TO BE ISSUED, SOLD, AND DELIVERED IN THE FORM OF TAXABLE OR TAX-EXEMPT NOTES, BEARING INTEREST AT FIXED OR VARIABLE RATES, AND PRESCRIBING THE TERMS, FEATURES, AND CHARACTERISTICS OF SUCH OBLIGATIONS; MAKING PROVISION FOR THE PAYMENT AND SECURITY THEREOF; AUTHORIZING THE EXECUTION OF CONTRACTS IN CONNECTION WITH THE ISSUANCE, SALE AND DELIVERY OF SUCH OBLIGATIONS, INCLUDING ONE OR MORE NOTE PURCHASE AGREEMENTS AND AN ESCROW AGREEMENT; DELEGATING THE AUTHORITY TO CERTAIN CITY OFFICIALS AND MEMBERS OF THE SAWS STAFF TO EXECUTE CERTAIN DOCUMENTS RELATING TO THE PERIODIC SALE OF THESE OBLIGATIONS WITHIN THE LIMITATIONS AND PROCEDURES SPECIFIED HEREIN; MAKING CERTAIN COVENANTS AND AGREEMENTS IN CONNECTION THEREWITH; ENACTING OTHER MATTERS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS ORDINANCE; AND PROVIDING AN EFFECTIVE DATE

WHEREAS, pursuant to authority granted by the 82nd Regular Texas Legislature through its enrollment of Senate Bill 341 (*SB 341*), the City Council (the *City Council*) of the City of San Antonio, Texas (the *City*) adopted Ordinance No. 2011-10-20-0845 (the *DSP Ordinance*) for the purpose of creating and prescribing the terms of operation of the District Special Project (as further defined and described herein, the *District Special Project* or the *DSP*) to accommodate and accomplish the assumption by the City, acting by and through the San Antonio Water System (*SAWS*), of the Bexar Metropolitan Water District (the *District*) upon its dissolution; and

WHEREAS, District voters approved the dissolution of the District and its assumption by SAWS at an election held within the District on November 8, 2011; and

WHEREAS, by operation of law, the City assumed the responsibility of operating and maintaining the District on January 28, 2012 (as further defined and described herein, the *SAWS Transfer*); and

WHEREAS, as required by and in accordance with the provisions of SB 341, the Texas Commission on Environmental Quality, on March 1, 2012, executed an Order (TCEQ Docket No. 2012-0421-MLM) that transferred and assigned to the City, acting by and through SAWS, all (i) rights and duties of the District, including existing contracts, duties, assets, and obligations of the District, (ii) files records, and accounts of the District, including those that pertain to the control, finances, management, and operation of the District, and (iii) permits, approvals, and certificates necessary to provide water services (collectively, the *Transferred Interests*); and

WHEREAS, the DSP is a “special project”, as such term is defined in the City ordinances authorizing the issuance of those City obligations supported by a lien on and pledge of certain revenues of the City’s combined water, wastewater, and chilled water systems (the *City System*); and

WHEREAS, the DSP is operated as a component unit and a department of SAWS and no revenues of the City System shall be used in support of the combined waterworks system comprising the DSP (as further defined and described herein, the *DSP System*) until such time as the DSP System and the City System are integrated in accordance with the terms SB 341 and the DSP Ordinance (as further described and defined herein, *System Integration*); and

WHEREAS, the Transferred Interests, including the DSP System and outstanding District obligations supported by a lien on and pledge of certain revenues of the DSP System (as further described and defined herein, the *DSP Debt Obligations*), are held by the City within the DSP; and

WHEREAS, in the DSP Ordinance, the City assumed the operational covenants relating to the DSP System made by the District in connection from time to time with its issuance of the DSP Debt Obligations for the benefit of the holders of such DSP Debt Obligations, and which covenants include limitations on the City’s ability to issue additional indebtedness secured by a lien on and pledge of the DSP System revenues; and

WHEREAS, the assumption of the District by the City, acting by and through SAWS, and its creation and utilization of the DSP to hold the Transferred Interests until System Integration, as well as the conduct and results of the Election and other matters relating to the foregoing, were validated by order of the 410th Judicial District Court of Travis County, Texas (Cause No. D-1-GV-12-000115), entered on March 5, 2012, in a declaratory judgment proceeding initiated by the City under the provisions of Chapter 1205, as amended, Texas Government Code, which order became unappealable on April 4, 2012; and

WHEREAS, the District established and maintained a commercial program to provide interim financing for capital improvements to the District System pursuant to the District Commercial Paper Resolution; and

WHEREAS, no District Commercial Paper Notes or DSP Commercial Paper Notes remain outstanding under the District Commercial Paper Resolution and the City does not view

the continued use of this commercial paper program as a suitable interim financing tool for the DSP; and

WHEREAS, the City hereby determines that the commercial paper program established and maintained under the District Commercial Paper Resolution is terminated and abolished and, upon the effective date of this Ordinance (and the satisfaction of any City financial obligations remaining thereunder), the District Commercial Paper Resolution shall be void and of no further force or effect; and

WHEREAS, for the benefit of the DSP, the City at this time desires to establish, pursuant to the provisions of Chapters 1371 and 1502, as amended, Texas Government Code and its Home Rule Charter, a revolving finance program known as the "City of San Antonio, Texas District Special Project Waterworks System Flexible Rate Revolving Note Private Placement Program" (as further defined and described herein, the *Program*) for the purpose of providing the City with an interim financing program, as well as with ready access to capital as necessary to improve, operate, and maintain the DSP System; and

WHEREAS, under the Program, the City shall be permitted to issue from time to time, as Additional DSP Subordinate Lien Obligations, notes (as further defined and described herein, the *Program Notes*), the proceeds from which may be used for the purposes, shall have the characteristics, and shall be secured in the manner hereinafter described; and

WHEREAS, the Program Notes shall be purchased, when issued, by the Program Note Purchaser pursuant to the terms of the Note Purchase Agreement then in effect; and

WHEREAS, the City intends, at the time of System Integration, to ultimately fund or refund then-Outstanding Program Notes through the issuance of its revenue refunding bonds secured by a lien on and pledge of certain revenues of the City System pursuant to the provisions of Chapter 1207, as amended, Texas Government Code, and, therefore (and in accordance with Section 1371.057(c), as amended, Texas Government Code, the City shall treat the Program Notes as having the intended term and payment schedule of such revenue refunding bonds; and

WHEREAS, the SAWS Board of Trustees (the *Board*) has, by resolution adopted on June 5, 2012, recommended that the Program be established by the City and Program Notes subsequently issued thereunder in accordance with the provisions of this Ordinance; and

WHEREAS, in full recognition and consideration of all covenants and conditions prescribed in the proceedings and instruments pertaining to the Outstanding and unpaid DSP Debt Obligations (including the DSP Ordinance and the respective District orders and resolutions (except the District Commercial Paper Resolution) authorizing the issuance of the DSP Debt Obligations outstanding at the time of the City's assumption of the District), pursuant to the authority conferred by the laws of the State of Texas, including (particularly) Chapters 1371 and 1502, as amended, Texas Government Code, SB 341, and the City's Home Rule Charter, and at the request of the Board, the City Council is now authorized and empowered, and deems it necessary and in the best interests of the citizens of the City, to proceed with the passage and adoption of this Ordinance authorizing (i) the establishment of the Program, pursuant to which Program Notes, bearing interest in the manner and having the characteristics as described herein,

may be issued, sold, and delivered, from time to time, in an aggregate principal amount at any time outstanding not to exceed \$100,000,000, (ii) the execution of the initial Note Purchase Agreement, as well as the terms and conditions under which the City may enter into future Program Note Purchase Agreements with Program Note Purchasers, and (iii) certain powers and duties to be exercised and performed by the Board, acting through a Designated Financial Officer, including the execution of the initial Note Purchase Agreement; and

WHEREAS, the City is an incorporated city operating under a Home Rule Charter adopted pursuant to Article XI, Section 5 of the Texas Constitution, has a population in excess of 50,000 according to the latest federal decennial census published by the United States Bureau of the Census, and has outstanding long-term indebtedness that is rated by a nationally-recognized rating agency for municipal securities in one of the four highest rating categories for a long-term obligation; and

WHEREAS, the proceeds of Program Notes shall be used only for the purposes of paying Project Costs of Eligible Projects; now, therefore,

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

ARTICLE I DEFINITIONS

SECTION 1.01. DEFINITIONS. Unless the context shall indicate a contrary meaning or intent, the terms below defined, for all purposes of this ordinance or any ordinance amendatory or supplemental hereto, shall be construed, are used, and are intended to have the following meanings, to-wit:

Accountant means an independent certified public accountant, or an independent firm of certified public accountants, in either case, with demonstrative experience and competence in public accounting.

Additional DSP Debt means any Additional DSP Senior Lien Obligations, Additional DSP Subordinate Lien Obligations, or DSP Inferior Lien Obligations issued by the City after the date of the SAWS Transfer.

Additional DSP Senior Lien Obligations means the additional obligations which the City has reserved the right to issue in the future, as provided in the District Senior Lien Orders, the DSP Ordinance and in Section 5.14 of this Ordinance, and which obligations are equally and ratably secured by a first lien on and pledge of the DSP Pledged Revenues on parity with the lien thereon and pledge thereof securing the payment of the Outstanding DSP Senior Lien Obligations.

Additional DSP Subordinate Lien Obligations means the additional obligations which the City has reserved the right to issue in the future, as provided in the City Subordinate Lien Orders, the DSP Ordinance, and in Section 5.14 of this Ordinance, and which obligations are equally and ratably secured by a lien on and pledge of the DSP Pledged Revenues that is subordinate and inferior to the lien thereon and pledge thereof securing the DSP Senior Lien Obligations and on

parity with the lien on and pledge of DSP Pledged Revenues securing the payment of the Outstanding DSP Subordinate Lien Obligations.

Agreement or Note Purchase Agreement means a note purchase agreement approved and authorized to be entered into by Section 3.04 of this Ordinance, as from time to time in effect between the City and the Program Note Purchaser pursuant, to which the Program Note Purchaser is obligated to purchase and/or accept Program Notes at the times, subject to the conditions, and bearing interest calculated in the manner specified therein, but in all respects consistent with the provisions of this Ordinance.

Amortization Installment means, with respect to DSP Senior Lien Obligations or DSP Subordinate Lien Obligations, as applicable, the amount of money which is required for mandatory redemption of such DSP Senior Lien Obligations or DSP Subordinate Lien Obligations, as applicable (whether at stated maturity or by mandatory redemption calls and including redemption premium thereon, if any), provided that the total amortization installments for such DSP Senior Lien Obligations or DSP Subordinate Lien Obligations, as applicable, shall be sufficient to provide for retirement of the aggregate principal amount of such DSP Senior Lien Obligations or DSP Subordinate Lien Obligations, as applicable, and redemption premium, if any.

Authorized Investments means any investment permitted under Chapter 2256, as amended, Texas Government Code and which is in conformity with the Board's investment policy, as each of the foregoing may be amended from time to time.

Available Revenues means that portion of the DSP Pledged Revenues deposited pursuant to Section 2.09 of this Ordinance into the Program Note Payment Fund.

Average Annual Debt Service Requirements means the amount equal to the average annual principal and interest requirements (including Amortization Installments) of all DSP Senior Lien Obligations or DSP Subordinate Lien Obligations, as applicable, then Outstanding. With respect to Additional DSP Senior Lien Obligations or Additional DSP Subordinate Lien Obligations, as applicable, that bear interest at a rate which is not established at the time of issuance at a single numerical rate, Average Annual Principal and Interest Requirements shall be calculated by assuming (i) that the interest rate for every 12-month period on such obligations 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 obligations is amortized such that annual debt service is substantially level over the remaining stated life of such bonds.

Board has the meaning ascribed thereto in the preamble of this Ordinance.

Bond Counsel means Fulbright & Jaworski L.L.P., or any other firm of nationally recognized bond counsel selected by the Board.

Business Day means any day of the year other than (i) a Saturday, Sunday or legal holiday, (ii) a day on which banks located in the Paying Agent/Registrar's designated corporate trust office or San Antonio, Texas are required or authorized to close or (iii) a day on which banks cannot deal in United States deposits in the interbank market in London, England; provided, however, that clause (iii) of the foregoing definition shall only be effective if specified as being applicable in a Note Purchase Agreement at such time in effect.

Chapter 1371 means Chapter 1371, as amended, Texas Government Code.

Chapter 1502 means Chapter 1502, as amended, Texas Government Code.

City has the meaning ascribed thereto in the preamble of this Ordinance.

City Council has the meaning ascribed thereto in the preamble of this Ordinance.

City System has the meaning ascribed thereto in the preamble of this Ordinance.

Commitment Fee means the amount payable from time to time by the City to the Program Note Purchaser under a Note Purchase Agreement as compensation to the Program Note Purchaser for its commitment to purchase Program Notes, the method of calculation and time for payment of which shall be specified in the subject Note Purchase Agreement.

Credit Agreement means a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase Debt, purchase or sale agreement, interest rate swap agreement, or commitment or other contract or agreement authorized, recognized, and existing as of the date of the SAWS Transfer and assumed by the City by operation of law or thereafter approved by the Board and the City, as appropriate, any of the foregoing as a Credit Agreement in connection with the authorization, issuance, security, or payment of Debt.

