**FINAL**

# ORDINANCE NO. 2012-06-14-0454

**AN ORDINANCE BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS AUTHORIZING THE ISSUANCE OF "CITY OF SAN ANTONIO, TEXAS WATER SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2012A" IN A PRINCIPAL AMOUNT NOT TO EXCEED $175,000,000; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS BY A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES OF THE WATER SYSTEM ON A PARITY WITH CERTAIN CURRENTLY OUTSTANDING OBLIGATIONS; PROVIDING THE TERMS AND CONDITIONS OF SUCH BONDS AND RESOLVING OTHER MATTERS INCIDENT AND RELATING TO THE ISSUANCE, PAYMENT, SECURITY, SALE, AND DELIVERY OF SUCH BONDS, INCLUDING THE APPROVAL AND DISTRIBUTION OF AN OFFICIAL STATEMENT; STIPULATING THE TERMS AND CONDITIONS FOR THE ISSUANCE OF ADDITIONAL REVENUE BONDS ON A PARITY THEREWITH; AUTHORIZING THE EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT, AN ESCROW DEPOSIT LETTER, AND A PURCHASE CONTRACT; COMPLYING WITH THE REQUIREMENTS OF THE DEPOSITORY TRUST COMPANY; DELEGATING THE AUTHORITY TO CERTAIN CITY OFFICIALS AND STAFF AND MEMBERS OF THE SAN ANTONIO WATER SYSTEM STAFF TO EXECUTE CERTAIN DOCUMENTS RELATING TO THE SALE OF THE BONDS; ENACTING OTHER PROVISIONS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS ORDINANCE; AND PROVIDING FOR AN EFFECTIVE DATE**

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

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

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

WHEREAS, the City has heretofore issued, sold, and delivered, and there are currently outstanding, a series of commercial paper notes (the *Commercial Paper*) which is equally and

ratably secured by a lien on and pledge of the Net Revenues of the System subordinate to the lien securing the payment of the currently outstanding Previously Issued Senior Lien Obligations and currently outstanding Junior Lien Obligations; and

WHEREAS, the City has heretofore issued, sold, and delivered, and there are currently outstanding obligations in the aggregate principal amount of at least $175,000,000 in Commercial Paper notes, being the obligations set forth on Schedule I hereto which is incorporated by reference for all purposes to this ordinance (the *Refunded Obligations*); and

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

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

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

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

WHEREAS, the City is empowered by the provisions of Chapter 1502, as amended, Texas Government Code (*Chapter 1502*) and the City's Home Rule Charter to issue revenue bonds; and

WHEREAS, the City Council of the City has determined that revenue bonds payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues of the System should be issued for the purpose of acquiring, purchasing, constructing, improving, extending, enlarging, equipping, and repairing the City's water system; and

WHEREAS, the City Council hereby finds and determines that revenue and refunding bonds, in a principal amount of $163,435,000 should be issued and sold to the Purchaser at this time; and

WHEREAS, the Board of Trustees (the *Board*) of the San Antonio Water System has pursuant to a resolution adopted on June 5, 2012 recommended that the revenue and refunding bonds in an amount not to exceed $175,000,000 should be issued by the City, that bond insurance, if any, be purchased to insure the revenue bonds, and that a Surety Policy (hereinafter defined), if any, be purchased or cash may be used to fund any increase in the Required Reserve

Amount attributable to the issuance of the Bonds upon satisfying the conditions precedent contained in 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 Senior Lien Obligations, pursuant to authority conferred by the laws of the State of Texas and at the request of the Board, the City Council of the City deems it necessary to issue and sell revenue and refunding bonds in the total principal amount not to exceed $175,000,000, for the purpose of providing funds (i) to construct improvements to the System, (ii) for the discharge and final payment of the Refunded Obligations, (iii) to purchase a Credit Facility (hereinafter defined), if any, to purchase bond insurance, if any, and/or to fund an increase in the Required Reserve Amount (hereinafter defined) attributable to the issuance of the Bonds, and (iv) to pay certain costs of issuance related thereto, which revenue and refunding bonds shall be payable from the same source and secured in the same manner as the Previously Issued Senior Lien Obligations; and

WHEREAS, this City Council has further found and determined that all the terms and conditions for the issuance of the revenue and refunding bonds on a parity with the outstanding Senior Lien Obligations can be met and satisfied all as required by the terms and provisions of this Ordinance; and

WHEREAS, the City Council is now authorized and empowered to proceed with the passage and adoption of this Ordinance authorizing (i) the issuance of the Bonds (hereinafter defined) and to pay the costs and expenses of issuing the Bonds, (ii) the establishment and funding of the Reserve Fund, to include the purchase of a Surety Policy, if any, (iii) the execution and delivery of the Paying Agent/Registrar Agreement, Escrow Agreement, and the Purchase Contract relating to the Bonds, (iv) approving the distribution of the Official Statement relating to the Bonds, (v) complying with DTC's Letter of Representations, (vi) the approval of the Credit Facility, if any, and the bond insurance policy, if any, (vii) the providing of notice of redemption, if any, for the Refunded Obligations, and (viii) specifying certain powers and duties of the Board; and

WHEREAS, the City Council hereby finds and determines that the issuance of the Bonds and the adoption of this Ordinance is in the best interests of the citizens of the City, now, therefore,

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

SECTION 1: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires, in addition to other terms defined elsewhere herein, the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 42 and 57 of this Ordinance have the meanings assigned to them in such Section, all as follows:

A. *Accountant* means a certified public accountant or accountants or a firm of certified public accountants, in either case, with demonstrated expertise and competence in public accountancy.

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

C. *Additional Senior Lien Obligations* means (i) bonds, notes, warrants, certificates of obligation, or other Debt which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 23 of this Ordinance and which obligations are equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues on a parity with the currently outstanding Senior Lien Obligations, and (ii) obligations hereafter issued to refund any of the foregoing (as determined within the sole discretion of the City Council in accordance with applicable law) if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues as determined by the City Council in accordance with applicable law.

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

E. *Annual Debt Service Requirements* means, as of the date of calculation, the principal of and interest on all Senior Lien Obligations coming due at Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Senior Lien Obligations, or be payable in respect of any required purchase of such Senior Lien Obligations by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the Board:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, financial institution, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on

demand, at any date on which demand may be made by the owner thereof) or to purchase any of its Funded Debt at any date on which such Funded Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation, and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added.

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year is substantially greater than the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year such that, in its reasonable judgment, the Board finds that the City will elect, or will find it necessary, in the future to issue Debt for the purposes of refunding all or a portion of such principal in order to restructure the payment of such principal (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Section as *Balloon Debt*), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation.

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the Board has elected to apply the rule set forth in clause (2) above.

(4) Prepaid Debt. Principal of and interest on Senior Lien Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest is payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so

deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Senior Lien Obligations.

(5) Variable Rate. As to any Senior Lien Obligations that bear interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement, then, at the option of the Board, the greater of (a) an interest rate equal to the average rate borne by such Senior Lien Obligations (or by comparable debt in the event that such Senior Lien Obligations have not been outstanding during the preceding 24 months) for any 24-month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year "Tax-Exempt Revenue Bond Index" (as most recently published in *The Bond Buyer*), shall be presumed to apply for all future dates, unless such index is no longer published in *The Bond Buyer*, in which case an index of tax-exempt revenue bonds with maturities of at least 20 years which is published in a financial newspaper or journal with national circulation may be used for this purpose, and the maturity schedule for any such Senior Lien Obligations shall be calculated, to the extent necessary, in the manner provided in clause (2) of this definition.

(6) Commercial Paper. With respect to any Senior Lien Obligations issued in the form of commercial paper, the interest on such Senior Lien Obligations shall be calculated in the manner provided in clause (5) of this definition, and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition.

(7) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Senior Lien Obligations, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (6) above, and any payments otherwise included above under (1) through (6) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation, and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

F. *Authorized Official* shall mean any of the Mayor, the City Clerk, the City Manager, the Chief Financial Officer of the City or the President/Chief Executive Officer of the Board or the Senior Vice President/Chief Financial Officer of the Board.

G. *Average Annual Debt Service Requirements* means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such Senior Lien Obligations. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Senior Lien Obligations, and interest earnings thereon shall not be credited in making such computation.

H. *Board* means the Board of Trustees of the System confirmed and described in Section 32 of this Ordinance.

I. *Bonds* means the $163,435,000 "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2012A" as authorized by this Ordinance.

J. *Capital Additions* means any water, wastewater treatment, reuse water, and/or stormwater drainage plants or facilities, or an interest therein, including any associated transmission facilities with respect to each or any combination of the foregoing facilities found by the Board to be a Capital Addition.

K. *Capital Improvements* means any extensions, improvements, replacements, and betterments to the System other than Capital Additions.

L. *City* means the City of San Antonio, Texas, and where appropriate, the City Council, being its governing body.

M. *Closing Date* means the date of physical delivery of the initial Bonds in exchange for the payment in full therefor by the Purchaser.

N. *Commercial Paper* means the "City of San Antonio, Texas Water System Commercial Paper Notes, Series A" which the City has authorized in a maximum aggregate principal amount of $500,000,000.

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

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

Q. *Credit Facility* means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a rating agency having an outstanding rating on any Debt would rate such Debt fully insured by a standard policy issued by the insurer in its highest generic rating category for such obligations, or (ii) a letter or line of credit issued by any financial institution, provided that a rating agency having an outstanding rating on any Debt would rate such Debt in one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of such Debt and the interest thereon.

R. *Credit Provider* means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

S. *Debt* means

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

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

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

T. *Debt Service Fund* means the special Fund confirmed by the provisions of Section 15 of this Ordinance.

U. *Depository* means one or more official depository banks of the Board.

V. *DTC* means The Depository Trust Company, New York, New York and its successors and assigns.

W. *Designated Financial Officer* means the chief executive officer of the Board, the chief financial officer of the Board, or such other financial or accounting official of the Board so designated by the City Council.

X. *District Special Project* means the Special Project created by the City pursuant to Ordinance No. 2011-10-20-0845 adopted by the City Council on October 20, 2011 for the purpose of assuming and operating the former Bexar Metropolitan Water District until integrated with the System.

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

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

AA. *Funded Debt* of the System means all Senior Lien Obligations created or assumed by the City that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

BB. *Government Securities* means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (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.

