

1994-06

ORDINANCE AUTHORIZING THE ISSUANCE AND SALE OF
CITY OF INGLESIDE ON THE BAY, TEXAS
WATER SYSTEM REVENUE BONDS, SERIES 1994

THE STATE OF TEXAS :
COUNTY OF SAN PATRICIO :
CITY OF INGLESIDE ON THE BAY :

WHEREAS, the City of Ingleside on the Bay, Texas (the "City" or the "Issuer") is a general law municipality organized and existing under the laws of the State of Texas; and

WHEREAS, Chapters 51 and 101, Texas Local Government Code, authorize a general law municipality, such as the City, to operate a water system and borrow money for such purpose; and

WHEREAS, the City has negotiated the acquisition of a water system from the City of Ingleside; and

WHEREAS, Articles 1111 through 1118, V.A.T.C.S., as amended, permit the City to issue revenue bonds and encumber the revenues of its water system for the purpose of acquiring a water system; and

WHEREAS, the bonds hereinafter authorized are to be issued and delivered pursuant to said Articles 1111 through 1118, V.A.T.C.S., for the purpose of acquiring a water system to be owned and operated by the City.

THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF INGLESIDE ON THE BAY:

Section 1. **BONDS AUTHORIZED.** That the City's bonds (the "Bonds") are hereby authorized to be issued in the aggregate principal amount of \$495,000, for the purpose of acquiring a water system to be owned and operated by the City. The Bonds shall be designated as the "City of Ingleside on the Bay, Texas Water System Revenue Bonds, Series 1994".

Section 2. **DATE AND MATURITIES.** That the Bonds shall be dated March 1, 1994, shall be in the denomination of \$5,000 each, or any integral multiple thereof, shall be numbered consecutively from 1 upward, and shall mature on the maturity date, in each of the years, and in the amounts, respectively, as set forth in the following schedule:

MATURITY DATE: SEPTEMBER 1

<u>YEARS</u>	<u>AMOUNTS</u>	<u>YEARS</u>	<u>AMOUNTS</u>
1995	\$10,000	2005	\$25,000
1996	15,000	2006	25,000
1997	15,000	2007	25,000
1998	15,000	2008	30,000
1999	15,000	2009	30,000
2000	20,000	2010	35,000
2001	20,000	2011	35,000
2002	20,000	2012	35,000
2003	20,000	2013	40,000
2004	25,000	2014	40,000

Section 3. **RIGHT OF PRIOR REDEMPTION.** That said Bonds maturing on and after September 1, 2005, shall be subject to optional redemption prior to their scheduled maturity on September 1, 2004, and on any date thereafter, at the price of the principal amount of Bonds so called for redemption, plus accrued interest thereon to the date fixed for redemption. The years of maturity of the Bonds called for redemption shall be callable in inverse chronological order of maturity. The Bonds or portions thereof redeemed within a maturity shall be selected at random and by lot by the Paying Agent/Registrar (hereinafter defined). Notice of any such redemption shall be given in the manner set forth in the FORM OF BOND set forth in this Ordinance.

Section 4. **INTEREST.** That the Bonds scheduled to mature during the years, respectively, set forth below shall bear interest at the following rates per annum:

Bonds maturing in the year 1995, 4.30%
 Bonds maturing in the year 1996, 4.70%
 Bonds maturing in the year 1997, 4.95%
 Bonds maturing in the year 1998, 5.20%
 Bonds maturing in the year 1999, 5.40%
 Bonds maturing in the year 2000, 5.55%
 Bonds maturing in the year 2001, 5.70%
 Bonds maturing in the year 2002, 5.80%
 Bonds maturing in the year 2003, 5.90%
 Bonds maturing in the year 2004, 6.05%
 Bonds maturing in the year 2005, 6.15%
 Bonds maturing in the year 2006, 6.25%
 Bonds maturing in the year 2007, 6.35%
 Bonds maturing in the year 2008, 6.40%
 Bonds maturing in the year 2009, 6.50%
 Bonds maturing in the year 2010, 6.50%
 Bonds maturing in the year 2011, 6.55%
 Bonds maturing in the year 2012, 6.55%

Bonds maturing in the year 2013, 6.60%
Bonds maturing in the year 2014, 6.60%

Said interest shall be payable to the registered owner of any such Bond in the manner provided and on the dates stated in the FORM OF BOND set forth in this Ordinance.