Debt means (i) all indebtedness payable from DSP Pledged Revenues and/or DSP Net Revenues incurred or assumed by the City, acting by and through the Board, for borrowed money benefiting the District Special Project (including the District Debt Obligations and indebtedness payable from DSP Pledged Revenues and/or DSP Net Revenues arising under Credit Agreements) and all other financing obligations of the District Special Project payable from DSP Pledged Revenues and/or DSP Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet and (ii) all other indebtedness payable from DSP Pledged Revenues and/or DSP 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 DSP System that is guaranteed, directly or indirectly, in any manner by the District Special Project, or that is in effect guaranteed, directly or indirectly, by the City, acting by and through the Board on behalf of the District Special Project, 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 delivered for cancellation; and thereafter it shall not be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the District Special Project in prior Fiscal Years.

Default Rate means the rate of interest specified, if at all, in a Note Purchase Agreement as being applicable to Outstanding Program Notes subject to such Note Purchase Agreement during the continuation of an Event of Default.

Depository means one or more official depository banks of the Board maintained for the benefit of the District Special Project.

Designated Financial Officer means the President/Chief Executive Officer of SAWS, the Senior Vice President/Chief Financial Officer of SAWS, or such other financial or accounting official of the Board so designated by the Board and the City.

District has the meaning ascribed thereto in the preamble of this Ordinance.

District Debt Authorization means, collectively, the District Senior Lien Orders and the District Subordinate Lien Orders.

District Commercial Paper Resolution means the resolution of the District originally adopted on July 22, 2002, as amended from time to time, authorizing the creation of the program pursuant to which District Commercial Paper Notes were from time to time issued.

District Debt Obligations means, collectively, the District Senior Lien Bonds and the District Subordinate Lien Bonds.

District Senior Lien Bonds means those obligations heretofore issued by the District and that remain Outstanding as of the date of this Ordinance and upon the initial issuance of Program Notes hereunder, which obligations are equally and ratably secured by and payable from a first lien on and pledge of the DSP Pledged Revenues and include:

(a) the District Series 2006 Senior Lien Bonds;

(b) \$31,235,000 “Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2007”, dated July 1, 2007 and currently outstanding in the principal amount of \$28,045,000, authorized to be issued by an order of the District adopted by its governing body on June 25, 2007;

(c) \$67,215,000 “Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2009”, dated October 15, 2009 and currently outstanding in the principal amount of \$65,180,000, authorized to be issued by an order of the District adopted by its governing body on September 28, 2009; and

(d) \$23,390,000 “Bexar Metropolitan Water District Waterworks System Senior Lien Revenue Refunding Bonds, Series 2010”, dated December 1, 2010 and currently outstanding in the principal amount of \$23,390,000, authorized to be issued by an order of the District adopted by its governing body on January 3, 2011.

The term *District Senior Lien Bonds* excludes the District Series 1998 Senior Lien Bonds and the District Series 2002 Senior Lien Bonds, each of which will be defeased with proceeds of the initial issuance of the Program Notes and other lawfully available funds of the District Special Project (if any) pursuant to Section 3.02 of this Ordinance.

District Senior Lien Orders means, collectively, those orders of the District authorizing the issuance of the District Senior Lien Bonds.

District Series 1998 Senior Lien Bonds means the \$66,655,403.00 “Bexar Metropolitan Water District Waterworks System Revenue Bonds, Series 1998”, dated July 1, 1998 and currently outstanding in the principal amount of \$33,662,975.17, authorized to be issued by an order of the District adopted by its governing body on June 22, 1998.

District Series 2002 Senior Lien Bonds means the \$57,700,000 “Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2002”, dated July 15, 2002 and currently outstanding in the principal amount of \$23,440,000, authorized to be issued by an order of the District adopted by its governing body on July 22, 2002.

District Series 2006 Senior Lien Bonds means the \$53,741,387 “Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2006”, dated June 1, 2006 and currently outstanding in the principal amount of \$50,471,386.95, authorized to be issued by an order of the District adopted by its governing body on May 31, 2006.

District Series 2010-A Subordinate Lien Bonds means the \$11,820,000 “Bexar Metropolitan Water District Waterworks System Subordinate Lien Revenue Refunding Bonds, Series 2010-A”, dated December 1, 2010, and currently outstanding in the principal amount of \$11,820,000, authorized to be issued by an order of the District adopted by its governing body on January 3, 2011.

District Special Project or *DSP* means the special project created by the DSP Ordinance and which includes the Transferred Interests.

District Subordinate Lien Bonds means those obligations heretofore issued by the District and that remain Outstanding as of the date of this Ordinance, which obligations are equally and ratably secured by and payable from a subordinate lien on and pledge of the DSP Pledged Revenues and include:

(a) \$2,500,000 “Bexar Metropolitan Water District Waterworks System Subordinate Lien Revenue Bonds, Series 1995-A”, dated November 15, 1995 and currently outstanding in the principal amount of \$625,000, issued pursuant to an authorizing document adopted by the District’s governing body on November 20, 1995; and

(b) the District Series 2010-A Subordinate Lien Bonds.

District Subordinate Lien Orders means, collectively, the orders of the District's governing body authorizing the issuance of the District Subordinate Lien Bonds.

District System means, as of the date of the SAWS Transfer, the District's entire existing waterworks system.

DSP Capital Acquisition means the acquisition of any existing waterworks system, which shall become a part of the DSP System.

DSP Capital Additions means a water reservoir or an interest therein, a water storage facility, water treatment plant or an interest therein, regional oversized pipelines or an interest therein, and associated transmission facilities with respect to each, and any combination thereof, which shall become a part of the DSP System.

DSP Capital Improvements means any extensions, improvements, and additions to the DSP System other than DSP Capital Additions and/or DSP Capital Acquisitions.

DSP Debt Obligations means any District Debt Obligations, the Program Notes, and any Additional DSP Debt at any time Outstanding.

DSP Gross Revenues means, for any period, all revenues and income of every nature derived or received by the District Special Project from the operation and ownership of the DSP System, including the interest income from the investment or deposit of money in any fund or account created by any District Debt Authorization or other document authorizing the issuance of DSP Debt Obligations to the extent described therein (excluding refundable meter deposits and federal or state grants), and including, but not limited to, revenues derived from the ownership or operation of other enterprises which the Board and the City, as appropriate, acting by and through the District Special Project, may lawfully own or operate in the future, impact fees, water development or acquisition fees, and developer extension fees and contributions in aid of construction.

DSP Improvement and Contingency Fund means the fund established, created, and confirmed in each of the District Senior Lien Orders, and further confirmed and renamed in the DSP Ordinance, to hold funds in the amount and to be used for the purposes described in the District Senior Lien Orders and in the DSP Ordinance.

DSP Inferior Lien Obligations means any bonds, notes, warrants, or other Debt, which the City has reserved the right to hereafter issue as provided in the DSP Ordinance and in Section 5.14 of this Ordinance, that are payable from and equally and ratably secured by a lien on and pledge of DSP Net Revenues that is subordinate and inferior to the lien thereon and pledge thereof securing the payment of any DSP Senior Lien Obligations or DSP Subordinate Lien Obligations.

DSP Net Earnings means the DSP Gross Revenues after deducting the DSP Operating Expenses, but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

DSP Net Revenues means DSP Gross Revenues after deducting DSP Operating Expenses.

DSP Operating Expenses means the necessary and reasonable expenses of operation and maintenance of the DSP System, including all salaries, labor, materials, and payments under contracts for facilities shared with other entities; provided, however, repairs and extensions, as in the judgment of the Board, reasonably and fairly exercised, that are necessary to keep the DSP System in operation and render adequate service to the ratepayers of the DSP System, or such as might be necessary to meet some physical accident or condition which would otherwise impair the District Debt Obligations shall be considered DSP Operating Expenses. Depreciation and payments into and out of any debt service or debt service reserve fund as established and required in any District Debt Authorization or ordinance of the City authorizing the issuance of Additional DSP Debt shall never be considered as expenses of operation and maintenance. DSP Operating Expenses include lease payments made by the City to the Development Corporation that are used to pay debt service on the Development Corporation Bonds while the same are Outstanding.

DSP Ordinance has the meaning ascribed thereto in the preamble of this Ordinance.

DSP Payment Obligation means any cost of transferring, improving, expanding, repairing, operating, and maintaining the DSP System, which cost is incurred by the City, acting by and through the Board, prior to System Integration and shall include (but not be limited to) payment of (i) any costs incurred by the City or the Board in connection with effectuating the SAWS Transfer that the Board determines are properly allocable to the District Special Project, (ii) DSP Operating Expenses, and (iii) debt service on any DSP Debt Obligation, identified, calculated, and (as necessary or required) allocated by the Board in accordance with generally accepted accounting standards.

DSP Pledged Revenues means the DSP Net Revenues and any other revenues or assets specifically pledged by the Board, in its sole discretion, to the payment of the Outstanding District Debt Obligations or any Additional DSP Debt hereafter issued.

DSP Senior Lien Debt Service Fund means the fund established, created, and confirmed in each of the District Senior Lien Orders, and further confirmed and renamed in the DSP Ordinance, to provide for the payment of the principal of, redemption premium (if any), and interest on the DSP Senior Lien Obligations as the same becomes due and owing.

DSP Senior Lien Debt Service Reserve Fund means the fund established, created and confirmed in each of the District Senior Lien Orders, and further confirmed and renamed in the DSP Ordinance, to provide for the payment of the principal of and interest on the DSP Senior Lien Obligations when and to the extent that the amounts held in the DSP Senior Lien Debt Service Fund are insufficient for such purpose and, at the Board's discretion, to finally retire, by maturity, early redemption, or otherwise, any DSP Senior Lien Obligations.

DSP Senior Lien Debt Service Reserve Requirement, means the lesser of (i) 10% of the face amount of the DSP Senior Lien Obligations, (ii) 100% of the maximum annual debt service for the DSP Senior Lien Obligations, and (iii) 125% of the average annual debt service for the DSP Senior Lien Obligations.

DSP Senior Lien Obligations means the District Senior Lien Bonds at any time Outstanding and any Additional DSP Senior Lien Obligations hereafter issued by the City.

DSP Special Facility Debt means special revenue obligations of the City, issued for the benefit of the District Special Project, which are not payable from or secured by any DSP Net Revenues, but which are secured by and payable from liens on and pledges of any other revenues, sources, or payments, including (but not limited to) special contract revenues, sources, or payments which shall not be considered or constitute DSP Gross Revenues, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of the subject DSP Special Facility Debt.

DSP Subordinate Lien Debt Service Fund means the fund established, created, and confirmed in each of the District Subordinate Lien Orders, and further confirmed and renamed in the DSP Ordinance, to provide for the payment of the principal of, redemption premium (if any), and interest on the DSP Subordinate Lien Obligations as the same becomes due and owing.

DSP Subordinate Lien Debt Service Reserve Fund means the fund established and created in the District Subordinate Lien Order authorizing the issuance of the District Series 2010-A Subordinate Lien Bonds, and further confirmed and renamed in the DSP Ordinance, to provide for the payment of the principal of and interest on the District Series 2010-A Subordinate Lien Bonds when and to the extent that the amounts held in the DSP Subordinate Lien Debt Service Fund are insufficient for such purpose and, at the City's discretion, to finally retire, by maturity, early redemption, or otherwise, the District Series 2010-A Subordinate Lien Bonds.

DSP Subordinate Lien Debt Service Reserve Requirement means, as of the date of this Ordinance, the amount of \$1,182,000 (as specified in the District Subordinate Lien Order authorizing the issuance of the District Series 2010-A Subordinate Lien Bonds) or such larger amount that may be required to be on deposit in the DSP Subordinate Lien Debt Service Reserve Fund upon the issuance of Additional DSP Subordinate Lien Debt Obligations, as may be provided in any ordinance or resolution of the City authorizing such Additional DSP Subordinate Lien Debt Obligations.

DSP Subordinate Lien Obligations means the District Subordinate Lien Bonds at any time Outstanding, Program Notes from time to time Outstanding, and any Additional DSP Subordinate Lien Obligations hereafter issued by the City.

DSP System means (i) the former District System assumed by the City as of the effective date of the SAWS Transfer and owned and operated thereby as the District Special Project, together with all future DSP Capital Acquisitions, DSP Capital Additions, and DSP Capital Improvements and all replacements thereof, made in accordance with the provisions of the DSP Ordinance and any District Debt Authorization prior subsequent to the effective date of the SAWS Transfer and prior to System Integration and (ii) any other related facilities, all or any part of the revenues or income from which may, in the future, at the option of the Board and the City, as appropriate, and in accordance with law, become DSP Pledged Revenues; provided, however, that, notwithstanding the foregoing and to the extent now or hereafter authorized or permitted by law, the term DSP System shall not mean any water or other facilities of any kind

which are declared by the Board not to be a part of the DSP System and which are acquired or constructed by the City with the proceeds from the issuance of DSP Special Facility Debt.

DSP System Fund means the fund established, created, and confirmed in each of the District Debt Authorizations, and further confirmed and renamed in the DSP Ordinance, into and from which all DSP Gross Revenues are deposited and disbursed, respectively.