CC. *Gross Revenues* for any period means all revenue during such period in respect or on account of the operation or ownership of the System, *excluding* refundable meter deposits, restricted gifts, grants in aid of construction, any amounts payable to the United States as rebate pursuant to the provisions of Section 42, any impact fees charged by the System pursuant to the provisions of Chapter 395, as amended, Local Government Code, payments received pursuant to the CPS Contract together with earnings and interest thereon, and earnings and income derived from the investment or deposit of money in the Project Fund and, until the Reserve Fund contains the Required Reserve Amount, the Reserve Fund, *but including*, earnings and income derived from the investment or deposit of money in the Debt Service Fund, the Reserve Fund after it contains the Required Reserve Amount, and any earnings and income from any special fund or account created and established for the payment or security of the Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien

Obligations, unless the ordinance which authorizes the issuance of any such obligations specifically provides that any such earnings and income are to be deposited to another fund or account other than the System Fund.

DD. *Holder* or *Holders* means the registered owner, whose name appears in the Security Register, for any Bond.

EE. *Inferior Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations or any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City as further provided in Section 24 hereof, (ii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

FF. *Interest Payment Date* means the date semiannual interest is payable on the Bonds, being May 15 and November 15 of each year, commencing May 15, 2013, while any of the Bonds remain Outstanding.

GG. *Junior Lien Obligations* means (i) the outstanding and unpaid obligations of the City that are payable, in whole or in part, from and equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System securing the payment of any Senior Lien Obligations, identified as follows:

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

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

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

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

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

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

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

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

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

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

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

(12) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2011", dated May 15, 2011, in the original principal amount of $24,550,000;

(13) "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2011A", dated May 15, 2011, in the original principal amount of $18,095,000;

(14) "City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve Fund)", dated April 1, 2012, in the original principal amount of $31,890,000; and

(15) "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2012", dated August 1, 2012, in the original principal amount of $19,630,000;

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

HH. *Maintenance and Operating Expenses* means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, *including* (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, *but only if*, in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments

to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of water supply, treatment of sewage, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the City or the Board hereunder, (5) the payments made on or in respect of obtaining and maintaining any Credit Facility, and (6) any legal liability of the City or the Board arising out of the operation, maintenance, or condition of the System, *but excluding* any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on the Bonds or any Debt.

II. *Maximum Annual Debt Service Requirements* means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from bond proceeds, accrued interest on any Senior Lien Obligations, and interest earnings thereon shall not be credited in making such computation.

JJ. *Net Revenues* means Gross Revenues with respect to any period, after deducting the Maintenance and Operating Expenses during such period.

KK. *Ordinance* means this ordinance adopted by the City Council on June 14, 2012.

LL. *Outstanding* when used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

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

(2) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 44 of this Ordinance; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 37 of this Ordinance.

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

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

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

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

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

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

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

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

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

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

(9) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2011A", dated August 15, 2011 in the original principal amount of $165,090,000;

(10) "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012", dated February 1, 2012 in the original principal amount of $225,255,000; and

(11) upon issuance, the Bonds;

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

OO. *Project Fund* means the special fund created and established by the provisions of Section 19 of this Ordinance.

PP. *Prudent Utility Practice* means any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or previously approved by a significant portion of the

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

QQ. *Purchaser* means the initial purchaser or purchasers of the Bonds named in Section 38 of this Ordinance.

RR. *Rating Agency* means any nationally recognized securities rating agency which has assigned a rating to the Senior Lien Obligations.

SS. *Renewal and Replacement Fund* means the special fund confirmed by the provisions of Section 18 of this Ordinance.

TT. *Required Reserve Amount* means the amount required to be deposited and maintained in the Reserve Fund under the provisions of Section 16 of this Ordinance.

UU. *Required Reserve Fund Deposits* means the monthly deposits, if any, required to be deposited and maintained in the Reserve Fund under the provisions of Section 16 of this Ordinance.

VV. *Senior Lien Obligations* means the Bonds, the Previously Issued Senior Lien Obligations, and any Additional Senior Lien Obligations hereafter issued by the City or bonds issued to refund any of the foregoing (as determined within the sole discretion of the City Council in accordance with applicable law) if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues.

WW. *Series 1992 Bonds* means the "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1992" originally issued in the aggregate principal amount of $635,925,000 pursuant to an Ordinance adopted on April 30, 1992 that are no longer outstanding.

XX. *Stated Maturity* means the annual principal payments of the Bonds payable on May 15 of each year, as set forth in Section 4 of this Ordinance.

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

all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction, and installation under such financing transaction and which includes the District Special Project.

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

(1) City of San Antonio, Texas Water System Commercial Paper Notes, Series A", authorized in the aggregate principal amount of $500,000,000, including the currently outstanding Commercial Paper Notes and Loan Notes (each as defined in the ordinance authorizing the issuance of the Commercial Paper Notes);

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

AAA. *Surety Bond* means the surety bonds guaranteeing certain payments into the Reserve Fund as provided in Section 16 hereof with respect to the Senior Lien Obligations as provided in the Surety Bond and subject to the limitations set forth in the Surety Bond and the Surety Bond shall constitute a permissible Surety Policy.

BBB. *Surety Policy* means and includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

CCC. *System* means all properties, facilities, and plants currently owned, operated, and maintained by the City and/or the Board for the supply, treatment, and transmission and distribution of treated potable water, chilled water, and steam, for the collection and treatment of wastewater, and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the City, all water (in any form) owned by the City, and any other projects and programs of the Board; provided, however, that the City expressly retains the right to incorporate (1) a stormwater system as provided by the provisions of Section 402.041 through 402.054, as amended, Local Government Code, or other similar law, and (2) any other related system as provided by the laws of the State of Texas as a part of the System. The System shall not include any Special Project or any water or water-related properties and facilities owned by the City as part of its electric and gas systems.

DDD. *Term of Issue* means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term

in any ordinance authorizing the issuance of commercial paper) or (ii) the maximum term provided by the laws of the State of Texas.

SECTION 2: Interpretations. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance and the Table of Contents, if any, of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Bonds. In the event the Board is abolished pursuant to the provisions of Section 32 and the City Council assumes the management and control of the System, all references in this Ordinance to Board shall be deemed to mean the City Council or the City, as appropriate, and all references to a Designated Financial Officer shall be deemed to mean the City Manager or the Chief Financial Officer of the City, as appropriate.

SECTION 3: Authorization of Bonds - Designation - Principal Amount - Purpose. Revenue bonds of the City shall be and are hereby authorized to be issued in the aggregate principal amount of ONE HUNDRED SIXTY THREE MILLION FOUR HUNDRED THIRTY FIVE THOUSAND AND NO/100 DOLLARS ($163,435,000), to be designated and bear the title of "CITY OF SAN ANTONIO, TEXAS WATER SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2012A" (the *Bonds*), for the purpose of providing funds (i) to construct improvements to the System, (ii) for the discharge and final payment of the Refunded Obligations, (ii) to purchase a Credit Facility (hereinafter defined), if any, to purchase bond insurance, if any, and/or to fund an increase in the Required Reserve Amount (hereinafter defined) attributable to the issuance of the Bonds, and (iv) to pay certain costs of issuance related thereto. The Bonds shall be payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues on a parity with the Previously Issued Senior Lien Obligations. The City is authorized to issue the Bonds pursuant to the authority conferred by and in conformity with the laws of the State of Texas, particularly Chapters 1207, 1371, and 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the Ordinance.

As authorized by Chapters 1207 and 1371, as amended, Texas Government Code, any Authorized Official is hereby authorized, appointed, and designated as an officer of the City authorized to act on behalf of the City in selling and delivering the Bonds authorized herein and carrying out the procedures specified in this Ordinance, including approval of the aggregate principal amount of each maturity of the Bonds, the redemption provisions, the Bond Date, and the rate of interest to be borne on the principal amount of each such maturity, and the selection of the Purchaser (which may include a syndicate of underwriters and the identification by the Authorized Representative of the duties of such syndicate members). Each Authorized Official, acting for and on behalf of the City, is authorized to execute the Approval Certificate, being a completed version of the form thereof attached hereto as Schedule II. The Bonds shall be issued in the principal amount not to exceed $175,000,000, the maximum maturity of the Bonds will be May 15, 2052 and the net effective per annum interest rate shall not exceed a rate greater than 6.00% per annum calculated in a manner consistent with the provisions of Chapter 1204, as amended, Texas Government Code. Lastly, any Authorized Official is authorized to determine

the necessity for and, if determined to be necessary, select the bond insurer and surety bond provider with respect to the Bonds and execute the Credit Facility, if any (a form of which is attached hereto as Exhibit G and hereby approved as to form). The execution of the Approval Certificate shall evidence the sale date of the Bonds by the City to the Purchaser in accordance with the provisions of the Act. Notwithstanding the foregoing, no Bonds shall be issued pursuant to the authority granted in this Ordinance unless, prior to their initial delivery, such Bonds have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations, as required by Chapter 1371, as amended, Texas Government Code. Upon execution of the Approval Certificate, Co-Bond Counsel is authorized to complete this Ordinance to reflect such final terms.

SECTION 4: Fully Registered Bonds - Authorized Denominations - Stated Maturities - Interest Rates - Date. The Bonds are issuable in fully registered form only; shall be dated September 1, 2012 (the *Bond Date*) and shall be in denominations of $5,000 or any integral multiple (within a Stated Maturity) thereof, and the Bonds shall become due and payable on May 15 in each of the years and in principal amounts (the *Stated Maturities*) and bear interest on the unpaid principal amounts from the Closing Date (anticipated to occur on or about October 2, 2012), or from the most recent Interest Payment Date (hereinafter defined) to which interest has been paid or duly provided for, to the earlier of redemption or Stated Maturity, at the per annum rates, while Outstanding, in accordance with the following schedule:

| Years of Stated Maturity | Principal Amount ($) | Interest Rate (%) |
|---|---|---|
| 2013 | 1,705,000 | 2.000 |
| 2014 | 2,655,000 | 3.000 |
| 2015 | 2,750,000 | 4.000 |
| 2016 | 2,880,000 | 5.000 |
| 2017 | 3,025,000 | 5.000 |
| 2018 | 3,180,000 | 5.000 |
| 2019 | 3,345,000 | 5.000 |
| 2020 | 3,500,000 | 4.000 |
| 2021 | 3,660,000 | 5.000 |
| 2022 | 3,850,000 | 5.000 |
| 2023 | 4,045,000 | 5.000 |
| 2024 | 4,255,000 | 5.000 |
| 2025 | 4,470,000 | 5.000 |
| 2026 | 4,700,000 | 5.000 |
| 2027 | 4,940,000 | 5.000 |
| 2028 | 5,195,000 | 5.000 |
| 2029 | 5,460,000 | 5.000 |
| 2030 | 5,740,000 | 5.000 |

| Years of Stated Maturity | Principal Amount ($) | Interest Rate (%) |
|---|---|---|
| 2031 | 6,035,000 | 5.000 |
| **** | **** | **** |
| 2034 | 19,720,000 | 4.000 |
| 2035 | 7,155,000 | 5.000 |
| 2036 | 7,520,000 | 5.000 |
| 2037 | 4,140,000 | 5.000 |
| **** | **** | **** |
| 2040 | 30,000,000 | 5.000 |
| **** | **** | **** |
| 2042 | 19,510,000 | 3.500 |

SECTION 5: Payment of Bonds - Paying Agent/Registrar. The principal of, premium, if any, and interest on the Bonds, due and payable by reason of Stated Maturity, redemption or otherwise, shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and such payment of principal of and interest on the Bonds shall be without exchange or collection charges to the Holder of the Bonds.