Eligible Project means the acquisition or construction of improvements, additions, or extensions for the DSP System, including capital assets and facilities incident and related to the operation, maintenance, and administration thereof, or to refinance or refund any principal and/or interest payment relating to any debt secured by the Net Revenues of the DSP System or with respect to the payment of any obligation of the DSP System pursuant to any credit agreement as permitted by the provisions of Section 1371.051, as amended, of Chapter 1371.

Engineer of Record means the independent engineer or firm at the time employed by the City, acting by and through the Board, to perform and carry out the duties imposed on such engineer or firm by any District Senior Lien Order and/or the DSP Ordinance and having a favorable reputation nationally for skill and experience in the engineering of waterworks systems of comparable size and character as those forming all or part of the DSP System.

Fiscal Year means the twelve-month operational period of the DSP commencing on January 1 of each year and ending on December 31.

Fitch means Fitch Ratings Ltd., a Delaware limited partnership, or its successors and assigns.

Government Securities means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; or (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; (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; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds..

Holder or Program Noteholder means the Registered Owner of any Program Note and/or any person, firm, association, or corporation who is in possession of any Program Note issued to the order of bearer or in blank.

Initial Program Note Purchaser means Wells Fargo Bank, National Association, or its successors and assigns.

Interest Payment Date means the date semiannual interest is payable on any DSP Debt Obligation while any of the same remains Outstanding.

Maximum Interest Rate means the lesser of (a) fifteen percent (15%) per annum, (b) the maximum nonusurious rate of interest permitted to be charged by applicable federal or Texas law (whichever shall permit the higher lawful rate) from time to time in effect, and (c) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the City in the exercise of its borrowing powers (currently prescribed by Chapter 1204, as amended, Texas Government Code, or any successor provision).

Maximum Maturity Date means the earlier to occur of System Integration and May 1, 2032.

Moody's means Moody's Investors Service, Inc. or its successors and assigns.

Note Purchase Agreement Costs means the Commitment Fee and other costs, fees, and expenses payable from time to time by the City to the Purchaser under a related Note Purchase Agreement, but specifically excluding the principal of and interest on any Note.

Outstanding when used in this Ordinance with respect to DSP Debt Obligations means, as of the date of determination, all DSP Debt Obligations identified in this Ordinance, except:

(a) those DSP Debt Obligations canceled by the paying agent/registrar therefor or delivered to the paying agent/registrar therefor for cancellation;

(b) those DSP Debt Obligations for which payment has been duly provided by the City in accordance with the applicable defeasance provisions of the document authorizing the issuance of the particular series of DSP Debt Obligations and Chapter 1207; and

(c) those DSP Debt Obligations that have been mutilated, destroyed, lost, or stolen and replacement DSP Debt Obligations have been registered and delivered in lieu thereof in accordance with the applicable provisions of the document authorizing the issuance of the particular series of DSP Debt Obligations and Chapter 1206, as amended, Texas Government Code.

Paying Agent/Registrar means the paying agent/registrar for the Program Notes, initially being Wells Fargo Bank, National Association, Dallas, Texas.

Program means the "City of San Antonio, Texas District Special Project Waterworks System Flexible Rate Revolving Note Private Placement Program" established pursuant to the provisions of this Ordinance.

Program Notes means, collectively, the Tax-Exempt Program Notes and the Taxable Program Notes.

Program Note Purchaser means the Initial Program Note Purchaser and any party from time to time obligated to purchase Program Notes pursuant to the terms of a Note Purchase Agreement.

Project Costs means all costs and expenses incurred in relation to Eligible Projects and permitted by law to be paid or refunded with the proceeds of the Program Notes, including without limitation design, planning, engineering and legal costs, acquisition costs of land, interests in land, rights-of-way and easements, construction costs, costs of machinery, equipment, and other capital assets incident and related to the operation, maintenance, and administration of an Eligible Project, and financing costs, including interest during construction, underwriter's discount and/or fees, legal, financial, and other professional services.

Rating Agency means any nationally-recognized municipal bond rating agency then maintaining a rating on the Program Notes at the request of the City, which as of the date of passage of this Ordinance includes only Fitch but, in the future, could also include Moody's and Standard & Poor's.

Refunded Obligations means (i) the District Series 1998 Senior Lien Bonds the District Series 2002 Senior Lien Bonds, as further described in Schedule I hereto, and each of which were issued by the District pursuant to applicable Texas law, including Chapter 1371, and as "obligations" under Chapter 1371 and (ii) the Term Loan, originally incurred as a "credit agreement" executed and delivered in connection with an "obligation" under Chapter 1371.

Registered Owner means the person or entity in whose name any Program Note is registered in the Registration Books (as defined in Section 2.02(c) of this Ordinance).

SAWS has the meaning ascribed thereto in the preamble of this Ordinance.

SAWS Transfer means the occurrence of the City, acting by and through the DSP, assuming on January 28, 2012 the responsibility of operating and maintaining the District, which event was required by applicable law (including SB 341) and the results of an election held within the District on November 8, 2011.

SB 341 has the meaning ascribed thereto in the preamble of this Ordinance.

Standard & Poor's means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, its successors and assigns.

System Integration means the integration of the SAWS System and the DSP System into a single, combined system, the occurrence of which event is evidenced by resolution of the Board or City ordinance declaring that (i) the areas of service located in the former District are no longer operated as a part of the District Special Project, (ii) the ratepayers of the former District pay the same rates for services provided by the City System as other similarly situated City System ratepayers, and (iii) the former District System ratepayers receive water service that meets the requirements of the Texas Commission on Environmental Quality; provided, however, that such event occurs by the time and otherwise in accordance with the other provisions of SB 341 concerning integration of the SAWS System and the DSP System.

Tax-Exempt Program Notes means the notes authorized to be issued and at any time outstanding under the Program pursuant to this Ordinance the interest on which is excludable from gross income for federal income tax purposes.

Taxable Program Notes means the notes authorized to be issued and at any time outstanding under the Program pursuant to this Ordinance that are not obligations described in section 103(a) of the Code (as defined in Section 5.07 of this Ordinance) or are obligations which constitute specified private activity bonds within the meaning of section 141(b) of the Code.

Term Loan means that DSP Debt, as evidenced by a Loan Note made by the District in favor of Wells Fargo Bank, National Association, under the Letter of Credit and Reimbursement Agreement, dated as of December 15, 2010 and expired on December 29, 2011, between the District and Wells Fargo Bank, National Association, and pursuant to which Wells Fargo Bank, National Association issued its Irrevocable, Direct Pay, Transferrable Letter of Credit for the purpose of providing credit and liquidity support for District Commercial Paper Notes from time to time outstanding, which Term Loan is further described in Schedule I hereto.

Transferred Interests has the meaning ascribed thereto in the preamble of this Ordinance.

Treasury 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 Tax-Exempt Program Notes. 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 Treasury Regulation referenced.

SECTION 1.02. CONSTRUCTION OF TERMS UTILIZED IN THIS ORDINANCE. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

ARTICLE II AUTHORIZATION OF PROGRAM NOTES

SECTION 2.01. GENERAL AUTHORIZATION. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, including particularly Chapter 1371, Chapter 1502, and SB 341, and the City's Home Rule Charter, and in accordance with this Ordinance, Program Notes, having the characteristics as herein specified, shall be and are hereby authorized to be issued in an aggregate principal amount not to exceed ONE HUNDRED MILLION DOLLARS (\$100,000,000) at any one time Outstanding for the purpose of financing Project Costs of Eligible Projects for the DSP System and to refinance, renew, or refund other Program Notes issued pursuant to the provisions hereof and other DSP Debt Obligations which qualify as "obligations" under Chapter 1371. For purposes of this Section 2.01, any portion of outstanding Program Notes to be paid from money on deposit in the Program Note Payment Fund and/or from the available proceeds of other debt

obligations of the City, including additional Program Notes and other Additional DSP Debt, issued for the purpose of refinancing, renewing, or refunding such outstanding Program Notes, on the day of calculation shall not be considered Outstanding. Notwithstanding any provision hereof to the contrary, no Program Notes shall be issued unless there exists and is then in effect one or more Note Purchase Agreements, and then, Program Notes shall never be issued in a principal amount that exceeds the “commitment amount”, “available commitment”, or such other term or concept indicating the principal of Program Notes that the Program Note Purchaser(s) are obligated to purchase from time to time under such Note Purchase Agreement(s).

SECTION 2.02. TERMS APPLICABLE TO PROGRAM NOTES. (a) Dated Date; Maturity Date; Authorized Denominations. Program Notes herein authorized shall (i) be dated as of their date of issuance or prior thereto, but within 30 days of the date of issuance (the *Program Note Date*) and (ii) mature on the next occurring May 1; provided however, that such maturity date shall not be later than the earlier to occur of any of the foregoing: (A) the first anniversary of the date the City causes the particular Program Note to be initially delivered to the applicable Program Note Purchaser in exchange for the purchase price thereof; (B) the termination date of the then effective Note Purchase Agreement for the subject Program Note; and (C) the Maximum Maturity Date. The Program Notes shall be issued in denominations of \$100,000 or any integral of \$1,000 in excess thereof and shall be numbered in ascending consecutive numerical order in the order of their issuance.

(b) Program Notes Outstanding at System Integration. As specified in the DSP Ordinance with respect to all DSP Debt Obligations, no Program Notes shall remain Outstanding subsequent to System Integration. As a result, no Program Note shall mature on a date that occurs subsequent to System Integration. In the event Program Notes are Outstanding at the time of System Integration, the City anticipates issuing, and intends to issue, refunding bonds, secured by and payable from a lien on and pledge of certain revenues of the City System pursuant to (i) the City ordinances authorizing the issuance from time to time of indebtedness now and hereafter outstanding and secured by a lien on and pledge of certain City System revenues and (ii) Chapter 1207.

(c) Determination of Federal Tax Treatment; Style; Calculation and Payment of Interest. The Program Notes shall be issued as either (i) Tax-Exempt Program Notes, to be designated “City of San Antonio, Texas District Special Project Waterworks System Tax-Exempt Flexible Rate Revolving Notes, Series A” or (ii) Taxable Program Notes, to be designated “City of San Antonio, Texas District Special Project Waterworks System Taxable Flexible Rate Revolving Notes, Series A”. The Program Notes provided for in the appropriate Note Program Agreement shall bear interest at such rate or rates (either fixed, variable, or floating) per annum computed on the basis of actual days elapsed based upon (A) a 360-day year of twelve 30-day months, (B) a 360-day year, or (C) a 365-day or 366-day year, as appropriate, in each case determined by the City at the time such Program Notes are issued; provided, however, that in no event shall the interest rate on any Program Note exceed the Maximum Interest Rate in effect on the date of issuance thereof. Program Notes issued without a fixed numerical rate of interest for the term thereof specified at their time of issuance shall bear interest in accordance with any clearly stated formula or method of calculation specified in the Note Purchase Agreement and may include provision for payment of (i) interest calculated at a Default Rate and (ii) “clawback” interest (being a provision stating that the rate of interest on

Program Notes may remain at the Maximum Interest Rate for a duration necessary to compensate a Holder in the event that the aforementioned formulaic methodology produces an interest rate that exceeds the Maximum Interest Rate for a period of time), so long as such "clawback" provision does not extend beyond the stated maturity date of the applicable Program Note.

Interest on Program Notes shall be payable at maturity (in conjunction with payment of principal) and at such intervals prior to maturity as specified, if at all, in the applicable Note Purchase Agreement. The manner of payment of interest on Program Notes shall be as specified in the applicable Note Purchase Agreement.

(d) Redemption. Unless specified otherwise in a Note Purchase Agreement with respect to timing and price, Program Notes issued hereunder shall be subject to redemption, at the direction of the Designated Financial Officer, in whole or in part, on any date, at the price of par plus accrued interest to such date of redemption; provided, however, that redemption of Program Notes bearing interest at a variable or floating may be subject to further restriction regarding the timing and requisite notice of, but (except with respect to any fees specified in the applicable Note Purchase Agreement in connection therewith) not the price for, such redemption, as further specified, if at all, in a Note Purchase Agreement.

At least thirty (30) days prior to the date any Program Notes are to be redeemed, as determined by an Designated Financial Officer, a notice of redemption shall be given in the manner set forth below. A written notice of such redemption shall be given to the Registered Owner of each Program Note or a portion thereof being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such Registered Owner at his address shown on the Registration Books (defined herein) kept by the Paying Agent/Registrar. Notwithstanding the foregoing, if the Registered Owner of a Program Note to be redeemed is the Program Note Purchaser, then such Program Notes are redeemable upon fifteen (15) days (or such shorter period as may be specified in a Note Purchase Agreement) prior written notice delivered by the City, at the direction of an Designated Financial Officer, to the Program Note Purchaser.

By the date fixed for any such redemption, due provision shall be made by the City with the Paying Agent/Registrar for the payment of the required redemption price for the Program Notes or the portions thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Program Notes, or the portions thereof which are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, shall not bear interest after the date fixed for their redemption, and shall not be regarded as being Outstanding except for the right of the Registered Owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of the Program Notes or any portion thereof. If a portion of any Program Notes shall be redeemed, a substitute Program Note or Program Notes having the same stated maturity date, bearing interest at the same interest rate (or calculated in the same manner, as applicable), in any denomination or denominations in excess of \$100,000, at the written request of the Registered Owner, and in an aggregate principal

amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the City, all as provided in this Ordinance.

(e) Program Notes in Registered Form; Paying Agent/Registrar; Payment. The Program Notes shall be issued in registered form, without coupons, in the name of the Registered Owner thereof or to bearer. The Program Notes shall initially be registered in the name of the Program Note Purchaser. Both principal of and interest on each Program Note shall be payable in lawful money of the United States of America, without exchange or collection charges to the Holder. The principal of any Program Note is payable upon presentation and surrender thereof at the corporate office of the Paying Agent/Registrar; interest on Program Notes shall be paid as described in Subsection (a) above. If the date for the payment of the principal of or interest on any Program Note shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the corporate trust office of 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 Program Note was due.

As a condition to entering into a Note Purchase Agreement, the Program Note Purchaser shall serve as the Paying Agent/Registrar for the Program Notes. The City, acting through the Board, covenants and agrees to keep and maintain at the corporate office of the Paying Agent/Registrar books and records (the *Registration Books*) for the registration, payment, transfer, and exchange of the Program Notes, all as provided herein and under such reasonable rules and regulations as the Paying Agent/Registrar may prescribe. The City, acting through the Board, covenants to maintain and provide a Paying Agent/Registrar at all times while the Program Notes are outstanding, which shall be a banking institution authorized under applicable laws to exercise trust powers. Should a change in the Paying Agent/Registrar for the Program Notes occur, the Board shall promptly cause a written notice thereof to be (i) sent to each Registered Owner of Program Notes then Outstanding by United States Mail, first-class, postage prepaid and (ii) published in a financial newspaper or journal of general circulation in the City of New York, New York, once during each calendar week for at least two calendar weeks; provided, however, that the publication of such notice shall not be required if notice is given to each Holder. Such notice shall give the address of the successor Paying Agent/Registrar. A successor Paying Agent/Registrar may be appointed without the consent of the Holders.

The City and the Paying Agent/Registrar may treat the bearer (in the case of Program Notes so registered) or the Registered Owner as the absolute owner of any Program Note for the purpose of receiving payment thereof and for all purposes, and, to the extent permitted by law, the City and the Paying Agent/Registrar shall not be affected by any notice or knowledge to the contrary.

The Program Notes shall be printed, lithographed, or engraved or produced in any other similar manner, or typewritten, all as determined and approved by an Designated Financial Officer.

SECTION 2.03. FORM OF PROGRAM NOTES. The Program Notes, the Certificate of Authentication, and the Certificate of Assignment to appear on each of the Program Notes 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 identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements thereon as may, consistently herewith, be approved by an Designated Financial Officer. Any portion of the text of any Program Notes may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Program Notes.

Form of Tax-Exempt Program Note Style:

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF SAN ANTONIO, TEXAS
DISTRICT SPECIAL PROJECT WATERWORKS SYSTEM
TAX-EXEMPT FLEXIBLE RATE REVOLVING NOTE, SERIES A

Form of Taxable Program Note Style:

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF SAN ANTONIO, TEXAS
DISTRICT SPECIAL PROJECT WATERWORKS SYSTEM
TAXABLE FLEXIBLE RATE REVOLVING NOTE, SERIES A

Form of Heading and First Paragraph for Fixed Rate Program Note:

Program Note No.: _____ Program Note Date: _____
Principal Amount: \$ _____ Maturity Date: May 1, 20____
Interest Rate: _____%

The City of San Antonio (“City”), a municipal corporation of the State of Texas, FOR VALUE RECEIVED, hereby promises to pay, solely from the sources hereinafter identified and as hereinafter stated, to the order of _____ on the Maturity Date specified above, the principal sum specified above, and to pay interest, if any, on said principal amount at said Maturity Date [, and at _____], from the above specified Program Note Date or from the most recent date to which interest has been paid or duly provided for to said Maturity Date at the per annum Interest Rate shown above[, unless there has occurred and during the continuance of an Event of Default, in which case the per annum Interest Rate shall equal the Default Rate]. Interest hereon is computed on the basis of actual days elapsed and a 360-day year. Both principal and interest on this Program Note being payable in lawful money of the United States of America at the designated office of the Paying Agent/Registrar executing the “Certificate of Authentication” endorsed hereon and appearing below, or its successor. No interest will accrue on the Principal Amount hereof after said Maturity Date.

Form of Heading and First Paragraph for Variable Rate Program Note:

| <u>Note</u> | <u>Note</u> | <u>Maturity</u> | <u>Principal</u> |
|---------------|-------------|-----------------|------------------|
| <u>Number</u> | <u>Date</u> | <u>Date</u> | <u>Amount</u> |

The City of San Antonio (the *City*), a municipal corporation of the State of Texas, FOR VALUE RECEIVED, hereby promises to pay, solely from the sources hereinafter identified and as hereinafter stated, to the order of _____ on the Maturity Date specified above, the principal sum specified above, and to pay interest, if any, on said principal amount at said Maturity Date [, and _____,] from the above specified Program Note Date [or from the most recent date to which interest has been paid or duly provided for to said Maturity Date] at the rate per annum (computed on the basis of actual days elapsed and a [360-day year of twelve 30-day months/360-day year/365-day or 366-day year, as applicable]) equal to [insert formula or method of calculation for determining variable or floating interest rate, including any “clawback” provisions]. [Notwithstanding the foregoing, if there has occurred and during the continuance of an Event of Default, interest hereon shall accrue at the Default Rate.] Both principal and interest on this Program Note being payable in lawful money of the United States of America at the designated office of the Paying Agent/Registrar executing the “Certificate of Authentication” endorsed hereon and appearing below, or its successor. No interest will accrue on the principal amount hereof after said Maturity Date.

Form of Remainder of all Program Notes:

This Program Note is one of a series of notes authorized under the “City of San Antonio, Texas District Special Project Waterworks System Flexible Rate Revolving Note Private Placement Program” (the *Program*), pursuant to which the City may issue additional notes, bearing interest at fixed, variable, or floating rates (and which interest may or may not, dependant upon form, be excludable from gross income for federal tax purposes), in an aggregate principal amount at any one time outstanding not to exceed ONE HUNDRED MILLION DOLLARS (\$100,000,000) (such notes, the *Program Notes*). The Program, as well as the issuance of Program Notes thereunder, has been duly authorized in accordance with the provisions of an ordinance (the *Ordinance*) adopted by the City Council of the City for the purpose of financing Project Costs of Eligible Projects for the DSP System and to refinance, renew, or refund certain obligations described in the Ordinance; all in accordance and in strict conformity with the provisions of the Constitution and laws of the State of Texas, including but not limited to, Chapters 1371 and 1502, as amended, Texas Government Code, SB 341, and the City’s Home Rule Charter.

This Program Note is payable from and equally secured by a lien on and pledge of (i) the proceeds from (a) the sale or exchange of other Program Notes issued for the purpose of refinancing, renewing, replacing, or redeeming this Program Note and (b) the sale of a series or issue of bonds or other obligations to be issued by the City subsequent to the Program Note Date hereof for the purpose of refinancing, renewing, or redeeming this Program Note, and (ii) a lien on and pledge of the DSP Pledged Revenues of the DSP System, such pledge of DSP Pledged Revenues, however, being inferior and subordinate to the lien on and pledge thereof securing the payment of any DSP Senior Lien Obligations now or hereafter outstanding (such lien being at the FOURTH level of priority as specified in Section 5.04 of the Ordinance). The Program Notes are Additional DSP Subordinate Lien Obligations under the DSP Ordinance.

This Program Note, together with other Program Notes similarly secured, is payable solely from the sources hereinabove identified securing the payment thereof. The Program Notes do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of

the City, SAWS, or the DSP (including the DSP System), except as otherwise described above, and the Holder hereof shall never have the right to demand payment of this obligation from any sources or properties of the City except as identified above.

In the Ordinance, the City reserves the right and permits the issuance of Additional DSP Debt while this Program Note is outstanding, as well as the issuance of additional Program Notes payable from the same sources, or any portion of such sources, securing the payment of this Program Note and equally and ratably secured by a parity lien on and pledge of such sources, or any portion thereof, without any limitation as to principal amount, but subject to any terms, conditions, and limitations as may be applicable thereto.

Reference is hereby made to the Ordinance, copies of which may be obtained upon request to the City, and to all of the terms and provisions the Holder hereof by acceptance of this Program Note hereby assents, including, but not limited to, provisions relating to definitions of terms, the description of and the nature of the security for this Program Note, the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Holders of this Program Note, and the right to issue DSP Debt.

[INSERT APPLICABLE REDEMPTION PROVISIONS BASED ON FINAL TERMS OF THE NOTE PURCHASE AGREEMENT]

[At least thirty (30) days prior to the date any Program Notes are to be redeemed, as determined by an Designated Financial Officer, a notice of redemption shall be given in the manner set forth below. A written notice of such redemption shall be given to the Registered Owner of each Program Note or a portion thereof being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such Registered Owner at his address shown on the Registration Books kept by the Paying Agent/Registrar. Notwithstanding the foregoing, if the Registered Owner of a Program Note to be redeemed is the Program Note Purchaser, then such Program Notes are redeemable upon _____ () days' prior written notice delivered by the City, at the direction of an Designated Financial Officer, to the Program Note Purchaser.

By the date fixed for any such redemption, due provision shall be made by the City with the Paying Agent/Registrar for the payment of the required redemption price for the Program Notes or the portions thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Program Notes, or the portions thereof which are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, shall not bear interest after the date fixed for their redemption, and shall not be regarded as being Outstanding except for the right of the Registered Owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of the Program Notes or any portion thereof. If a portion of any Program Notes shall be redeemed, a substitute Program Note or Program Notes having the same stated maturity date, bearing interest at the same interest rate (or calculated in the same manner, as applicable), in any denomination or denominations in excess of \$100,000, at the written request of the Registered Owner, and in an aggregate principal

amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the City, all as provided in this Ordinance.]

[INSERT ADDITIONAL PROVISIONS, IF ANY, DEEMED NECESSARY BY THE DESIGNATED FINANCIAL OFFICER BASED ON FINAL TERMS OF THE NOTE PURCHASE AGREEMENT, AS DETERMINED STRICTLY WITHIN THE LIMITATIONS SPECIFIED IN SECTION 2.13 OF THE ORDINANCE.]

It is hereby certified and recited that all acts, conditions, and things required by law and the Ordinance to exist, to have happened, and to have been performed precedent to and in the issuance of this Program Note, do exist, have happened, and have been performed in regular and in due time, form, and manner as required by law and that the issuance of this Program Note, together with all other Program Notes, is not in excess of the principal amount of Program Notes permitted to be issued under the Ordinance.

This Program Note has all the qualities and incidents of a negotiable instrument under the laws of the State of Texas.

This Program Note may be registered to bearer or to any designated payee. Title to any Program Note registered to bearer shall pass by delivery. If not registered to bearer, this Program Note may be transferred only on the Registration Books. Upon surrender hereof at the designated office of the Paying Agent/Registrar, this Program Note may be exchanged for a like aggregate principal amount of fully registered (which registration may be to bearer) Program Notes of authorized denominations of like interest rate and maturity, but only in the manner, subject to the limitations and upon payment of the charges provided in the Ordinance and upon surrender and cancellation of this Program Note.

This Program Note shall not be entitled to any benefit under the Ordinance or be valid or become obligatory for any purpose until this Program Note shall have been authenticated by the execution by the Paying Agent/Registrar of the Certificate of Authentication hereon.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the City Council of the City of San Antonio, Texas, has authorized and caused this Program Note to be executed on its behalf by the manual or facsimile signatures of its Mayor and City Clerk, as well as an Designated Financial Officer, and its official seal impressed or a facsimile thereof to be printed hereon.

CITY OF SAN ANTONIO, TEXAS

Mayor

Designated Financial Officer

ATTEST:

City Clerk

(SEAL)

Form of Paying Agent/Registrar's Certificate of Authentication.

CERTIFICATE OF AUTHENTICATION

This Program Note is one of the Program Notes delivered pursuant to the within mentioned Ordinance.

as Paying Agent/Registrar

By _____
Authorized Signer

Form of Paying Agent/Registrar's Certificate of Assignment.

CERTIFICATE OF 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 Program Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Program Note 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 Program Note in every particular.

Signature guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

* * *

SECTION 2.04. EXECUTION – AUTHENTICATION. The Program Notes shall be executed on behalf of the City by the Mayor and an Designated Financial Officer under its seal reproduced or impressed thereon and attested by the City Clerk or Assistant City Clerk. The signature of said officers on the Program Notes may be manual or facsimile. Program Notes bearing the manual or facsimile signatures of individuals who are or were the proper officers of the City on the date of passage of this Ordinance shall be deemed to be duly executed on behalf of the City, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of the initial sale and delivery of Program Notes authorized to be issued hereunder and with respect to Program Notes delivered in subsequent sales, exchanges, and transfers, all as authorized and provided in the Public Security Procedures Act, Chapter 1201, as amended, Texas Government Code.

No Program Note shall be entitled to any right or benefit under this Ordinance, or be valid or obligatory for any purpose, unless there appears on such Program Note a certificate of authentication substantially in the form provided in Section 2.03 hereof, executed by the Paying Agent/Registrar by manual signature, and such certificate upon any Program Note shall be conclusive evidence, and the only evidence, that such Program Note has been duly certified or registered and delivered.