The Bonds shall bear interest on the unpaid principal amount thereof at the per annum rates shown above in Section 4, computed on the basis of a 360-day year composed of twelve 30-day months, and interest thereon shall be payable semiannually on May 15 and November 15 of each year (the *Interest Payment Date*), commencing May 15, 2013, while the Bonds are Outstanding.

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

The City reserves the right to appoint a successor Paying Agent/Registrar upon providing the previous Paying Agent/Registrar with a certified copy of a resolution or ordinance terminating such agency. Additionally, the City agrees promptly to cause a written notice of this

substitution to be sent to each Holder of the Bonds by United States mail, first-class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

Principal of and premium, if any, on the Bonds shall be payable only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at its corporate trust office. Interest on the Bonds shall be paid to the Holder whose name appears in the Security Register at the close of business on the last business day of the month next preceding an Interest Payment Date for the Bonds (the *Record Date*) and shall be paid (i) by check sent by United States mail, first-class postage prepaid, by the Paying Agent/Registrar, to the address of the Holder appearing in the Security Register, (ii) by wire transfer to any Holder of at least $1,000,000 in aggregate principal amount of Bonds, or (iii) by such other method, acceptable to the Paying Agent/Registrar, requested in writing by the Holder at the Holder's risk and expense.

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

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

SECTION 6: Redemption of Bonds.

A. Mandatory Redemption. The Bonds stated to mature on May 15, 2034, May 15, 2040, and May 15, 2042 are referred to herein as the "Term Bonds". The Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Bond Fund (but not the Reserve Fund) for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus

accrued interest to the date of redemption in the following principal amounts on May 15 in each of the years as set forth below:

Term Bonds
Stated to Mature
on May 15, 2034

| Year | Principal Amount ($) |
|---|---|
| 2032 | 6,310,000 |
| 2033 | 6,570,000 |
| 2034 | 6,840,000* |

Term Bonds
Stated to Mature
on May 15, 2040

| Year | Principal Amount ($) |
|---|---|
| 2037 | 3,765,000 |
| 2038 | 8,310,000 |
| 2039 | 8,740,000 |
| 2040 | 9,185,000* |

Term Bonds
Stated to Mature
on May 15, 2042

| Year | Principal Amount ($) |
|---|---|
| 2041 | 9,585,000 |
| 2042 | 9,925,000* |

*Payable at Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds of such Stated Maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Bond Fund (but not the Reserve Fund), or (3) shall have been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

B. Redemption. The Bonds having Stated Maturities on and after May 15, 2023 shall be subject to redemption prior to Stated Maturity, at the option of the City, on May 15, 2022, or on any date thereafter, as a whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par, plus accrued interest to the date of redemption.

Any Bonds called for optional redemption pursuant to the provisions of the preceding paragraph hereof shall be due and payable on the specified redemption date only if money sufficient to pay the applicable redemption price, plus accrued interest, shall be on deposit with the Paying Agent/Registrar.

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

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

E. Notice of Redemption. Not less than thirty (30) days prior to an optional or mandatory redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City and at the Board's expense, by the Paying Agent/Registrar to each Holder of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder. This notice may also be published once in a financial publication, journal, or reporter of general circulations among securities dealers in the City of New York, New York (including, but not limited to, The Bond Buyer and The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter).

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided, such Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and if money sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price is held for the purpose of such payment by the Paying Agent/ Registrar, then on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue, and such Bonds shall not be deemed to be Outstanding in accordance with the provisions of this Ordinance.

F. Transfer/Exchange of Bonds. Neither the City nor the Paying Agent/Registrar shall be required (1) to transfer or exchange any Bond during a period beginning forty-five (45) days prior to the date fixed for redemption of the Bonds or (2) to transfer or exchange any Bond

selected for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond which is subject to redemption in part.

SECTION 7: Execution - Registration. The Bonds shall be executed on behalf of the City by its Mayor, and its seal shall be reproduced or impressed thereon and attested by its City Clerk. The signature of either officer on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who were, at the time of the Bond Date, the proper officers of the City shall bind the City, notwithstanding that such individuals or either of them shall cease to hold such offices prior to the delivery of the Bonds to the Purchaser, all as authorized and provided in Chapter 1201, as amended, Texas Government Code.

No Holder of a Bond shall be entitled to any right or benefit under this Ordinance, or no Bond shall be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 11C executed by the Comptroller of Public Accounts of the State of Texas or his duly authorized agent by manual signature for the Initial Bond only, or a certificate of registration substantially in the form provided in Section 11D executed by the Paying Agent/Registrar by manual signature for Bonds other than the Initial Bond, and either such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified or registered and delivered.

SECTION 8: Registration - Transfer - Exchange of Bonds - Predecessor Bonds. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of every Holder, or, if appropriate, the nominee thereof. Any Bond may, in accordance with its terms and the terms hereof, be transferred or exchanged for Bonds of other authorized denominations upon the Security Register by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

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

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

All Bonds issued upon any transfer or exchange of Bonds shall be delivered at the corporate trust office of the Paying Agent/Registrar, or be sent by registered mail to the Holder at his request, risk, and expense, and upon the delivery thereof, the same shall be the valid and

binding obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under this Ordinance, as the Bonds surrendered upon such transfer or exchange.

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

Bonds cancelled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be Predecessor Bonds, evidencing all or a portion, as the case may be, of the same debt evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term "Predecessor Bonds" shall include any Bond registered and delivered pursuant to Section 37 in lieu of a mutilated, lost, destroyed, or stolen Bond which shall be deemed to evidence the same obligation as the mutilated, lost, destroyed, or stolen Bond.

SECTION 9: Book-Entry Only System.

It is intended that the Bonds initially be registered so as to participate in a securities depository system (the *DTC System*) with DTC, as set forth herein. Each Stated Maturity of the Bonds shall be issued (following cancellation of the initial Bonds described in Section 10) in the form of a separate single definitive Bond. Upon issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as the nominee of DTC, and all of the Outstanding Bonds shall be registered in the name of Cede & Co., as the nominee of DTC. The City and the Paying Agent/Register are authorized to execute, deliver, and take the actions set forth in such letters to or agreements with DTC as shall be necessary to effectuate the DTC System, including the Letter of Representations attached hereto as Exhibit B (the *Representation Letter*).

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

In the event that (a) the City determines that DTC is incapable of discharging its responsibilities described herein and in the Representation Letter, (b) the Representation Letter shall be terminated for any reason, or (c) DTC or the City determines that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City shall notify the Paying Agent/Registrar, DTC, and DTC Participants of the availability within a reasonable period of time through DTC of Bond certificates, and the Bonds shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC. At that time, the City may determine that the Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, as may be acceptable to the City, or such depository's agent or designee, and if the City and the Paying Agent/Registrar do not select such alternate securities depository system then the Bonds may be registered in whatever name or names the Holders of Bonds transferring or exchanging the Bonds shall designate, in accordance with the provisions hereof.

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

SECTION 10: Initial Bond(s). The Bonds herein authorized shall be issued initially either (i) as a single fully-registered Bond in the total principal amount of $163,435,000 with principal installments to become due and payable as provided in Section 4 and numbered T-1, or (ii) as one (1) fully-registered Bond for each year of Stated Maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (the *Initial Bond(s)*), and, in either case, the Initial Bond(s) shall be registered in the name of the Purchaser or the designee thereof. The Initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the Purchaser. Any time after the delivery of the Initial Bond(s), subject to Section 10, the Paying Agent/Registrar shall cancel the Initial Bond(s) delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the Purchaser, or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 11: Form of Bonds.

A. Forms Generally. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Paying Agent/Registrar, and the form of Assignment to be printed on each of the Bonds shall be substantially in the forms set forth in this section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and may have such letters, numbers, or other marks of identification (including insurance legends in the event the Bonds, or any Stated Maturities thereof, are insured and identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may, consistent herewith, be established by the City or determined by the officers executing the Bonds as

evidenced by their execution thereof. Any portion of the text of any Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

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

*[The remainder of this page intentionally left blank.]*

B. Form of Definitive Bond.

REGISTERED
NO. _____

REGISTERED
PRINCIPAL AMOUNT
$_____

United States of America
State of Texas
CITY OF SAN ANTONIO, TEXAS
WATER SYSTEM REVENUE AND REFUNDING BOND,
SERIES 2012A

| Bond Date: | Interest Rate: | Stated Maturity: | CUSIP No.: |
|---|---|---|---|
| September 1, 2012 | _____ | _____ | |

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____ DOLLARS

The City of San Antonio, Texas (the *City*), a body corporate and municipal corporation in the State of Texas, for value received, hereby promises to pay to the order of the Registered Owner specified above, or the registered assigns thereof, on the Stated Maturity specified above, the Principal Amount specified above (or so much thereof as shall not have been paid upon prior redemption), and to pay interest on the unpaid Principal Amount hereof from the Closing Date (anticipated to occur on or about October 2, 2012), or from the most recent interest payment date to which interest has been paid or duly provided for, until such principal sum has become due and payment thereof has been made or duly provided for, to the earlier of redemption or Stated Maturity, while Outstanding, at the per annum Interest Rate specified above computed on the basis of a 360-day year composed of twelve 30-day months; such interest being payable on May 15 and November 15 of each year, commencing May 15, 2013.