SECTION 2.05. PROGRAM NOTES MUTILATED, LOST, DESTROYED, OR STOLEN. If any Program Note shall become mutilated, the City, at the expense of the Holder of said Program Note, shall execute and deliver a new Program Note of like tenor and number in exchange and substitution for the Program Note so mutilated, but only upon surrender to the City of the Program Note so mutilated. If any Program Note shall be lost, destroyed, or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the City, at the expense of the owner, shall execute and deliver a new Program Note of like tenor in lieu of and in substitution for the Program Note so lost, destroyed, or stolen. Neither the City nor the Paying Agent/Registrar shall be required to treat both the original Program Note and any duplicate Program Note as being Outstanding for the purpose of determining the principal amount of Program Notes which may be issued hereunder, but both the original and the duplicate Program Note shall be treated as one and the same.

SECTION 2.06. NEGOTIABILITY, REGISTRATION, AND EXCHANGEABILITY. The Program Notes issued hereunder shall be, and shall have all of the qualities and incidents of, a negotiable instrument under the laws of the State of Texas, and each successive Holder, in accepting any of the Program Notes, shall be conclusively deemed to have agreed that such obligations shall be and have all of the qualities and incidents of a negotiable instrument under the laws of the State of Texas.

The Paying Agent/Registrar shall obtain, record, and maintain in the Registration Books the name and address of each Registered Owner of the Program Notes, except for Program Notes registered to bearer, issued under and pursuant to the provisions of this Ordinance. Any Program Note may, in accordance with its terms and the terms hereof, be transferred or exchanged for Program Notes of like tenor and character and of other authorized denominations upon the Registration Books by the Holder in person or by his duly authorized agent, upon surrender of such Program Note 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 Program Note at the designated office of the Paying Agent/Registrar, the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Program Notes executed on behalf of, and furnished by, the City of like tenor and character and of authorized denominations and having the same maturity, bearing interest at the same rate (or calculated in the same manner, as applicable), and of a like aggregate principal amount as the Program Note or Program Notes surrendered for transfer.

Furthermore, Program Notes may be exchanged for other Program Notes of like tenor and character and of authorized denominations and having the same maturity, bearing the same rate of interest (or calculated in the same manner, as applicable), and of like aggregate principal amount as the Program Notes surrendered for exchange, upon surrender of the Program Notes to be exchanged at the designated office of the Paying Agent/Registrar. Whenever any Program Notes are so surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Program Notes of like tenor and character as the Program Notes exchanged, executed on behalf of, and furnished by, the City to the Holder requesting the exchange.

The City and the Paying Agent/Registrar may charge the Holder a sum sufficient to reimburse them for any expenses incurred in making any exchange or transfer after the first such exchange or transfer. The Paying Agent/Registrar or the City may also require payment from the Holder of any Program Note surrendered for exchange or transfer of a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation thereto. Such charges and expenses shall be paid before any such new Program Note shall be delivered.

New Program Notes delivered upon any transfer or exchange shall be valid special obligations of the City, evidencing the same debt as the Program Notes surrendered, shall be secured by this Ordinance, and shall be entitled to all of the security and benefits hereof to the same extent as the Program Notes surrendered.

The City reserves the right to change the above registration and transferability provisions of the Program Notes at any time on or prior to the delivery thereof in order to comply with applicable laws and regulations of the United States in effect at the time of issuance thereof.

SECTION 2.07. PROGRAM NOTE PAYMENT FUND. There is hereby created and established with the Paying Agent/Registrar a separate and special fund to be designated as the "City of San Antonio, Texas District Special Project Waterworks System Flexible Rate Revolving Note Program Payment Fund" (the *Program Note Payment Fund*). Within the Program Note Payment Fund there shall be created two accounts, known as the *Tax-Exempt Program Note Payment Account* and the *Taxable Program Note Payment Account*, respectively.

(a) Tax-Exempt Program Note Payment Account. Money on deposit in the Tax-Exempt Program Note Payment Account shall be used to pay principal of and interest on Tax-Exempt Program Notes at the respective interest payment, maturity, or redemption dates of each issue of such Tax-Exempt Program Notes as provided herein. Amounts remaining in the Tax-Exempt Program Note Payment Fund not then necessary for the purposes for which such funds were originally held in such account may be transferred to the Tax-Exempt Program Note Construction Account (created pursuant to Section 2.08 hereof) or the DSP System Fund upon request of a Designated Financial Officer.

Pending the expenditure of money in the Tax-Exempt Program Note Payment Account for authorized purposes, money deposited therein may be invested at the direction of a Designated Financial Officer in Authorized Investments. Any income received from investments in the Tax-Exempt Program Note Payment Account shall be retained in such account.

(b) Taxable Program Note Payment Account. Money on deposit in the Taxable Program Note Payment Account shall be used to pay principal of and interest on Taxable Program Notes at the respective interest payment, maturity, or redemption dates of each issue of such Taxable Program Notes as provided herein. Amounts remaining in the Taxable Program Note Payment Fund not then necessary for the purposes for which such funds were originally held in such account may be transferred to the Taxable Program Note Construction Account (created pursuant to Section 2.08 hereof) or the DSP System Fund upon request of a Designated Financial Officer.

Pending the expenditure of money in the Taxable Program Note Payment Account for authorized purposes, money deposited therein may be invested at the direction of a Designated Financial Officer in Authorized Investments. Any income received from investments in the Taxable Program Note Payment Account shall be retained in such account.

SECTION 2.08. NOTE CONSTRUCTION FUND. There is hereby created and established a separate account hereby designated as the “City of San Antonio, Texas District Special Project Waterworks System Flexible Rate Revolving Note Program Construction Fund” (the *Program Note Construction Fund*). Within the Program Note Construction Fund there shall be created two accounts, known as the *Tax-Exempt Program Note Construction Account* and the *Taxable Program Note Construction Account*, respectively.

(a) Tax-Exempt Program Note Construction Account. Proceeds derived from the sale of Tax-Exempt Program Notes shall be deposited to the credit of the Tax-Exempt Program Note Construction Account. Money deposited in the Tax-Exempt Program Note Construction Account shall remain therein until expended from time to time for the purposes specified in Section 3.03 of this Ordinance, and shall not be used for any other purposes whatsoever, except for temporary investment thereof as provided in Section 3.03 of this Ordinance.

In the event proceeds of Tax-Exempt Program Notes are deposited in the Tax-Exempt Program Note Construction Account in order to renew, refinance or refund DSP Debt Obligations as permitted by Section 2.01 of this Ordinance and such DSP Debt Obligations will not be redeemed simultaneously with the issuance of such Tax-Exempt Program Notes, the City will utilize the proceeds of such Tax-Exempt Program Notes (and other available funds of the City, if any) in an amount sufficient, without investment or reinvestment, to provide for the payment on the redemption date of any such DSP Debt Obligations, to provide firm banking and financial arrangements for such payment in the manner provided by Chapter 1207. Any such DSP Debt Obligations which are to be redeemed prior to scheduled maturity shall be selected for redemption and redeemed in the manner specified in the order, ordinance or resolution authorizing their issuance. These provisions do not relate to the defeasance and redemption of the Refunded Obligations, refunded upon inception of the Program and the simultaneous initial issuance of the Program Notes, which defeasance and redemption is accomplished pursuant to Article IV of this Ordinance.

Any money remaining in the Tax-Exempt Program Note Construction Account and not necessary for the payment of Project Costs or the purpose described in the preceding paragraph shall be paid into the Tax-Exempt Program Note Payment Account.

(b) Taxable Program Note Construction Account. Proceeds derived from the sale of Taxable Program Notes shall be deposited to the credit of the Taxable Program Note Construction Account. Money deposited in the Taxable Program Note Construction Account shall remain therein until expended from time to time for the purposes specified in Section 3.03 of this Ordinance, and shall not be used for any other purposes whatsoever, except for temporary investment thereof as provided in Section 3.03 of this Ordinance.

In the event proceeds of Taxable Program Notes are deposited in the Taxable Program Note Construction Account in order to renew, refinance or refund DSP Obligations as permitted

by Section 2.01 hereof and such DSP Obligations will not be redeemed simultaneously with the issuance of such Taxable Program Notes, the City will utilize the proceeds of such Taxable Program Notes (and other available funds of the City, if any) in an amount sufficient, without investment or reinvestment, to provide for the payment on the redemption date of any such DSP Obligations, to provide firm banking and financial arrangements for such payment in the manner provided by Chapter 1207. Any such DSP Obligations which are to be redeemed prior to scheduled maturity shall be selected for redemption and redeemed in the manner specified in the ordinance or resolution authorizing their issuance.

Any money remaining in the Taxable Program Note Construction Account and not necessary for the payment of Project Costs or the purpose described in the preceding paragraph shall be paid into the Taxable Program Note Payment Account.

SECTION 2.09. PLEDGE OF NET REVENUES AND FUNDS; PAYMENTS. (a) The Program Notes and the Note Purchase Agreement Costs are special obligations of the City, constituting DSP Subordinate Lien Obligations, payable from and secured solely by the sources specified in this Ordinance. The City agrees to make payments into the Program Note Payment Fund, for further deposit into the appropriate account therein, at such times and in such amounts as are necessary to provide for the full payment of the Note Purchase Agreement Costs and the principal of and the interest on the Program Notes as and when due, whether by reason of maturity, redemption, or otherwise. Unless paid from Available Revenues, such payments are to be made from the proceeds of other Program Notes (including new Program Notes issued to replace maturing Program Notes), other DSP Debt Obligations, or other City obligations payable from and secured by a lien on and pledge of certain City System revenues, any of such obligations issued for the purposes of refinancing, redeeming, or refunding then-Outstanding Program Notes.

To provide security for the payment of the principal of and interest on the Program Notes as the same shall become due and payable, there is hereby pledged, subject to the provisions of this Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein, (i) the proceeds from (a) the sale or exchange of other Program Notes issued for the purpose of refinancing, renewing, replacing, or redeeming Program Notes and (b) the sale of a series of bonds or other obligations to be issued by the City for the purpose of refinancing, renewing, or redeeming Program Notes and (ii) a lien on and pledge of the DSP Pledged Revenues, such pledge of DSP Pledged Revenues, however, being inferior and subordinate solely to the lien thereon and pledge thereof securing the payment of any DSP Senior Lien Obligations now or hereafter outstanding (such lien being at the FOURTH level of priority as specified in Section 5.04 of this Ordinance), and it is hereby resolved and declared the principal of and interest on the Program Notes shall be and are hereby equally and ratably secured by and payable from a lien on and pledge of the sources hereinabove identified in clauses (i) and (ii), subject and subordinate only to the exceptions noted above.

In accordance with the provisions of the DSP Ordinance and the respective documentation governing the District Debt Obligations that are now Outstanding and that will remain Outstanding subsequent to the Program Notes represent Additional DSP Subordinate Lien Obligations. As such (and as stated above), debt service on the Program Notes and the Note Purchase Agreement Costs are payable from available revenues of the DSP System disbursed

from the DSP System Fund, at the FOURTH level of priority specified in Section 5.04 of this Ordinance. The DSP Pledged Revenues shall be deposited into the Program Note Payment Fund, for further deposit into the appropriate account therein, from time to time in amounts necessary to pay the principal of and/or interest on the Program Notes and the Note Purchase Agreement Costs to the extent not paid from the proceeds of or replaced with other Program Notes or City obligations issued for such purpose.

(b) Perfection of Pledge of Interest in Security. Chapter 1208, Texas Government Code, applies to the issuance of the Program Notes and the pledge of DSP Pledged Revenues granted by the City herein, and such pledge is, therefore, valid, effective, and perfected. If Texas law is amended at anytime while the Program Notes are outstanding and unpaid such that the pledge of the DSP Pledged Revenues granted by the City is to be subject to the filing requirements of Chapter 9, as amended, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of the Program Notes the perfection of the security interest in this 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, as amended, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 2.10. APPLICATION OF PRIOR COVENANTS. The covenants and agreements (to the extent the same are not inconsistent herewith) contained in the DSP Ordinance are hereby incorporated herein and shall be deemed to be for the benefit and protection of the Program Notes and the Holders thereof in like manner as applicable to the DSP Debt; provided, however, that in the event of any conflict between the terms, covenants, and agreements contained herein and the terms, covenants, and agreements contained in the DSP Ordinance, the provisions of the DSP Ordinance shall control over the provisions hereof.

SECTION 2.11. CANCELLATION. All Program Notes surrendered at stated maturity to the Paying Agent/Registrar for the collection of the principal thereof and interest thereon or are surrendered for transfer or exchange pursuant to the provisions hereof shall, upon payment or issuance of new Program Notes, be cancelled by the Paying Agent/Registrar and forthwith transmitted to the Board, and the Board, shall thereafter have custody and the responsibility for destruction.

SECTION 2.12. FISCAL AND OTHER AGENTS. In furtherance of the purposes of this Ordinance, the Board may from time to time appoint and provide for the payment of such additional fiscal, paying, or other agents or trustees as it may deem necessary or appropriate in connection with the administration of the Program and the Program Notes.