Principal and premium, if any, of this Bond shall be payable to the Registered Owner hereof (the *Holder*), upon presentation and surrender, at the corporate trust office of the Paying Agent/Registrar executing the registration certificate appearing hereon or a successor thereof. Interest shall be payable to the Holder of this Bond (or one or more Predecessor Bonds, as defined in the Ordinance hereinafter referenced) whose name appears on the Security Register maintained by the Paying Agent/Registrar at its offices located in Dallas, Texas at the close of business on the Record Date, which is the last business day of the month next preceding each interest payment date. All payments of principal of, premium, if any, and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by (i) check sent on the appropriate date of payment by United States mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register, (ii) wire transfer to any Holder of at least $1,000,000 in aggregate principal amount of Bonds, or (iii) such other method, acceptable to the Paying Agent/Registrar, requested by the Holder hereof at the Holder's risk and expense.

This Bond is one of the series specified in its title issued in the aggregate principal amount of $163,435,000 (the *Bonds*) pursuant to an ordinance adopted by the governing body of the City (the *Ordinance*), for the purpose of providing funds (i) for the discharge and final payment of the Refunded Obligations, (ii) to purchase a Credit Facility (hereinafter defined), if any, to purchase bond insurance, if any, and/or to fund an increase in the Required Reserve Amount (hereinafter defined) attributable to the issuance of the Bonds, and (iii) to pay certain costs of issuance related thereto. The Bonds are authorized to be issued pursuant to the authority conferred by and in conformity with the laws of the State of Texas, particularly Chapters 1207, 1371, and 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the Ordinance

The Bonds stated to mature on May 15, 2034, May 15, 2040, and May 15, 2042 are referred to herein as the "Term Bonds". The Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Bond Fund (but not the Reserve Fund) for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on May 15 in each of the years as set forth below:

Term Bonds
Stated to Mature
on May 15, 2034

| Year | Principal Amount ($) |
|---|---|
| 2032 | 6,310,000 |
| 2033 | 6,570,000 |
| 2034 | 6,840,000* |

Term Bonds
Stated to Mature
on May 15, 2040

| Year | Principal Amount ($) |
|---|---|
| 2037 | 3,765,000 |
| 2038 | 8,310,000 |
| 2039 | 8,740,000 |
| 2040 | 9,185,000* |

Term Bonds
Stated to Mature
on May 15, 2042

| Year | Principal Amount ($) |
|---|---|
| 2041 | 9,585,000 |
| 2042 | 9,925,000* |

*Payable at Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds of such Stated Maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Bond Fund (but not the

Reserve Fund), or (3) shall have been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

The Bonds stated to mature on and after May 15, 2023 may be redeemed prior to their Stated Maturities, at the option of the City, on May 15, 2022, or on any date thereafter, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity selected at random and by lot by the Paying Agent/Registrar) at the redemption price of par, plus premium, if any, plus accrued interest to the date of redemption.

Any Bonds called for optional redemption pursuant to the provisions of the preceding paragraph hereof shall be due and payable on the specified redemption date only if money sufficient to pay the applicable redemption price, plus accrued interest, shall be on deposit with the Paying Agent/Registrar.

At least thirty (30) days prior to the date fixed for redemption, a written notice of redemption shall be given by United States mail, first-class postage prepaid, to any Holders of the Bonds to be redeemed, all subject to the terms and provisions relating thereto contained in the Ordinance. This notice may also be published as provided in the Ordinance and provided to any registered securities depository and to any national information service as provided in the Ordinance. If this Bond is subject to redemption prior to Stated Maturity and is in a denomination in excess of $5,000, portions of the principal sum hereof in installments of $5,000 or any integral multiple thereof may be redeemed, and, if less than all of the principal sum hereof is to be redeemed, there shall be issued, without charge therefor, to the Holder hereof, upon the surrender of this Bond to the Paying Agent/Registrar at its corporate trust office, a new Bond or Bonds of like Stated Maturity and interest rate in any authorized denominations provided in the Ordinance for the then unredeemed balance of the principal sum hereof.

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

The Bonds of this series are special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the pledged revenues (the *Pledged Revenues*) of the City's combined utility systems (the *System*), on a parity with the currently outstanding Previously Issued Senior Lien Obligations, including the Net Revenues derived from the operation of the System on a parity with any Additional Senior Lien Obligations hereafter issued by the City. In the Ordinance, the City reserves and retains the right to issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions set forth in the Ordinance or as may be applicable thereto

under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City or the System, except with respect to the Pledged Revenues.

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

Reference is hereby made to the Ordinance, copies of which are on file in the corporate trust office of the Paying Agent/Registrar, and to all of the provisions of which the Holder by his acceptance hereof hereby assents, for definitions of terms; the description and nature of the Pledged Revenues pledged for the payment of the Bonds; the terms and conditions under which the City may issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations; the terms and conditions relating to the transfer or exchange of the Bonds; the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the City and the Paying Agent/Registrar; the terms and provisions upon which this Bond may be redeemed or discharged at or prior to the Stated Maturity thereof, and deemed to be no longer Outstanding thereunder; and for the other terms and provisions specified in the Ordinance. Capitalized terms used herein have the same meanings assigned in the Ordinance.

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

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

It is hereby certified, covenanted, and represented that all acts, conditions, and` things required to be performed, exist, and be done precedent to the issuance of this Bond in order to render the same a legal, valid, and binding special obligation of the City have been performed,

exist, and have been done, in regular and due time, form, and manner, as required by law, and that issuance of the Bonds does not exceed any constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of and lien on the Pledged Revenues. In case any provision in this Bond or any application thereof shall be deemed invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Ordinance shall be construed in accordance with and shall be governed by the laws of the State of Texas.

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

CITY OF SAN ANTONIO, TEXAS

By _____
Mayor

ATTESTED:

_____
City Clerk

(CITY SEAL)

*[The remainder of this page intentionally left blank.]*

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

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

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

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

WITNESS my signature and seal of office this _____.

_____
Comptroller of Public Accounts
of the State of Texas

(SEAL)

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

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

CERTIFICATE OF PAYING AGENT/REGISTRAR

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

Registered this date:

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

_____

By: _____
Authorized Signature

*NOTE TO PRINTER: Print on Definitive Bonds.

E. Form of Assignment.

ASSIGNMENT

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

DATED: _____

_____

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

Signature guaranteed:

_____

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

The following abbreviations, when used in the inscription on the face of the within Bond or above Assignment, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM – as tenants in common

UNIF GIFT MIN ACT
_____ Custodian _____
(Cust.) (Minor)
under Uniform Gifts to Minors Act

_____
State

TEN ENT – as tenants by the entireties

JT TEN - as joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.

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

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

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

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____

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

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

(Information to be inserted from schedule in Section 4 hereof).

(or so much thereof as shall not have been paid upon prior redemption) and to pay interest on the unpaid Principal Amount hereof from the Closing Date (anticipated to occur on or about October 2, 2012), or from the most recent interest payment date to which interest has been paid or duly provided for, to the earlier of redemption or Stated Maturity, at the per annum rate of interest specified above computed on the basis of a 360-day year composed of twelve 30-day months; such interest being payable on May 15 and November 15 of each year, commencing May 15, 2013.

Principal of this Bond shall be payable to the Registered Owner hereof (the *Holder*), upon its presentation and surrender, at the corporate trust office of U.S. Bank National Association, Dallas, Texas (the *Paying Agent/Registrar*). Interest shall be payable to the Holder of this Bond whose name appears on the Security Register maintained by the Paying Agent/Registrar at the close of business on the Record Date, which is the last business day of the month next preceding each interest payment date. All payments of principal of and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by check sent on or prior to the appropriate date of payment by United States mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder hereof.

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

SECTION 12: Pledge of Pledged Revenues. A. The City hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment and security of the Senior Lien Obligations including the establishment and maintenance of the special funds created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Senior Lien Obligations, and the interest thereon, shall constitute a lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Pledged Revenues for the payment and security of the Senior Lien Obligations shall be superior to the lien on and pledge of the Net Revenues securing payment of the currently outstanding Junior Lien Obligations and Subordinate Lien Obligations or any Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, or Inferior Lien Obligations hereafter issued by the City.

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

SECTION 13: Rates and Charges. For the benefit of the Holders of the Senior Lien Obligations and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Senior Lien Obligations are outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. to pay Maintenance and Operating Expenses;

B. to produce Pledged Revenues sufficient to pay (1) 1.25 times the Annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations and (2) the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues;

C. to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) the principal of and interest on the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior

lien on and pledge of the Net Revenues; (2) the principal of and interest on the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues; and (3) the principal of and interest on any Inferior Lien Obligations hereafter issued by the City as the same become due and payable and to deposit the amounts required to be deposited in any special fund created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the City;

D. to produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 17 of this Ordinance; and

E. to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

Should the annual audit report required by Section 28 hereof reflect that the Pledged Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of paragraph B of this Section, the Board will, within thirty (30) days after receipt of such annual audit report, report such fact to the City Council (which report shall be in addition to other required reports to the City Council) and review the operations of the System and the rates and charges for services provided, and the Board (and the City Council, if required) will make the necessary adjustments or revisions, if any, in order that the Pledged Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirement specified in paragraph B above.

SECTION 14: System Fund - Flow of Funds. The City hereby covenants, agrees, and establishes that the Gross Revenues shall be deposited by the Board, as collected and received, into a separate account (previously created, established, and to be maintained with the Depository) known as the "City of San Antonio, Texas Water System Revenue Fund" (the *System Fund*) and that the Gross Revenues shall be kept separate and apart from all other funds of the City. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

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

SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable.

THIRD: to the payment of the amounts required to be deposited into the Reserve Fund created and established to maintain the amounts required to be deposited in accordance with the provisions of this Ordinance or the ordinances relating to the issuance of the Senior Lien Obligations.

FOURTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund to be created and established for the payment, security, and benefit of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City as the same become due and payable.

FIFTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund to be created and established for the payment, security, and benefit of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

SIXTH: to the payment of the amounts required to be deposited into the funds or accounts created and established for the payment of any Inferior Lien Obligations hereafter issued by the City as the same become due and payable; and

SEVENTH: to the payment of the amounts to be transferred to the City's General Fund as provided in Section 17 hereof and into the Renewal and Replacement Fund created and established by Section 18 hereof.

SECTION 15: Debt Service Fund - Surplus Bond Proceeds. For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the City agrees that the Board shall maintain, at the Depository, and there has previously been created a separate and special account or fund to be created and known as the "City of San Antonio, Texas Water System Revenue Bonds Interest and Sinking Fund" (the *Debt Service Fund*). The City covenants that the Board shall deposit into the Debt Service Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Purchaser. If the Pledged Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

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

Accrued interest, if any, received from the purchaser of any Senior Lien Obligation shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Debt Service Fund. Additionally, any proceeds of the Bonds not expended for the authorized purposes shall be deposited into the Debt Service Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Debt Service Fund from the Pledged Revenues.

SECTION 16: Reserve Fund. To accumulate and maintain a reserve for the payment of the Senior Lien Obligations equal to 100% of the Maximum Annual Debt Service Requirements (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) for the Senior Lien Obligations (the *Required Reserve Amount*), the City agrees that the Board has previously created and established, and shall maintain a separate and special fund or account known as the "City of San Antonio, Texas Water System Revenue Bond Reserve Fund" (the *Reserve Fund*), which Fund shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Reserve Fund shall be retained in the Reserve Fund until the Reserve Fund contains the Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the System Fund. All funds deposited into the Reserve Fund shall be used solely for the payment of the principal of and interest on the Senior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Senior Lien Obligations.

The City may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Reserve Fund; provided, however, that no such Surety Policy may be so substituted unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Senior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Required Reserve Amount for the Senior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the City by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the City at the time of the delivery of the Surety Policy. The City reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund the Required Reserve Amount for the Senior Lien Obligations.

Until the issuance of any Additional Senior Lien Obligations (or as recalculated by the Board as provided in the preceding paragraphs), the Required Reserve Amount is $122,815,836. The increased Required Reserve Amount attributable to the issuance of the Bonds is $10,100,400.00, which amount will be deposited to the Reserve Fund on the Closing Date from Bond proceeds. This sum, when taking into account cash on deposit in the Reserve Fund and the hereinafter described surety policies, satisfy the Required Reserve Amount as to the Closing Date, and additionally recognizing and taking into account the Reserve Fund deposits from the

following existing surety policies: (i) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2004 Bonds, (ii) a Surety Policy issued by MBIA Insurance Corporation for the Series 2005 Bonds, and (iii) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2007 Bonds.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

When and for so long as the cash and investments in the Reserve Fund equal the Required Reserve Amount, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as provided in the preceding paragraph), the City covenants and agrees that the Board shall cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund Deposits to such Fund from the Pledged Revenues such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve Amount covenanted by the City to be maintained in the Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored. The City further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Senior Lien Obligations.

During such time as the Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund.

In the event a Surety Policy issued to satisfy all or a part of the City's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount for the Senior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Senior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207, as amended, Texas Government Code), or to the Renewal and Replacement Fund; provided, however, to the extent that such excess amount represents Senior Lien Obligation proceeds, then such amount must be transferred to the Debt Service Fund or be otherwise used in accordance with then-applicable Texas law.

SECTION 17: Payments to City General Fund.

A. The Designated Financial Officer of the Board shall transfer no later than the last business day of each month, an amount of money calculated, subject to the second paragraph of Section 18, not to exceed 5% (or such lesser amount as may be determined from time to time by the City Council) of the Gross Revenues (after making each of the payments required by the provisions of subparagraphs First through Sixth of Section 14 hereof) for the preceding month to be utilized by the City in the manner permitted by the provisions of Chapter 1502, as amended, Texas Government Code. The amount so transferred shall be net of all amounts owed by the City to the Board for the utility services described in Section 29E hereof; provided, however, that the Board shall provide the City with a sufficiently detailed statement of charges for such utility services to permit the City to allocate the charges for such utility services to the appropriate office, division, or department of the City.

B. To the extent that the available Net Revenues in any month are insufficient for the Board to make all or part of the transfer required by the preceding paragraph, the Board shall make up such shortfall (i) in the next month in which available Net Revenues exceed the amounts required to make the transfer to the City pursuant to the preceding paragraph and the *pari passu* payment to the Renewal and Replacement Fund under Section 18 or (ii) to the extent such shortfall has not been made up by the last month of the Fiscal Year, solely from any surplus funds deposited into the Renewal and Replacement Fund for such Fiscal Year. The Board's obligation to make up any shortfall in a Fiscal Year shall not carry over to a subsequent Fiscal Year.

SECTION 18: Renewal and Replacement Fund. There has previously been created and established and there shall be maintained on the books of the Board, and accounted for separate and apart from all other funds of the City and the Board, a separate fund to be entitled the "City of San Antonio, Texas Water System Renewal and Replacement Fund" (the *Renewal and Replacement Fund*). The Renewal and Replacement Fund shall be used for the purpose of (1) paying the costs of improvements, enlargements, extensions, additions, replacements, or other capital expenditures related to the System, or (2) paying the costs of unexpected or extraordinary repairs or replacements of the System for which System funds are not available, or (3) paying unexpected or extraordinary expenses of operation and maintenance of the System for which System funds are not otherwise available, or (4) depositing any funds received by the City pursuant to the CPS Contract, and such funds, including any interest or income thereon, shall be maintained in a separate, segregated account of the Renewal and Replacement Fund and shall only be used to pay Maintenance and Operating Expenses of the water reuse facilities of the System or the debt service requirements on any obligations incurred as permitted by the CPS Contract and in no event shall any such amount, including interest and income thereon, be transferred to the general fund of the City except as permitted by the CPS Contract, or (5) paying bonds or other obligations of the System for which other System revenues are not available, or (6) in the last month of any Fiscal Year to make up any shortfall as required by Section 17B, or (7) for any other lawful purpose in support of the System. The Renewal and Replacement Fund shall be maintained at the Depository.

Deposits to the Renewal and Replacement Fund shall be *pari passu* with the gross amount payable to the City pursuant to Section 17 (prior to the deduction of any charges for utility services provided pursuant to Section 29E) until the full amount payable to the City under

such Section has been paid. That is, such deposits to the Renewal and Replacement Fund shall be made equally and ratably, without preference, and on a dollar-for-dollar basis with the gross amount payable to the City pursuant to Section 17, prior to the deduction of any charges for services, until the full amount to be paid to the City in a Fiscal Year under Section 17 has been transferred to the City's General Fund. Thereafter, all surplus Net Revenues shall be deposited to the Renewal and Replacement Fund.

SECTION 19: Project Fund. The creation of the special fund of the City, known as the "City of San Antonio, Texas Water System Project Fund" is hereby confirmed. The Project Fund shall be maintained as a separate account on the books of the Board at the Depository. The Project Fund shall be used only to account for (i) the proceeds of Senior Lien Obligations, if any, (ii) any premium thereon, and (iii), except as hereinafter provided, investment earnings thereon issued for the purposes of paying the costs of and capitalized interest on, the Senior Lien Obligations during the extension, construction, improvement, or repair of the System, the costs of issuance of the Senior Lien Obligations, and for any other lawful purpose. Any amounts remaining in the Project Fund upon the completion of the projects funded therefrom shall be transferred by the Board to the Debt Service Fund.

Money on deposit in the Project Fund may, at the option of the Board, be invested as permitted by Texas law; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from the Project Fund will be available at the proper time or times. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Fiscal Year, except that any direct obligations of the United States of America — State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in the Depository, except as hereinafter provided. For purposes of maximizing investment returns, money in the Project Fund may be invested, together with money in the funds maintained in the Renewal and Replacement Fund or with any other money of the Board, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at the Depository, and which shall not be deemed to be or constitute a commingling of such money or funds, provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased, with such money or owned by the Project Fund are held by or on behalf of the Project Fund.

All interest and income derived from such deposits and investments may be deposited in the Project Fund as permitted by the provisions of Chapter 1201, as amended), Texas Government Code, and shall not constitute Gross Revenues, except that, to the extent required by law, such interest and income may be applied to make such payments to the United States as shall be required to assure that interest on the Senior Lien Obligations is excludable from gross income for federal income tax purposes of the Holders as described in Section 42 of this Ordinance.

SECTION 20: Deficiencies - Excess Pledged or Net Revenues.

A. If on any occasion there shall not be sufficient Pledged Revenues (after making all payments pertaining to the currently outstanding Senior Lien Obligations) to make the required deposits into the Debt Service Fund and the Reserve Fund, then such deficiency shall be

cured as soon as possible from the next available unallocated Pledged Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds during such month or months.

B. Subject to making the deposits required by this Ordinance, or any ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, or the payments required by the provisions of the ordinances authorizing the issuance of the currently outstanding Junior Lien Obligations and Subordinate Lien Obligations or any Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, or any Inferior Lien Obligations hereafter issued by the City, the excess Net Revenues may be used as set forth in Sections 17 and 18 hereof.

SECTION 21: Payment of Bonds. While any of the Senior Lien Obligations are outstanding, the Designated Financial Officer and/or the Authorized Officials shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Debt Service Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Senior Lien Obligations as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Senior Lien Obligations not later than the business day next preceding the date a debt service payment is due on the Senior Lien Obligations.

SECTION 22: Investment of Funds - Valuation - Transfer of Investment Income.

A. Money in the System Fund, the Debt Service Fund, the Reserve Fund, and the Renewal and Replacement Fund may, at the option of the Board, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law including, but not limited to, the Public Funds Investment Act, as amended, Chapter 2256, as amended, Texas Government Code, or any successor provision of law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any national bank) that the money required to be expended from any fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Reserve Fund mature later than the final maturity date of the Senior Lien Obligations. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Board's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at the Depository, except as hereinafter provided. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the Board, in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at the Depository, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are

held by or on behalf of each such fund. If necessary, such investments shall be promptly sold to prevent any default.

B. All interest and income derived from such deposits and investments (other than interest and income derived from deposits to the Reserve Fund if the Reserve Fund does not contain the Required Reserve Amount) shall be credited to the System Fund monthly and shall constitute Gross Revenues.