SECTION 2.13. DELEGATION OF AUTHORITY TO DESIGNATED FINANCIAL OFFICER. As authorized by Chapter 1371, each Designated Financial Officer is hereby appointed and designated as an officer of the City, authorized to act on behalf of the City, from time to time, in connection with entering into Note Purchase Agreements, selling and delivering, from time to time, Program Notes under the Program, and carrying out the duties and procedures specified in this Ordinance, including approval (subject only to the limitations specified within this Ordinance) of the following terms and provisions for each issue of Program Notes:

1. the principal amount of each Program Note;
2. the Program Note Date;
3. the rate of interest or the method of calculating the interest to be borne on the principal amount of each Program Note;
4. the maturity date of each Program Note;
5. the date, dates, or intervals on which interest on each Program Note shall be paid;
6. whether the subject Program Notes shall be issued as Tax-Exempt Program Notes or Taxable Program Notes;
7. the Commitment Fee and other Note Purchase Agreement Costs, if any, including the method of the calculation and timing for payment of such expenses; and
8. such other matters as herein delegated to an Designated Financial Officer for final determination.

These characteristics, as finally determined by the Designated Financial Officer consistent with the provisions of this Ordinance shall be evidenced in the Note Purchase Agreement, and (to the extent applicable) in each definitive Program Note.

ARTICLE III ISSUANCE AND SALE OF PROGRAM NOTES

SECTION 3.01. GENERAL. The Program Notes shall be completed and delivered by the Paying Agent/Registrar in accordance with telephonic, computer, or written instructions of any Designated Financial Officer and in the manner specified in the Paying Agent/Registrar Agreement and below. To the extent such instructions are not written, they shall be confirmed in writing within 24 hours. Said instructions shall specify such principal amounts, dates of issue, maturities, rates of interest, whether the Program Note is a Tax-Exempt Program Note or a Taxable Program Note, and other terms and conditions which are hereby authorized and permitted to be fixed by any Designated Financial Officer at the time of sale of the Program Notes. Such instructions shall include the purchase price of the Program Notes (which shall equal the principal amount of the Program Notes sold, without original issue premium or discount, and without accrued interest), and a request that the Paying Agent/Registrar authenticate such Program Notes by countersignature of its authorized officer or employee and deliver them to the named purchaser or purchasers thereof upon receipt of payment. Such instructions shall also specify the amounts of the proceeds of such issue of Program Notes which are to be deposited to the Program Note Payment Fund and/or to the Program Note Construction Fund and with designation for further deposit to the appropriate accounts therein. Such instructions shall also contain provisions representing that all action on the part of the City necessary for the valid issuance of the Program Notes then to be issued, has been taken, that all provisions of Texas and federal law necessary for the valid issuance of such Program Notes, with provision for original issue discount and interest exemption from federal income taxation with respect to the Tax-Exempt Program Notes, have been complied with, and that such Program

Notes in the hands of the Holders thereof will be valid and enforceable obligations of the City according to their terms, subject to the exercise of judicial discretion in accordance with general principles of sovereign immunity and of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that, based upon the advice of Bond Counsel, the earned original issue discount on the Tax-Exempt Program Notes or stated interest on the Tax-Exempt Program Notes, as the case may be, will be excluded from the gross income of the Holders for federal income tax purposes. Such instructions shall also certify that: no Event of Default under Section 6.01 of this Ordinance has occurred and is continuing as of the date of such Certificate; other than Section 5.07 of this Ordinance with respect to Taxable Program Notes, the City is in compliance with the covenants set forth in Article V hereof as of the date of such instructions; and the sum of the interest payable on such Program Note and any discount established for such Program Note will not exceed a yield (calculated on the principal amount of the Program Note in the applicable manner specified herein) to the stated maturity date of such Program Note in excess of the Maximum Interest Rate in effect on the date of issuance of such Program Note. Notwithstanding the foregoing, the initial issuance of Program Notes shall be governed by Section 3.02 of this Ordinance.

SECTION 3.02. INITIAL ISSUANCE OF PROGRAM NOTES; DISPOSITION OF PROCEEDS OF SALE. Concurrently with the Program's inception, and upon satisfaction of the provisions of applicable Texas law and the closing conditions included in the Initial Note Purchase Agreement, the City will initially issue Program Notes in an aggregate principal amount of \$68,700,000 for the purpose of defeasing the Refunded Obligations and paying certain professional fees relating to the establishment of the Program. Proceeds derived from the initial issuance of the Program Notes, in an amount specified in the Escrow Agreement (hereinafter defined), shall, upon initial issuance of the initial Program Notes, be deposited to the Escrow Fund (as defined in the Escrow Agreement) established and maintained under the Escrow Agreement, with any remaining funds deposited to the Tax-Exempt Program Note Construction Account of the Program Note Construction Fund to be used for authorized purposes (including payment of professional fees incurred by the City in connection with the establishment of the Program and the initial issuance of Program Notes). Such amount, along with a cash deposit, if any and, if at all, in the amount specified in the Escrow Agreement, made by the City from lawfully available funds of the District Special Project at the discretion of a Designated Financial Officer, shall constitute the making of firm financial arrangements to accomplish the defeasance of the Refunded Obligations in accordance with the applicable provisions of the respective documents authorizing their issuance.

SECTION 3.03. PROCEEDS OF SALE OF SUBSEQUENT ISSUES OF PROGRAM NOTES; EXCHANGE OF PROGRAM NOTES. (a) The proceeds of the sale of any Program Notes (net of all expenses and costs of sale and issuance) shall be applied for any or all of the following purposes, as directed by a Designated Financial Officer:

(i) Proceeds to be used for the payment and redemption of the outstanding Program Notes at or before stated maturity shall be deposited into the Program Note Payment Fund, for further deposit to the appropriate account therein, and expended therefor; provided, however, that no Tax-Exempt Program Note proceeds shall be used for the payment and redemption of outstanding Taxable Program Notes unless the deposit of Tax-Exempt Program Note proceeds to

be used for such purpose shall be accompanied by an opinion of Bond Counsel stating that such use of Tax-Exempt Program Note proceeds shall not affect the excludability of the interest on such Tax-Exempt Program Notes from the gross income of the Holders thereof, pursuant to section 103 of the Code, for federal income tax purposes.

(ii) Proceeds not deposited into the Program Note Payment Fund as provided in subparagraph (i) above shall be deposited to the Program Note Construction Fund, for further deposit to the appropriate account therein, and used and applied in accordance with the provisions of Section 2.09 hereof to pay Project Costs for Eligible Projects or to otherwise accomplish the purposes permitted by this Ordinance.

(b) Maturing Program Notes may be replaced with replacement Program Notes, which replacement Program Notes shall have the characteristics determined by a Designated Financial Officer and the Program Note Purchaser pursuant to the terms of the then-effective and applicable Note Purchase Agreement, but at all times subject to the limitations on the issuance of Program Notes specified in this Ordinance; provided, however, that no Tax-Exempt Program Note shall replace maturing Taxable Program Notes unless the delivery of such replacement Tax-Exempt Program Note shall be accompanied at their time of delivery by an opinion of Bond Counsel stating that replacement shall not affect the excludability of the interest on such Tax-Exempt Program Notes from the gross income of the Holders thereof, pursuant to section 103 of the Code, for federal income tax purposes.

Pending expenditure for the foregoing purposes, proceeds from the sale of Program Notes may be invested in Authorized Investments. Earnings and profits from the investment of money in the Program Note Construction Fund shall be held therein.

SECTION 3.04. NOTE PURCHASE AGREEMENT. The Note Purchase Agreement, substantially in the form attached hereto as Exhibit A, has been approved, has been entered into with the Initial Program Note Purchaser, and is hereby confirmed. Each Designated Financial Officer is hereby authorized and directed to execute and deliver the Note Purchase Agreement on the City's behalf. The payment of the Note Purchase Agreement Costs, as specified in the Note Purchase Agreement pursuant to mutual agreement between the Initial Program Note Purchaser and the Designated Financial Officer, are hereby authorized from DSP Pledged Revenues lawfully available to the Board for the payment thereof as provided in this Ordinance.

The Board is hereby authorized to enter into any Note Purchase Agreement with any Program Note Purchaser supplemental to or in replacement of the Note Purchase Agreement between the City and the Initial Program Note Purchaser, which replacement or supplemental Note Purchase Agreement shall have the terms and provisions, consistent with this Ordinance, and entered into with the Program Note Purchaser, as a Designated Financial Officer may deem appropriate. To the extent that terms of subsequent Note Purchase Agreements differ in comparison to the initial Note Purchase Agreement, the effectiveness of such subsequent Note Purchase Agreement shall be subject to the provisions of Chapter 1371 generally applicable to credit agreements thereunder, including specified prerequisites such as approval by the Texas Attorney General.

Notwithstanding any provision herein to the contrary, the aggregate amount of the commitments of Program Note Purchasers to purchase Program Notes under all Note Purchase Agreements at any time in effect shall never exceed the maximum principal amount of Program Notes authorized at any one time to be outstanding under the Program.

SECTION 3.05. 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 pertaining to the registration, transferability, and payment of the Program Notes. A copy of the Paying Agent/Registrar Agreement is attached hereto, in substantially final form, as Exhibit B and is incorporated herein by reference as fully as if recopied in its entirety in this Ordinance. Each Designated Financial Officer is hereby authorized and directed to execute the Paying Agent/Registrar Agreement on behalf of the City. The Board is hereby authorized to enter into any supplemental agreements with the Paying Agent/Registrar or with any successor Paying Agent/Registrar, subject (if required by the applicable Note Purchase Agreement) to the prior written consent of the related Program Note Purchaser.

ARTICLE IV REFUNDING OF REFUNDED OBLIGATIONS THROUGH INITIAL PROGRAM NOTE ISSUANCE

SECTION 4.01. REFUNDING OF REFUNDING OBLIGATIONS. As specified in Section 3.02 of this Ordinance, a portion of the proceeds of the initial issuance of the Program Notes will be utilized to accomplish the defeasance of the Refunded Obligations.

SECTION 4.02. ESCROW AGREEMENT APPROVAL AND EXECUTION. Pursuant to Chapter 1371, the Escrow Deposit Letter dated as of the date of this Ordinance (the *Escrow Agreement*) by and between the City and U.S. Bank National Association, Dallas, Texas (the *Escrow Agent*), attached hereto as Exhibit C 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 Agreement in substantially the form and substance attached hereto, together with such changes or revisions as may be necessary to accomplish the refunding or benefit the City, is hereby authorized to be executed by the Mayor, City Clerk, or any Designated Financial Official on behalf of the City and as the act and deed of the City Council; and the Escrow Agreement as executed by said officials shall be deemed approved by the City Council and constitute the Escrow Agreement herein approved. The Escrow Agent is not a depository bank of the City.

Furthermore, any Designated Financial Officer, 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 Agreement and the delivery thereof to the Escrow Agent on the date of delivery of the initial issuance of Program Notes for deposit to the credit of the Escrow Fund established in the Escrow Agreement, 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 Chapter 1371, this Ordinance, and the Escrow Agreement.

SECTION 4.03. REDEMPTION OF REFUNDED OBLIGATIONS. The Refunded Obligations will be redeemed on the dates, at the price of par, premium, if any, and accrued interest to their redemption date, as further specified in Schedule I hereto. The City shall give written notice to the Escrow Agent that the Refunded Obligations shall be paid at prior redemption, and the City Council ordains that such obligations are to be defeased, and such order to defease the Refunded Obligations on the date herein specified shall be irrevocable upon the delivery of the initial issuance of Program Notes. A copy of each notice of redemption pertaining to the Refunded Obligations is attached to this Ordinance as Exhibit D and such notices are incorporated herein by reference for all purposes.

SECTION 4.04. PURPOSE FOR REFUNDING. With respect to the refunding of the Refunded Obligations, the City Council hereby finds and determines that such refunding will convert the Refunded Obligations into short-term variable rate bonds, thereby allowing the City to realize debt service savings as a result of such obligations bearing interest at short-term rates (as opposed to higher, long-term fixed rates of interest) and to prepare for the permanent refinancing of the Refunded Obligations at the time of System Integration in the most cost-effective manner available to the City and, for such reasons, is in the best interests of the City and its citizens. Because this refunding involves conversion of fixed interest rate obligations to variable interest rate obligations, it is not practicable to calculate the City's savings resultant from such conversion.

ARTICLE V COVENANTS OF THE CITY

SECTION 5.01. LIMITATION ON ISSUANCE. Unless this Ordinance is amended and modified by the City Council in accordance with the provisions of Section 7.01 hereof, the City covenants that there will not be issued and Outstanding at any time more than \$100,000,000 in principal amount of Program Notes. For purposes of this Section 5.01, any portion of Outstanding Program Notes to be paid on the day of calculation from money on deposit in the Program Note Payment Fund and/or the proceeds of other Program Notes or other City Obligations issued for the purpose of refinancing, redeeming, or refunding then-Outstanding Program Notes shall not be considered Outstanding.

SECTION 5.02. RATES AND CHARGES. The City will fix and maintain rates and collect charges for the facilities and services afforded by the District Special Project and the DSP System which will provide revenues sufficient at all times:

- (a) to pay all DSP Operating Expenses;
- (b) to establish and maintain the DSP Senior Lien Debt Service Fund;
- (c) to generate in each year DSP Net Revenues equal to 1.25 times the maximum annual requirement for the payment of the principal of and interest on the DSP Senior Lien Obligations at the time Outstanding (although amounts shall be paid into the applicable debt service and/or debt service reserve fund in accordance with the provisions and at the times specified in the applicable order, ordinance, or resolution authorizing the

issuance of the subject series of DSP Debt Obligations) during the then-current Fiscal Year:

(d) to establish and maintain the DSP Subordinate Lien Debt Service Fund;

(e) to produce DSP Net Revenues equal to at least (i) 1.10 times the maximum annual requirement for the payment of the principal of and interest on the DSP Subordinate Lien Obligations at the time Outstanding and (ii) the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the DSP Subordinate Lien Obligations;

(f) to produce DSP Net Revenues, together with any other lawfully available funds (including the proceeds of any other DSP Debt Obligations which the City expects will be utilized to pay all or part of the principal and/or interest on any obligations described in this clause (vii), but excluding any City System revenues, the City's general fund, or any funds derived by the City's exercise of its ability to levy and collect an ad valorem tax), sufficient to pay the principal of and interest on any DSP Inferior Lien Obligations hereafter issued as the same becomes due and payable and to deposit the amounts required to be deposited into any special fund created and established for the payment and security of any DSP Inferior Lien Obligations hereafter issued; and

(g) to pay any other Outstanding DSP Debt Obligations payable from and/or secured by a lien on and pledge of any DSP Net Revenues or the assets of the District Special Project, other than any DSP Special Facility Debt, as and when the same become due and payable.

For the purpose of performing the calculation described in clause (e) above, only the principal of the Program Notes which are not being paid from available proceeds of or replaced with other Program Notes or other DSP Debt Obligations shall be considered Outstanding.

SECTION 5.03. DSP SYSTEM FUND. There has been created and established in the DSP Ordinance, and accounted for separate and apart from all other funds, a special fund entitled the SAN ANTONIO WATER SYSTEM DSP SYSTEM FUND (the *DSP System Fund*). All DSP Gross Revenues are and shall be credited to the DSP System Fund immediately upon receipt.

SECTION 5.04. FLOW OF FUNDS. The City, acting through the Board, hereby agrees and reaffirms its covenant to the Holders of the DSP Debt Obligations and covenants to the Holders of the Program Notes that payments from the DSP System Fund shall be made in the following irrevocable order of priorities when and as required by (i) this Ordinance for so long as the Program remains valid and in effect, (ii) any District Debt Authorization for so long as any District Debt Obligation assumed by the City in connection with the SAWS Transfer remains Outstanding, (iii) any City ordinance or resolution authorizing the issuance of any Additional DSP Debt, or (iv) any Credit Agreement hereafter entered into by the City (or any amendment to a Credit Agreement that exists as of the effective date of the SAWS Transfer and remains in effect thereafter).

(a) FIRST, to the payment of DSP Operating Expenses;

(b) SECOND, to the DSP Senior Lien Debt Service Fund, when and in the amounts required by any District Senior Lien Order or ordinance or resolution of the City authorizing the issuance of any Additional DSP Senior Lien Obligations or any Credit Agreement;

(c) THIRD, to the DSP Senior Lien Debt Service Reserve Fund, when and in the amounts required by any District Senior Lien Order or ordinance or resolution of the City authorizing the issuance of any Additional DSP Senior Lien Obligations;

(d) FOURTH, to the payment of principal and interest requirements for any District Debt Obligations currently Outstanding or Additional DSP Debt hereafter issued that are payable from and secured by a lien on and pledge of the Pledged Revenues that is subordinate and inferior to the lien thereon and pledge thereof that secures the repayment of the DSP Senior Lien Obligations (being the DSP Subordinate Lien Obligations and the Program Notes), when and in the amounts required by any District Debt Authorization or ordinance or resolution of the City authorizing the issuance of such Additional DSP Debt (including this Ordinance), including any payment obligation arising under a Credit Agreement;

(e) FIFTH, to the DSP Subordinate Lien Debt Service Reserve Fund or any additional and similar fund, when and in the amounts required by any District Subordinate Lien Order or ordinance or resolution of the City authorizing the issuance of any Additional DSP Subordinate Lien Obligations that are additionally secured by a lien on and pledge of a debt service reserve fund (including, but not limited to, the DSP Subordinate Lien Debt Service Reserve Fund);

(f) SIXTH, to the DSP Improvement and Contingency Fund, when, in the amounts, and as required by the District Senior Lien Orders and as specified by the DSP Ordinance; and

(g) SEVENTH, all remaining amounts to be used by the City and the Board for any lawful purpose relating to the District Special Project.

SECTION 5.05. OBLIGATIONS FOR PAYMENT OF PROGRAM NOTES. The City in good faith shall endeavor to sell or issue (or cause to be issued) a sufficient principal amount of Program Notes, Additional DSP Debt, and/or obligations secured by and payable from a lien on and pledge of certain of the revenues of the City System, in order to have funds available, together with other money available therefor derived from DSP Pledged Revenues, to pay the then-Outstanding Program Notes and the interest thereon, or any renewals thereof, as and when the same shall become due.

SECTION 5.06. PUNCTUAL PAYMENT. The City will punctually pay or cause to be paid the principal of and interest, if any, on the Program Notes (but only from the sources and funds pledged herein and DSP Pledged Revenues), in conformity with the Program Notes, this Ordinance, and the Note Purchase Agreement.

SECTION 5.07. PROGRAM NOTES, OTHER THAN TAXABLE NOTES, TO REMAIN TAX-EXEMPT. The City covenants that it or a Designated Financial Officer will

execute and deliver to the Paying Agent/Registrar a Certificate as to Tax-Exemption in the form prescribed by Bond Counsel in connection with the initial issuance of the Tax-Exempt Program Notes, and that in connection with each subsequent issuance of Tax-Exempt Program Notes, the City or a Designated Financial Officer will execute and deliver to the Paying Agent/Registrar an additional Certificate as to Tax-Exemption in the form prescribed by Bond Counsel or, if acceptable to the Program Note Purchaser under the then-effective Note Purchase Program, in the form described in Section 3.01 a confirmation that the facts, estimates, circumstances, and reasonable expectations contained therein continue to be accurate as of such issue date. The City represents and covenants that it will not expend, or permit to be expended, the proceeds of any Tax-Exempt Program Notes in any manner inconsistent with its reasonable expectations as certified in the Certificate as to Tax-Exemption to be executed from time to time with respect to the Tax-Exempt Program Notes; provided, however, that the City may expend Tax-Exempt Program Note proceeds in any manner if the City first obtains an unqualified opinion of Bond Counsel that such expenditure will not impair the exemption from federal income taxes of interest paid on the Tax-Exempt Program Notes. The City represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon.

In addition to the above covenants, the City covenants to take any action to maintain, or refrain from any action which would adversely affect, the treatment of the Tax-Exempt Program Notes as obligations described in section 103 of the Internal Revenue Code of 1986 (the *Code*), the interest on which is not includable in the “gross income” of the Holder for purposes of federal income taxation. In furtherance thereof, the City specifically covenants as follows:

(a) To take any action to assure that no more than 10% of the proceeds of the Tax-Exempt Program Notes are used for any “private business use,” as defined in section 141(b)(6) of the Code, or, if more than 10% of the proceeds are so used, that amounts, whether or not received by the City with respect to such private business use, do not under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10% of the debt service on the Tax-Exempt Program Notes, in contravention of section 141(b)(2) of the Code;

(b) To take any action to assure that in the event that the “private business use” described in subsection (a) hereof exceeds 5% of the proceeds of the Tax-Exempt Program Notes, then the amount in excess of 5% is used for a “private business use” which is “related” and not “disproportionate,” within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) To take any action to assure that no amount which is greater than the lesser of \$5,000,000 or 5% of the proceeds of the Tax-Exempt Program Notes is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) To assure that the aggregate “nonqualified amount” with respect to output facilities shall not exceed the \$15,000,000 limitation of section 141(b)(4) of the Code;

(e) To refrain from taking any action which would otherwise result in the Tax-Exempt Program Notes being treated as “private activity bonds” within the meaning of section 141(b) of the Code;

(f) To refrain from taking any action that would result in the Tax-Exempt Program Notes being “federally guaranteed” within the meaning of section 149(b) of the Code;

(g) To refrain from using any portion of the proceeds of the Tax-Exempt Program Notes, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire “investment property” (as defined in section 148(b)(2) of the Code) which would produce a materially higher yield over the term of the Tax-Exempt Program Notes, other than investment property acquired with proceeds of the Tax-Exempt Program Notes invested for a reasonable temporary period of three years or less until such proceeds are needed for the purpose for which the bonds are issued, amounts invested in a bona fide debt service fund, within the meaning of section 1.103-13(b)(12) of the Treasury Regulations, and amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10% of the proceeds of the Tax-Exempt Program Notes;

(h) To otherwise restrict the use of the proceeds of the Tax-Exempt Program Notes, or amounts treated as proceeds of the Tax-Exempt Program Notes, as may be necessary, so that the Tax-Exempt Program Notes do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings);

(i) To pay to the United States of America at least once during each five year period (beginning on the date of delivery of the Tax-Exempt Program Notes) an amount that is at least equal to 90% of the “Excess Earnings,” within the meaning of section 148(f) of the Code, and to pay to the United States of America, not later than 60 days after the Tax-Exempt Program Notes have been paid in full, 100% of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and to maintain such records as will enable the City to fulfill its responsibilities under this Section and section 148 of the Code and to retain such records for at least six years following the final payment of principal and interest on the Tax-Exempt Program Notes.

For purposes of the foregoing subparagraphs (a) and (b), the City understands that the term “proceeds” includes “disposition proceeds” as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Tax-Exempt Program Notes. It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the United States Department of Treasury pursuant thereto. In the event that the regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Tax-Exempt Program Notes, the City will not be required to comply with any covenant contained herein to the extent that such modification or expansion, in the opinion of Bond Counsel, will not adversely affect the exemption of interest on the Tax-Exempt Program Notes under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Tax-Exempt Program Notes, the City agrees to comply with the

additional requirements to the extent necessary, in the opinion of Bond Counsel, to preserve the exemption from federal income taxation of interest on the Tax-Exempt Program Notes under section 103 of the Code.

SECTION 5.08. TAXABLE NOTES. (a) The provisions of Section 5.07 of this Ordinance notwithstanding, the Board has reserved the ability to issue Taxable Program Notes in the form set forth in Section 2.03 of this Ordinance.

(b) It is the intention of the Board that the interest on the Taxable Program Notes not be excludable from gross income of the Holders thereof for federal income tax purposes under section 103 of the Code. Accordingly, the Board covenants not to file any information return that would result in the interest on Taxable Program Notes being excludable from gross income under such section of the Code.

(c) The Board covenants and agrees to cause the Paying Agent/Registrar to undertake to report, to the extent required by the Code, interest payments on the Taxable Program Notes to the Internal Revenue Service. Such information shall be filed by the Paying Agent/Registrar on the form published by the Internal Revenue Service for this purpose and contain the information required by the Code.

(d) The Board covenants and agrees to cause the Paying Agent/Registrar to obtain or cause to be obtained from the holder of each of the Taxable Program Notes the information required by the Code relating to the correct social security number or other taxpayer identification number for the Holder of each of the Taxable Program Notes or to withhold the portion of the payment required to be withheld under the Code.

SECTION 5.09. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purpose for which the Tax-Exempt Program Notes are issued on its books and records in accordance with the regulations under section 148 of the Code.

SECTION 5.10. DISPOSITION OF PROJECT. The City covenants that the property financed or refinanced with the Tax-Exempt Program Notes will not be sold or otherwise disposed of in a transaction resulting in the receipt by the City or the Board of cash or other compensation, unless the City obtains an opinion of Bond Counsel that such sale or other disposition will not adversely affect the Tax-Exempt status of the Tax-Exempt Program Notes. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion of Bond Counsel that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

SECTION 5.11. SUPPLEMENTAL ORDINANCES. Other than as permitted herein with respect to the issuance of additional obligations of the City secured by the DSP Pledged Revenues and, in any event and to the extent (but only to the extent) required thereunder, subject to the terms, conditions and restrictions set forth in the appropriate Note Purchase Agreement at

such time valid and in effect, the City will not adopt any supplemental or additional ordinances, pursuant to the DSP Ordinance or otherwise, which would materially adversely affect the ability of the City to make payments of the principal of and interest on the Program Notes as and when due.

SECTION 5.12. OPINION OF BOND COUNSEL. The City shall cause the legal opinion of Bond Counsel as to the validity of the Program Notes, and as to the exclusion of interest on the Tax-Exempt Program Notes from the gross income of the Holders of the Tax-Exempt Program Notes for purposes of federal income taxation, to be furnished to any Holder of a Program Note, without cost; provided, however, that the legal opinion addressing the exclusion of interest on Tax-Exempt Program Notes need only be furnished to a Holder of Tax-Exempt Program Notes.

SECTION 5.13. COMPLIANCE WITH DSP ORDINANCE AND OTHER DOCUMENTS. The City will comply with the terms and provisions of the DSP Ordinance, and any other ordinance or contract to which the City is a party, the non-compliance with which would materially adversely affect the ability of the City to make payments on the Program Notes when due.

SECTION 5.14. RESERVATION OF RIGHT TO ISSUE ADDITIONAL DSP SENIOR LIEN OBLIGATIONS, ADDITIONAL DSP SUBORDINATE LIEN OBLIGATIONS, AND INFERIOR DSP LIEN OBLIGATIONS. (a) The City hereby expressly reserves the right to hereafter issue Additional DSP Debt in accordance with the applicable provisions of the DSP Ordinance, payable from and secured by a lien on and pledge of the revenues of the DSP System at the lien priority specified by the City subject only to the limitations imposed by law and the City's ability to satisfy the prerequisites to such desired issuances as specified in the DSP Ordinance.