SECTION 23: Issuance of Additional Senior Lien Obligations. In addition to the right to issue Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations as authorized by Section 24 hereof pursuant to any laws of the State of Texas, the City reserves the right to issue Additional Senior Lien Obligations. The Additional Senior Lien Obligations, when issued in compliance with the terms and conditions hereinafter prescribed, shall be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues in the same manner and to the same extent as the Bonds. The Additional Senior Lien Obligations may be issued in such form and manner as is now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments and should new methods or financing techniques be developed that differ from those now available, the City and the Board reserve the right to employ the same in their financing arrangements; provided, however, that none shall be issued unless and until the following conditions, as appropriate, have been met:

A. Conditions Precedent - General. The City covenants and agrees that Additional Senior Lien Obligations will not be issued unless and until:

(1) the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the City's or the Board's obligations under this Ordinance, the City and the Board are not then in default as to any covenant, condition, or obligation prescribed in this Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, and (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein. This certificate shall be dated as of the date the ordinance is adopted authorizing the issuance of the Additional Senior Lien Obligations;

(2) the laws of the State of Texas in force at such time provide for the issuance of the Additional Senior Lien Obligations;

(3) the ordinance authorizing the issuance of the Additional Senior Lien Obligations provides for deposits (at the times established in Section 15 hereof) to be made to the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Senior Lien Obligations as the same mature; and

(4) the ordinance authorizing the issuance of the Additional Senior Lien Obligations (a) provides that the amount to be accumulated and maintained in the Reserve Fund shall be in an amount equal to not less than the Required Reserve Amount, after giving effect to the issuance of the proposed Additional Senior Lien Obligations,

and (b) provides that any additional amount required to be deposited in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part of such required additional amount in cash immediately after the delivery of such Additional Senior Lien Obligations, or, at the option of the Board, by (i) the deposit of such required additional amount (or any balance of such required additional amount not deposited in cash as permitted above) in approximately equal monthly installments, made on or before the tenth day of each month following the delivery of such Additional Senior Lien Obligations (or 1/60 of the balance of such required additional amount not deposited in cash as permitted above) or (ii) the deposit of a Surety Policy which, in whole or in combination with deposits described in clause (i) above, is sufficient to satisfy the required additional amount to be on deposited in the Reserve Fund to accumulate and maintain the Required Reserve Amount.

B. Conditions Precedent - Capital Improvements. The City covenants and agrees that Additional Senior Lien Obligations will not be issued for the purpose of financing Capital Improvements, unless and until the conditions precedent in subparagraph A above have been satisfied and, in addition thereto the Designated Financial Officer represents that, according to the books and records of the Board, the Net Revenues, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations then proposed. In making such a determination of the Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective not more than ninety (90) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations and, for purposes of satisfying the Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

C. Conditions Precedent - Capital Additions - Initial Issue. The City covenants and agrees that Additional Senior Lien Obligations will not be issued for the purpose of financing Capital Additions unless and until (i) the same conditions precedent specified in subparagraph A above have been satisfied, and (ii) the conditions precedent specified in subparagraph B above are satisfied or, in the alternative, the City and the Board have obtained:

(1) a comprehensive report from an Engineer concerning the Capital Additions to be financed, which report shall (a) contain (i) detailed estimates of the cost of acquiring and constructing the Capital Additions, (ii) the estimated date the acquisition and construction of the Capital Additions will be completed and commercially operative, and (iii) a detailed analysis of the impact of the Capital Additions on the financial operations of the System during the construction thereof and for at least five Fiscal Years after the date the Capital Additions are anticipated to become commercially operative, and (b) conclude that (i) the Capital Additions are necessary and will substantially increase the capacity, or are needed to replace existing facilities, to meet current and projected demands for the service or product to be provided thereby, and (ii) the

estimated cost of providing the service or product from the Capital Additions will be reasonable in comparison with projected costs for furnishing such service or product from other reasonably available sources; and

(2) a certificate of an Engineer to the effect that, based on the report described in C(1) above, the projected Net Revenues for each of the five Fiscal Years subsequent to the date the Capital Additions are anticipated to become commercially operative, as estimated in the report, will be equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations.

D. Condition Precedent - Capital Additions - Subsequent Issues. Once a Capital Addition has been initiated by meeting the conditions precedent specified in subparagraph C and the initial issue or series of Additional Senior Lien Obligations delivered therefor, the City reserves the right to issue additional issues or series of Additional Senior Lien Obligations to finance the costs of completing the acquisition and construction thereof and making the same commercially operative without satisfying any condition precedent under subparagraphs B or C but not until or unless:

(1) the Board makes a forecast (the *Forecast*) of the operations of the System demonstrating the System's ability to pay all obligations payable from the Net Revenues to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the period (the *Forecast Period*) of each ensuing year through the fifth Fiscal Year subsequent to the latest estimated date such Capital Additions are anticipated to be commercially operative (in the event any obligation does not bear a fixed numerical rate of interest, the calculation as to the rate to be borne until the fifth Fiscal Year after the Capital Additions are estimated to become commercially operative shall be based upon an estimate by the Board of such interest rate); and

(2) the Engineer reviews such Forecast and executes a certificate to the effect that (a) such Forecast is reasonable and, based thereon (and such other factors deemed to be relevant), the Net Revenues will be adequate to pay all Senior Lien Obligations to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the Forecast Period and (b) the proceeds from the sale of such Additional Senior Lien Obligations are estimated to be sufficient to complete such acquisition and construction.

E. Computations; Reports. In the preparation of the Engineer's report required in subparagraphs C or D above, the Engineer may rely upon other experts or professionals, including those in the employment of the City or the Board, provided such Engineer's report discloses the extent of such reliance and concludes it is reasonable to rely on these experts or professionals. In connection with the issuance of Additional Senior Lien Obligations for Capital Additions, the Engineer's certificate, together with the Engineer's report for the initial issue and the Forecast for a subsequent issue, shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of subparagraphs C and D above.

F. Combined Issues. Additional Senior Lien Obligations for Capital Additions may be combined in a single issue with Additional Senior Lien Obligations for Capital Improvements

provided the conditions precedent set forth in the applicable subparagraphs B, C, and D are complied with as the same relate to the respective purposes.

G. Parity. All such Additional Senior Lien Obligations provided for in this Section, when issued in accordance with the above, shall be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues on a parity with the pledge thereof securing the payment of the Bonds, and the provisions of this Ordinance relating to the use of Pledged Revenues shall be applicable to such Additional Senior Lien Obligations as though the same were a part of such original authorization.

SECTION 24: Issuance of Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations. The City hereby reserves the right to issue, at any time, obligations including, but not limited to, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, as may be authorized by the laws of the State of Texas.

SECTION 25: Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the outstanding Senior Lien Obligations, pursuant to any law then available, upon such terms and conditions as the City Council may deem to be in the best interest of the City, its inhabitants, and other customers of the System, and if less than all such outstanding Senior Lien Obligations are refunded, the conditions precedent prescribed for the issuance of Additional Senior Lien Obligations set forth in Section 23 of this Ordinance shall be satisfied and the representations and certifications required in Section 23B and C shall give effect to the Maximum Annual Debt Service Requirements of the proposed refunding bonds (but shall not give effect to the Maximum Annual Debt Service Requirements of the obligations being refunded following their cancellation or provision being made for their payment); provided, however, if as a result of such refunding the Annual Debt Service Requirements are not increased in any Fiscal Year, the City shall not be required to satisfy the requirements of Section 23B or C as a requirement for the issuance of such refunding bonds.

SECTION 26: Issuance of Special Project Obligations. Nothing in this Ordinance shall be construed to deny the City the right and it shall retain the right to issue Special Project obligations, provided, however, the City will not issue Special Project obligations unless the City concludes, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet water, wastewater, water reuse, or stormwater drainage requirements and the cost of such will be reasonable.

SECTION 27: Maintenance of System - Insurance. The City covenants and agrees that while the Senior Lien Obligations remain outstanding the Board will maintain and operate the System in accordance with Prudent Utility Practice and will maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of

business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, are hereby pledged as security for the Senior Lien Obligations until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City or the Board to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City or the Board from doing so.

SECTION 28: Records and Accounts - Annual Audit. The City covenants and agrees that so long as any of the Senior Lien Obligations remain outstanding, the Board will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Articles 1113 and 1113b, as amended), or other applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that, following the close of each Fiscal Year, the Board will cause an audit of such books and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the Board's principal office and the City Clerk's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

SECTION 29: Special Covenants. The City hereby further covenants that:

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

B. the Senior Lien Obligations shall be equally and ratably secured by a lien on and pledge of the Pledged Revenues in a manner that one obligation shall have no preference over any other obligation;

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

D. as long as any Bonds, or any interest thereon, remain Outstanding, neither the City nor the Board will sell, lease, or encumber the System or any substantial part thereof (except

as provided in Sections 23, 24, and 25 of this Ordinance) provided that this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System;

E. no free service (except water provided to the City for municipal fire-fighting purposes and certain stormwater utility service) of the System shall be allowed, and, should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made, if necessary, by the City pursuant to Section 17;

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

G. through the Board as an agent of the City, it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; through the Board as an agent of the City, it will promptly pay or cause to be paid the principal amount of and interest on all Senior Lien Obligations, on the dates and in the places and manner prescribed in this Ordinance; and through the Board as an agent of the City, it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and accounts as provided in accordance with this Ordinance; and any Holder of any Senior Lien Obligations may require the City and the Board, their officials, and employees to carry out, respect or enforce the covenants and obligations of this Ordinance by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City or the Board, their officials, and employees;

H. through the Board as an agent of the City, it shall at all times operate or cause to be operated the System consistent with Prudent Utility Practice;

I. it has or will obtain, or through the Board as an agent of the City, it has or will obtain, lawful title, whether such title is in fee or lesser interest, to the land, buildings, structures, facilities, and other property constituting the System; that it warrants that it will, or through the Board as an agent of the City, defend the title to all such land, buildings, structures, facilities, and other property and every part thereof, for the benefit of the Holders of the Senior Lien Obligations, against the claims and demands of all persons whomsoever; it is lawfully qualified to pledge the Pledged Revenues to the payment of the Senior Lien Obligations in the manner prescribed herein, and it has lawfully exercised such rights;

J. through the Board as an agent of the City, it will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, the Board, or the System; through the Board as an agent of the City, it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which might or could be prior to the

liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City or the Board; and

K. the City and the Board will comply with all of the terms and conditions of any and all laws, franchises, permits, and authorizations applicable to or necessary with respect to the System; and the City and the Board have obtained or will obtain and keep in full force and effect all franchises, permits, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 30: Limited Obligations of the City. The Senior Lien Obligations are limited, special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the City.

SECTION 31: Security for Funds. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

SECTION 32: Management of System.