(b) In addition to other Additional DSP Debt described in the DSP Ordinance, the City has reserved the right to issue Additional DSP Subordinate Lien Obligations, and the Additional DSP Subordinate Lien Obligations, when issued, may be secured by and payable from a lien on and pledge of the DSP Pledged Revenues in the same manner and to the same extent as the Outstanding DSP Subordinate Obligations (including the Program Notes), and the Outstanding DSP Subordinate Lien Obligations and the Additional DSP Subordinate Lien Obligations may be in all respects of equal dignity. The Additional DSP Subordinate Lien Obligations may be issued to provide funds for any lawful purpose. It is provided, however, that no Additional DSP Subordinate Lien Obligations shall be issued unless:

(i) such Additional DSP Subordinate Lien Obligations are made to mature on May 1 in each of the years in which they are scheduled to mature;

(ii) a Designated Financial Officer shall have executed a certificate, dated as of the date of such Additional DSP Subordinate Lien Obligations, stating (i) that the City is not then in default as to any covenant, obligation, or agreement contained in any proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of all or any part of the DSP Net Revenues, (ii) no Event of Default has at such time occurred and is then continuing, (iii) all payments into all 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 DSP Net Revenues have been made in full and that the amounts on deposit in such funds or accounts are the amounts then required to be deposited therein, and (iv) the conditions, if any, to such issuance included in a Note Purchase Agreement at such time valid and in effect have been satisfied; and

(iii) the City has secured a certificate or opinion of the Accountant to the effect that, according to the books and records of the City relating to the District Special Project, the DSP Net Earnings for the preceding Fiscal Year or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance or resolution of the City authorizing the Additional DSP Subordinate Lien Obligations is adopted are at least equal to the sum of (i) the Average Annual Principal and Interest Requirements for the then Outstanding DSP Senior Lien Obligations and (ii) 1.10 times the Average Annual Principal and Interest Requirements for the then-Outstanding DSP Subordinate Lien Obligations and the proposed Additional DSP Subordinate Lien Obligations. In making a determination of the DSP Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the DSP System that became effective at least 60 days prior to the last day of the period for which DSP Net Earnings are determined and (ii) for purposes of satisfying the above DSP Net Earnings test, make a pro forma determination of the DSP Net Earnings 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. In addition, the revenues and expenses of any DSP Capital Addition may be added to the DSP Net Earnings for making these determinations.

ARTICLE VI EVENTS OF DEFAULT AND REMEDIES OF NOTEHOLDERS

SECTION 6.01. EVENTS OF DEFAULT. The occurrence and continuation of any of the following shall constitute an "Event of Default": (i) the City shall fail to make due and punctual payment of any installment of principal of any Program Note when and as the same shall become due and payable, whether at maturity as set forth in the Program Note, by declaration or otherwise; (ii) if the City shall fail to make due and punctual payment of any installment of interest on any Program Note when and as such interest installment shall become due and payable; (iii) if the City fails to perform or observe any other of the covenants, agreements or conditions on its part in this Ordinance or in the Program Notes, and such default shall continue for a period of 30 days after written notice thereof to the City by the Holders of not less than 10% in principal amounts of the Program Notes then Outstanding; (iv) if there shall occur the dissolution (without a successor being named to assume the rights and obligations) or liquidation of the City or the filing by the City of a voluntary petition in bankruptcy, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of its creditors, or the entry by the City into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceeding for its reorganization instituted under the provisions of the federal Bankruptcy Code, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted; (v) if an order or decree shall be

entered, with the consent or acquiescence of the City, appointing a receiver or receivers of the Systems, or any part thereof, or of the rents, fees, charges or other revenues therefrom, or if such order or decree, having been entered without the consent or acquiescence of the City shall not be vacated or discharged or stayed within 90 days after the entry thereof; or (vi) such other event constituting an Event of Default as may be specified in a Note Purchase Agreement.

SECTION 6.02. SUITS AT LAW OR IN EQUITY AND MANDAMUS. In case one or more Events of Default shall occur, then and in every such case the Holder of any Program Note at the time outstanding shall be entitled to proceed to protect and enforce such party's rights by such appropriate judicial proceeding as such party shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Ordinance, or in aid of the exercise of any power granted in this Ordinance, or to enforce any other legal or equitable right vested in the Holders of Program Notes by this Ordinance or the Program Notes or by law. The Program Notes shall not be subject to acceleration upon the occurrence and continuation of an Event of Default. The provisions of this Ordinance shall be a contract with each and every Holder of Program Notes and the duties of the City shall be enforceable by any Holder by mandamus or other appropriate suit, action, or proceeding in any court of competent jurisdiction.

SECTION 6.03. REMEDIES NOT EXCLUSIVE. No remedy herein conferred upon or reserved to the Holders of the Program Notes is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised at any time or from time to time, and as often as may be necessary, by the Holder of any one or more of the Program Notes.

ARTICLE VII MISCELLANEOUS

SECTION 7.01. AMENDMENTS OR MODIFICATIONS. (a) This Ordinance and the rights and obligations of the City and of the Holders of the Program Notes may be modified or amended at any time by a supplemental ordinance, without notice to or the consent of any Holders of Program Notes, but only to the extent permitted by law, and, subject to the rights of the Holders of the Program Notes, only for any one or more of the following purposes: to add to the covenants and agreements of the City contains in this Ordinance, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the City; or to cure any ambiguity, or to cure or correct any defective provision contained in the Ordinance, upon receipt by the City of an approving opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Ordinance; or to provide additional security for the Program Notes, provide credit facilities, or change the form of the Program Notes or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not materially adversely affect the interests of the Holders of the Program Notes; to make any changes or amendments requested by a Rating Agency as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the Holders; or to make any changes or amendments with respect to Program Notes in a particular form if there are no Program Notes then-Outstanding in such form; provided, however, that

nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions of this Ordinance or in the Program Notes so as to:

- (i) Make any change in the maturity of any of the Outstanding Program Notes;
- (ii) Reduce the rate of interest borne by or the method of calculating interest on any of the Outstanding Program Notes;
- (iii) Reduce the amount of the principal payable on any of the Outstanding Program Notes;
- (iv) Modify the terms of payment of principal of or interest on the Outstanding Program Notes, or impose any conditions with respect to such payment; or
- (v) Affect the rights of the Holders of less than all of the Outstanding Program Notes, or reduce or restrict the pledge made in Section 2.09 of this Ordinance and in a Note Purchase Agreement, and as evidenced in each Program Note, for payment of the Program Notes;

provided, however, that no change, modification or amendment shall be made in the Ordinance or become valid and effective without the approval of such change, modification or amendment by the Attorney General of the State of Texas, if, in the opinion of Bond Counsel, such approval is required by applicable law and, to the extent required by a Note Purchase Agreement, without the consent of the Program Note Purchaser.

(b) A Designated Financial Officer may approve technical changes to this Ordinance for such purposes as such Designated Financial Officer deems necessary, including, but not limited to obtaining or continuing a credit rating from any of the Rating Agencies or obtaining approval of this Ordinance by the Attorney General of the State of Texas; provided, however, that such changes, in the opinion of Bond Counsel, shall not materially effect the security for the Program Notes or the intent and purpose of the City Council in adopting this Ordinance.

SECTION 7.02. ADDITIONAL ACTIONS. The Mayor, the City Clerk, the City Manager, the Chief Financial Officer of the City, and any Designated Financial Officer are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to establish the Program, consummate the issuance, sale and delivery of the Program Notes, and otherwise to effectuate the purposes of this Ordinance, the Note Purchase Agreement, the Paying Agent/Registrar Agreement, and the Escrow Agreement.

SECTION 7.03. ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Program Notes, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Ordinance shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Program Notes and the pledge made in this Ordinance by the City and the covenants and agreements set forth in this Ordinance to be performed by the City shall be for the equal and proportionate benefit, security and protection of all Holders of the Program Notes, without preference, priority or distinction as to security or otherwise of any of the Program Notes

authorized hereunder over any of the others by reason of time of issuance, sale or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Ordinance or the Note Purchase Agreement.

SECTION 7.04. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Program Notes issued hereunder.

SECTION 7.05. PAYMENT AND PERFORMANCE ON BUSINESS DAYS. Whenever under the terms of this Ordinance or the Program Notes, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Program Notes, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Program Notes, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the scheduled date of performance or payment.

SECTION 7.06. DEFEASANCE. If, when all or any portion of the Program Notes shall have become due and payable in accordance with their terms or otherwise as provided in this Ordinance, the entire principal and interest so due and payable upon said Program Notes shall be paid, or if at or prior to the date said Program Notes become due and payable, sufficient money or Government Securities, the principal of and interest on which will provide sufficient money for such payment, shall be held by the Paying Agent/Registrar and provision shall also be made for paying all other sums payable hereunder by the City with respect to said Program Notes, the rights, title, and interest of the Holders of the Program Notes in DSP Pledged Revenues and the funds and accounts pledged as additional security for the Program Notes hereunder shall thereupon cease, terminate and become discharged and said Program Notes shall no longer be deemed Outstanding for purposes of this Ordinance and all the provisions of this Ordinance, including all covenants, agreements, liens, and pledges made herein, shall be deemed duly discharged, satisfied, and released with respect to said Program Notes.

SECTION 7.07. LIMITATION OF BENEFITS WITH RESPECT TO THE ORDINANCE. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Ordinance or the Program Notes is intended or should be construed to confer upon or give to any person other than the City, the Holders of the Program Notes, the Paying Agent/Registrar and the Program Note Purchaser, any legal or equitable right, remedy or claim under or by reason of or in respect to this Ordinance or any covenant, condition, stipulation, promise, agreement or provision herein contained.

This Ordinance and all of the covenants, conditions, stipulations, promises, agreements and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the City, the Holders of the Program Notes, the Paying Agent/Registrar and the Program Note Purchaser as herein and therein provided.

SECTION 7.08. APPROVAL OF ATTORNEY GENERAL. No Program Note herein authorized to be issued shall be sold or delivered by an Designated Financial Officer until the Attorney General of the State of Texas shall have approved this Ordinance and the Program's establishment and other agreements and proceedings as may be required in connection therewith, all as is required by Chapter 1371.

SECTION 7.09. FURTHER PROCEDURES. The officers and employees of the City and the Board 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 establishment of the Program and the issuance of Program Notes thereunder, the Paying Agent/Registrar Agreement, and the Note Purchase Agreement. In addition, prior to the establishment of the Program, the Mayor, the City Manager, the City's Chief Financial Officer, any Designated Financial Officer, and 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, (ii) obtain a rating from any of the Rating Agencies, or (iii) obtain the approval of the Program by the Texas Attorney General's office. In case any officer of the City or the Board 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 7.10. 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, Texas Government Code, as amended.

SECTION 7.11. 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 the affirmative vote of at least eight members of the City Council, otherwise the same shall take effect on the tenth day after the date of its passage by the City Council.

[The remainder of this page intentionally left blank.]

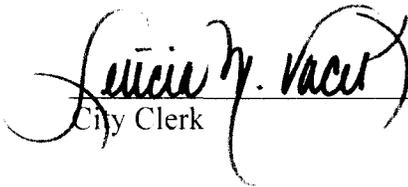
PASSED AND ADOPTED by an affirmative vote of 10 members of the City Council of the City of San Antonio, Texas, this the 14th day of June, 2012.

CITY OF SAN ANTONIO



Mayor **JULIAN 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

REFUNDED OBLIGATIONS

1. "Bexar Metropolitan Water District Waterworks System Revenue Bonds, Series 1998", dated July 1, 1998, in the original principal amount of \$66,655,403.00, and stated to mature on May 1, 2025, May 1 in each of the years 2026 through 2035, and May 1, 2038 in the aggregate principal amount of \$33,662,958.85. The redemption date for these Refunded Bonds is August 1, 2012.

2. "Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2002", dated July 15, 2002, in the original principal amount of \$57,700,000.00, and stated to mature on May 1 in each of the years 2013 through 2020, May 1, 2026, and May 1, 2032 in the aggregate principal amount of \$22,035,000. The redemption date for these Refunded Obligations is August 1, 2012.

3. The Loan, resulting from the City's assumption of such obligations from the former Bexar Metropolitan Water District, to be prepaid as shown below:

| <u>Prepayment Date</u> | <u>Principal Amount (\$)</u> | <u>Interest Rate (%)</u> | <u>Accrued Interest (\$)</u> | <u>Total (\$)</u> |
|------------------------|------------------------------|--------------------------|------------------------------|-------------------|
| 6-29-2012 | 10,000,000 | 2.00 | 6,388.89 | 10,006,388.89 |

EXHIBIT A
FORM OF NOTE PURCHASE AGREEMENT
SEE TAB NO. 5

EXHIBIT B
FORM OF PAYING AGENT/REGISTRAR AGREEMENT
SEE TAB NO. 3

EXHIBIT C
ESCROW AGREEMENT
SEE TAB NO. 4

EXHIBIT D
NOTICES OF REDEMPTION
SEE TAB NO. 24