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

B. Members of the Board must be citizens of the United States and must either reside inside the corporate limits of the City or inside the area served by the System. No person who is related within the second degree of consanguinity or affinity (or as further restricted by the City's Home Rule Charter) to any Member of the Board or any member of the City Council shall be eligible for appointment as a Member of the Board. The term of office of each Member of the

Board shall be four (4) years. All terms shall commence on June 1 and shall terminate on May 31 four years later; provided, however, in the event a replacement for a Member has not been named by the City Council prior to the expiration of such Member's term, such Member shall serve until such Member's successor shall be appointed, and such successor's term shall terminate on May 31st of the year in which such term normally would have terminated if the City Council had appointed such successor prior to the termination of such Member's term. No person who has served as a Member of the Board for a total of two (2) terms shall be eligible for appointment as a Member of the Board. Any Member who is appointed to the Board to serve out an unexpired portion of another Member's term shall not be considered to have served a term unless the unexpired portion of the term so served is two (2) years or more.

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

D. All vacancies in membership on the Board, whether occasioned by failure or refusal of any person to accept appointment or by resignation, failure to continue to qualify to serve, expiration of term of office, or otherwise, shall be filled by majority vote of all members of the City Council then holding office. Any Member of the Board other than the Mayor of the City may, by a two-thirds (2/3) vote of all members of the City Council then holding office, be removed from office, with or without cause. For purposes of this Section 32, the term *members of the City Council then holding office* shall be the number of persons authorized from time to time by the City's Home Rule Charter to be members of the City Council, whether or not all such positions are filled at any particular time.

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

F. The Board shall determine the rates, fees, and charges for services rendered and to be rendered by the System, with due consideration being accorded to the terms, covenants, and conditions contained in this Ordinance and the ordinances authorizing the issuance of any Additional Senior Lien Obligations. In the event any such determination reflects a necessity for

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

G. The Mayor, with the concurrence of the City Council, annually shall appoint one of the other Members of the Board as the Chairman of the Board. The Board annually shall elect one of its Members as Vice-Chairman of the Board and shall appoint a Secretary and an Assistant Secretary, either or both of whom may, but need not be, a Member or Members of the Board. If a Member of the Board is not appointed as Secretary or Assistant Secretary, then an employee or employees of the Board may be so appointed. The Board may adopt rules for the orderly conduct of its meetings. The Board shall manage and conduct the affairs of the System in a manner consistent with practices ordinarily employed by the boards of directors of private utility corporations operating properties of a similar nature and with the same degree of prudence. The Board shall have at least one meeting monthly. All meetings of the Board shall be open to the public in accordance with the requirements of Chapter 551, as amended, Texas Government Code. The Board is authorized to adopt rules of procedure and standards of conduct for persons attending and participating in its meetings and any public hearings conducted by or on behalf of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 33: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Debt Service Fund or Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and/or the Board and other officers of the City and/or the Board to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

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

SECTION 34: Notices to Holders - Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register.

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

SECTION 35: Negotiable Instruments. Each of the Bonds authorized herein shall be deemed and construed to be a *security* and as such a negotiable instrument with the meaning of Chapter 8 of the Texas Uniform Commercial Code.

SECTION 36: Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City and a certificate of destruction will be provided to the City by the Paying Agent/Registrar.

SECTION 37: Mutilated, Destroyed, Lost, and Stolen Bonds. If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is

delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the City shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same series, Stated Maturity, and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

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

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

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

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

SECTION 38: Sale of Bonds -Approval of Purchase Contract - Official Statement Approval. The Bonds authorized by this Ordinance are hereby sold by the City to Wells Fargo Bank, National Association, San Antonio, Texas, as the authorized representative of a group of underwriters (having all of the rights, duties, and obligations of a Holder) (the *Purchaser*) in accordance with the provisions of a Purchase Contract, dated September 7, 2012 (the *Purchase Contract*), attached hereto as Exhibit C and incorporated herein by reference as a part of this Ordinance for all purposes. The pricing and terms of the sale of the Bonds are hereby found and determined to be the most advantageous reasonably obtainable by the City. The Initial Bond shall be registered in the name of Wells Fargo Bank, National Association. Each Authorized Official is hereby authorized and directed to execute the Purchase Contract for and on behalf of the City and as the act and deed of this City Council, and in regard to the approval and execution of the Purchase Contract, the City Council hereby finds, determines and declares that the representations, warranties, and agreements of the City contained in the Purchase Contract are true and correct in all material respects and shall be honored and performed by the City. Delivery of the Bonds to the Purchaser shall occur as soon as practicable after the adoption of this Ordinance, upon payment therefor in accordance with the terms of the Purchase Contract.

Furthermore, the City hereby ratifies, confirms, and approves in all respects (i) the City's prior determination that the Preliminary Official Statement was, as of its date, "deemed final" in accordance with the Rule (hereinafter defined) and (ii) the use and distribution of the Preliminary Official Statement by the Purchaser in connection with the public offering and sale of the Bonds.

The final Official Statement, being a modification and amendment of the Preliminary Official Statement to reflect the terms of sale, referenced in the Purchase Contract (together with such changes approved by any Authorized Official, any one or more of said officials), shall be and is hereby in all respects approved and the Purchaser is hereby authorized to use and distribute the final Official Statement, dated September 7, 2012, in the reoffering, sale and delivery of the Bonds to the public. The Mayor and City Clerk are further authorized and directed to manually execute and deliver for and on behalf of the City copies of the Official Statement in final form as may be required by the Purchaser, and such final Official Statement in the form and content manually executed by said officials shall be deemed to be approved by the City Council and constitute the Official Statement authorized for distribution and use by the Purchaser.

SECTION 39: Escrow Agreement Approval and Execution. 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 D 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 and City Clerk and 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.

Furthermore, any Authorized Official, 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 Closing Date 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 1207, this Ordinance, and the Escrow Agreement.

SECTION 40: Application of Bond Proceeds. Proceeds from the sale of the Bonds shall, promptly upon receipt by the City, be applied as follows:

A. Accrued interest, if any, shall be deposited into the Bond Fund.

B. An amount identified in instructions from the Mayor or Designated Financial Officer shall be deposited in the Project Fund for the payment of certain costs of issuance relating to the Bonds and certain other costs relating to the constructing improvements to the System, and such amount may be deposited in the Project Fund authorized by the provisions of Section 19 hereof.

C. The amount of $10,100,400.00 shall be deposited into the Reserve Fund to satisfy the increase in the Required Reserve Amount attributable to the issuance of the Bonds.

D. The remaining proceeds from the sale of the Bonds shall be applied, together with other legally available funds of the City, to establish an Escrow Fund to refund the Refunded Obligations, as more fully provided in the Escrow Agreement.

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

SECTION 41: Redemption of Refunded Obligations. Certain of the Refunded Obligations described in the preamble hereof will mature on various dates at the price of par, premium, if any, and accrued interest to the maturity date. The Mayor shall give written notice to the Escrow Agent that these Refunded Obligations shall be paid at maturity, and the City Council ordains that such obligations are to be defeased, and such order to defease the Refunded Obligations on the dates herein specified shall be irrevocable upon the delivery of the Bonds. A copy of the notice of redemption, if any, pertaining to these Refunded Obligations is attached to this Ordinance as Exhibit E and is incorporated herein by reference for all purposes.

SECTION 42: Covenants to Maintain Tax-Exempt Status.

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

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

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

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

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

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

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

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

*"Yield"* of

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

(ii) the Bonds has the meaning set forth in Section 1.148-4 of the Regulations.

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

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

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

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

D. No Private Loan. Except to the extent that it will not cause the Bonds to become "private activity bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government.

E. Not to Invest at Higher Yield. Except to the extent that it will not cause the Bonds to become "arbitrage bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of the Bonds.

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

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

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

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

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

(3) As additional consideration for the purchase of the Bonds by the Purchaser and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States out of the Bond Fund or its general fund, as permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, any Rebate Amount in the manner and on or before the dates specified in section 148(f) of the Code and the Regulation and rulings thereunder. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder.

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

I. Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the stated maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection H of this Section because such transaction results in a smaller profit or a larger loss than would have

resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

J. Bonds Not Hedge Bonds.

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

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

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

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

M. Elections. The City hereby directs and authorizes each Authorized Official and any Designated Financial Officer, either or any combination of the foregoing, to make such elections in the Certificate as to Tax Exemption or similar or other appropriate certificate, form, or document permitted or required pursuant to the provisions of the Code, Regulations, or Temporary Regulations as they deem necessary or appropriate in connection with the Bonds. Such elections shall deemed to be made on the Closing Date.

SECTION 43: Control and Custody of Bonds. The Mayor shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas and shall take and have charge and control of the Bonds pending their approval by the Attorney General of the State of Texas, the registration thereof by the Comptroller of Public Accounts of the State of Texas and the delivery of the initial Bonds to the Purchaser.

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

SECTION 44: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and

interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of Pledged Revenues under this Ordinance and all covenants, agreements, and other obligations of the City to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Principal of, premium, if any, or interest on any Bond shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such principal, premium, if any, or interest at Stated Maturity or to the redemption date therefor, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have, in the case of a net defeasance, been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof for the Bonds. In the event of a gross defeasance of the Bonds, the City shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. The City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 42 hereof).

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

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

Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 45: Printed Opinion. The Purchaser's obligation to accept delivery of the Bonds is subject to its being furnished a final opinion of Fulbright & Jaworski L.L.P. and Escamilla, Poneck & Cruz, LLP, as Co-Bond Counsel, approving certain legal matters as to the Bonds, such opinion to be dated and delivered as of the date of initial delivery and payment for such Bonds by the Purchaser. Printing of a true and correct copy of such opinion on the reverse side of each definitive Bond, with an appropriate certificate pertaining thereto executed by facsimile signature of the City Clerk of the City is hereby approved and authorized.

SECTION 46: CUSIP Numbers. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof, and neither the City nor attorneys approving said Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

SECTION 47: Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

SECTION 48: Ordinance a Contract - Amendments - Outstanding Senior Lien Obligations. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, shall be binding on the City and the Board and their successors and assigns, and shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section.

A. The Holders of a majority in Outstanding principal amount of the Senior Lien Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Senior Lien Obligations so as to:

(1) make any change in the maturity of any of the outstanding Senior Lien Obligations;

(2) reduce the rate of interest borne by any of the outstanding Senior Lien Obligations;

(3) reduce the amount of the principal payable on the outstanding Senior Lien Obligations;

(4) modify the terms of payment of principal of, premium, if any, or interest on the outstanding Senior Lien Obligations or impose any conditions with respect to such payment;

(5) affect the rights of the Holders of less than all of the Senior Lien Obligations then outstanding;

(6) amend clause A of this Section; or

(7) change the minimum percentage of the principal amount of Senior Lien Obligations necessary for consent to any amendment;

unless such amendment or amendments shall be approved by the Holders of all of the Senior Lien Obligations then outstanding.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal corporate trust office of the Paying Agent/Registrar for inspection by all Holders of the Senior Lien Obligations. Such publication is not required, however, if notice in writing is given to each Holder of any Senior Lien Obligations.

C. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the City shall receive an instrument or instruments executed by the Holders of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding, which instrument or instruments shall refer to the proposed amendment described in such notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Council may pass such amendment in substantially the same form.

D. Upon the passage of any such amendment pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendment, and the respective rights, duties and obligations under this Ordinance of the City, the Board, and all the Holders of then outstanding Senior Lien Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendment.

E. Any consent given by the Holders of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Senior Lien Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the Holder who gave such consent (as long as such person remains a Holder), or by a successor in title, by filing written notice thereof with the Paying Agent/Registrar and the City, but such revocation shall not be effective if the Holders of at least a majority in outstanding principal amount of the Senior Lien Obligations have, prior to the attempted revocation, consented to and approved the amendment.

F. The foregoing provisions of this Section notwithstanding, the City Council may amend this Ordinance without the consent of any Holder of the Senior Lien Obligations, solely for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City or the Board contained in this Ordinance, other covenants and agreements thereafter to be observed, grant

additional rights or remedies to the Holders of the Senior Lien Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City or the Board;

(2) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the Holders of the Senior Lien Obligations then outstanding;

(3) to modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after the Senior Lien Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) to make such amendments to this Ordinance as may be required, in the opinion of bond counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) to make such changes, modifications, or amendments as may be necessary or desirable in order to allow the Holders of the Senior Lien Obligations to thereafter avail themselves of a book-entry system for payments, transfers, and other matters relating to the Senior Lien Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the Holders of the Senior Lien Obligations;

(6) to make such changes, modifications, or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Senior Lien Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility issued in support of the Senior Lien Obligations; or

(7) to make such changes, modifications, or amendments as may be necessary or desirable, which shall not adversely affect the interests of the Holders of the Senior Lien Obligations in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar type of agreements with respect to the Senior Lien Obligations. Notice of any such amendment may be published by the City in the manner described in clause B of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

G. Ownership of the Senior Lien Obligations shall be established by the Security Register maintained by the Paying Agent/Registrar, in its capacity as registrar and transfer agent for the Senior Lien Obligations.

SECTION 49: Legal Holidays. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday, Sunday, or legal holiday in the City or a day on which the Paying Agent/Registrar for the Bonds is authorized by law or executive order to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day which is not such a day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

SECTION 50: Unavailability of Authorized Publication. If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the City or of the Paying Agent/Registrar shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

SECTION 51: No Recourse Against City or Board Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bonds or for any claim based thereon or on this Ordinance against any official of the City, the Board, or any person executing any Bonds.

SECTION 52: Benefits of Ordinance. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Board, bond counsel, the Paying Agent/Registrar, the Purchaser, and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Board, bond counsel, the Paying Agent/Registrar, the Escrow Agent, the Purchaser, and the Holders.

SECTION 53: Inconsistent Provisions. All ordinances and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters ordained herein.

SECTION 54: Governing Law. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 55: Severability. If any provision of this Ordinance or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Ordinance and the application of such provision to other persons and circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

SECTION 56: Incorporation of Preamble Recitals. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this

Ordinance for all purposes and are adopted as a part of the judgment and findings of the City Council.

SECTION 57: Continuing Disclosure Undertaking.

A. Definitions.

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

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

*MSRB* means the Municipal Securities Rulemaking Board.

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

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

B. Annual Reports.

The Board shall file annually with the MSRB, within six months after the end of each Fiscal Year ending in or after 2012, financial information and operating data with respect to the Board of the general type included in the final Official Statement authorized by Section 38 of this Ordinance being the information described in Exhibit F hereto. All such information must be filed with MSRB pursuant to its Electronic Municipal Access (EMMA) System. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit F hereto, or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation and (ii) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Board shall file unaudited financial statements within such period and audited financial statements for the applicable Fiscal Year with the MSRB, when and if the audit report on such statements becomes available.

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

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

(1) principal and interest payment delinquencies;

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

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

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

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

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

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

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

(9) defeasances;

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

(11) rating changes;

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

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

(14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

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

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

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

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

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

No default by the City or the Board in observing or performing their obligations under this Section shall constitute a breach of or default under the Ordinance for purposes of any other provision of this Ordinance.

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

The provisions of this Section may be amended by the City and the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a

person that is unaffiliated with the City or the Board (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City and the Board may also repeal or amend the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Board also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City and the Board so amend the provisions of this Section, the Board shall include with any amended financial information or operating data next provided in accordance with this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

E. Information Format–Incorporation by Reference.

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

Financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public through EMMA or filed with the SEC.

SECTION 58: Authorization of Paying Agent/Registrar Agreement. The City Council hereby finds and determines that it is in the best interest of the City to authorize the execution of a Paying Agent/Registrar Agreement in order to comply with the provisions of this Ordinance. A copy of the Paying Agent/Registrar Agreement is attached hereto, in substantially final form, as Exhibit A and is incorporated by reference to the provisions of this Ordinance.

SECTION 59: Public Meeting. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given, all as required by Chapter 551, as amended, Texas Government Code.

SECTION 60: Further Procedures. The officers and employees of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the initial sale and delivery of the Bonds, the Paying Agent/Registrar Agreement, the Escrow Agreement, the Purchase Contract, and the Official Statement. In addition, prior to the initial delivery of the

Bonds, any Authorized Official 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 and as described in the Official Statement, (ii) obtain a rating from any of the national bond rating agencies, or (iii) obtain the approval of the Bonds by the Texas Attorney General's office. In case any officer of the City whose signature shall appear on any certificate shall cease to be such officer before the delivery of such certificate, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 61: 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 is 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, TEXAS

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 - Table of Refunded Obligations
SCHEDULE II – Approval Certificate
Exhibit A - Form of Paying Agent/Registrar Agreement
Exhibit B - Form of DTC Letter of Representations
Exhibit C - Form of Purchase Contract
Exhibit D - Form of Escrow Agreement
Exhibit E - Form of Notice of Redemption
Exhibit F - Description of Annual Financial Information
Exhibit G – Form of Credit Facility Agreement

| | |
|---|---|
| **Agenda Item:** | **40A ( in consent vote: 4, 5, 6, 8, 11, 12, 13, 15, 16, 17, 21, 22, 23, 24, 25, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37A, 38A, 38B, 39A, 39B, 39C, 39D, 39E, 40A, 40B, 40C, 40D, 40E, 40F )** |
| **Date:** | 06/14/2012 |
| **Time:** | 09:27:40 AM |
| **Vote Type:** | Motion to Approve |
| **Description:** | An Ordinance authorizing the issuance of obligations designated as "City of San Antonio , Texas Water System Revenue and Refunding Bonds, Series 2012A" (the "Series 2012A Senior Lien Bonds"), in a principal amount not to exceed $175,000,000.00; and other financial matters necessary to fund capital improvements. |
| **Result:** | Passed |

| Voter | Group | Not Present | Yea | Nay | Abstain | Motion | Second |
|---|---|---|---|---|---|---|---|
| Julián Castro | Mayor | | x | | | | |
| Diego Bernal | District 1 | | x | | | | x |
| Ivy R. Taylor | District 2 | | x | | | | |
| Leticia Ozuna | District 3 | | x | | | | |
| Rey Saldaña | District 4 | x | | | | | |
| David Medina Jr. | District 5 | | x | | | | |
| Ray Lopez | District 6 | | x | | | x | |
| Cris Medina | District 7 | | x | | | | |
| W. Reed Williams | District 8 | | x | | | | |
| Elisa Chan | District 9 | | x | | | | |
| Carlton Soules | District 10 | | x | | | | |

## SCHEDULE I

TABLE OF REFUNDED OBLIGATIONS

City of San Antonio, Texas Water System Commercial Paper Notes, Series A to be paid at maturity as shown below:

**Dealer: Goldman Sachs & Co.**

| Issue Date | Maturity Date | Principal Amount | Coupon | Redemption Amount |
|---|---|---|---|---|
| 03/21/2012 | 10/03/2012 | $ 20,000,000.00 | 0.20% | $ 20,021,420.77 |
| 08/27/2012 | 10/03/2012 | 1,412,000.00 | 0.20% | 1,412,285.49 |
| 08/15/2012 | 10/04/2012 | 86,333,000.00 | 0.20% | 86,356,588.25 |
| | | $ 107,745,000.00 | | $ 107,790,294.51 |

**Dealer: Ramirez & Co., Inc.**

| Issue Date | Maturity Date | Principal Amount | Coupon | Redemption Amount |
|---|---|---|---|---|
| 08/07/2012 | 10/03/2012 | $ 22,500,000.00 | 0.27% | $ 22,509,461.07 |
| 08/09/2012 | 10/03/2012 | 18,655,000.00 | 0.27% | 18,662,569.04 |
| 08/16/2012 | 10/03/2012 | 16,100,000.00 | 0.27% | 16,105,700.98 |
| 09/12/2012 | 10/03/2012 | 10,000,000.00 | 0.23% | 10,001,319.67 |
| | | $ 67,255,000.00 | | $ 67,279,050.76 |

**SCHEDULE II**

APPROVAL CERTIFICATE

See Tab No. 2

**EXHIBIT A**

PAYING AGENT/REGISTRAR AGREEMENT

See Tab No. 4

**EXHIBIT B**

DTC LETTER OF REPRESENTATIONS

See Tab No. 6

**EXHIBIT C**

PURCHASE CONTRACT

See Tab No. 9

# EXHIBIT D

ESCROW AGREEMENT

See Tab No. 5

**EXHIBIT E**

NOTICE OF REDEMPTION

N/A

# EXHIBIT F

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 57 of this Ordinance.

**Annual Financial Statements and Operating Data**

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

1. The Board's audited financial statements for the most recently concluded fiscal year or unaudited financial statements for such period to the extent that audited financial statements are not available.

2. The quantitative financial information and operating data of the Board of the general type included in the Official Statement under the sections in DEBT INFORMATION and STATISTICAL SECTION, and in Appendix B.

**Accounting Principles**

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

**EXHIBIT G**

FORM OF CREDIT FACILITY AGREEMENT

N/A