Section 5. PAYING AGENT/REGISTRAR. (a) That the City shall keep or cause to be kept at the designated corporate trust office in Austin, Texas (the "Designated Trust Office") of The Frost National Bank, Austin, Texas, or such other bank, trust company, financial institution, or other agency named in accordance with the provisions of (g) of this Section hereof (the "Paying Agent/Registrar") books or records of the registration and transfer of the Bonds (the "Registration Books"), and the City hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such transfers and registrations under such reasonable regulations as the City and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such transfers and registrations as herein provided. It shall be the duty of the Paying Agent/Registrar to obtain from the registered owner and record in the Registration Books the address of such registered owner of each bond to which payments with respect to the Bonds shall be mailed, as herein provided. The City or its designee shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such bond to the Paying Agent/Registrar at its Designated Trust Office for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing the assignment of the bond, or any portion thereof in any integral multiple of \$5,000, to the assignee or assignees thereof, and the right of such assignee or assignees to have the bond or any such portion thereof registered in the name of such assignee or assignees. Upon the assignment and transfer of any Bond or any portion thereof, a new substitute bond or bonds shall be issued in exchange therefor in the manner herein provided.

(b) The entity in whose name any Bond shall be registered in the Registration Books at any time shall be treated as the absolute owner thereof for all purposes of this Ordinance, whether or not such bond shall be overdue, and the City and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such bond to the extent of the sum or sums so paid.

(c) The City hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, and to act as its agent to exchange or replace Bonds, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the City and the Paying Agent/Registrar with respect to the Bonds, and of all exchanges of such bonds, and all replacements of such bonds, as provided in this Ordinance.

(d) Each Bond may be exchanged for fully registered bonds in the manner set forth herein. Each bond issued and delivered pursuant to this Ordinance, to the extent of the unpaid or unredeemed principal amount thereof, may, upon surrender of such bond at the principal corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, at the option of the registered owner or such assignee or assignees, as appropriate, be exchanged for fully registered bonds, without interest coupons, in the form prescribed in the FORM OF BOND set forth in this Ordinance, in the denomination of \$5,000, or any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute bond shall have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal amount of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute bond or bonds having the same maturity date, bearing interest at the same rate, in the denomination or denominations of any integral multiple of \$5,000 at the request of the registered owner, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof is assigned and transferred, each bond issued in exchange therefor shall have the same principal maturity date and bear interest at the same rate as the bond for which it is being exchanged. Each substitute bond shall bear a letter and/or number to distinguish it from each other bond. The Paying Agent/Registrar shall exchange or replace Bonds as provided herein, and each fully registered bond or bonds delivered in exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Ordinance shall constitute one of the Bonds for all purposes of this Ordinance, and may again be exchanged or replaced. It is specifically provided, however, that any Bond delivered in exchange for or replacement of another Bond prior to the first scheduled interest payment date on the Bonds (as stated on the face thereof) shall be dated the same date as such Bond, but each substitute bond so delivered on or after such first scheduled interest payment date shall be dated as of the interest payment date preceding the date on which such substitute bond is delivered, unless such substitute bond is delivered on an interest payment date, in which case it shall be dated as of such date of delivery; provided, however, that if at the time of delivery of any substitute bond the interest on the bond for which it is being exchanged has not been paid, then such substitute bond shall be dated as of the date to which such interest has been paid in full. On each substitute bond issued in exchange for or replacement of any Bond or Bonds issued under this Ordinance there shall be printed thereon a Paying Agent/Registrar's Authentication Certificate, in the form prescribed in the FORM OF BOND set forth in this Ordinance. An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such substitute bond, date such substitute bond in the manner set forth above, and manually sign and date such Certificate, and no such substitute bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for exchange or replacement. No additional ordinances, orders, or resolutions need be passed or adopted by the City Council or any other body or person so as to accomplish the foregoing exchange or replace-

ment of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute bonds in the manner prescribed herein, and said bonds shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Article 717k-6, V.A.T.C.S., and particularly Section 6 thereof, the duty of exchange or replacement of any Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the aforementioned Paying Agent/Registrar's Authentication Certificate, the exchanged or replaced bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which originally were delivered pursuant to this Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts. In any circumstance, neither the City nor the Paying Agent/Registrar shall be required (1) to make any transfer or exchange during a period beginning at the opening of business 30 days before the day of the first mailing of a notice of redemption of bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any bonds so selected for redemption when such redemption is scheduled to occur within 30 calendar days.

(e) All Bonds issued in exchange or replacement of any other Bond or portion thereof (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities, (iii) may be transferred and assigned, (iv) may be exchanged for other Bonds, (v) shall have the characteristics, (vi) shall be signed and sealed, and (vii) the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF BOND set forth in this Ordinance.

(f) The City shall pay the Paying Agent/Registrar's reasonable and customary fees and charges for making transfers of Bonds, but the registered owner of any Bond requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The registered owner of any Bond requesting any exchange shall pay the Paying Agent/Registrar's reasonable and standard or customary fees and charges for exchanging any such bond or portion thereof, together with any taxes or governmental charges required to be paid with respect thereto, all as a condition precedent to the exercise of such privilege of exchange, except, however, that in the case of the exchange of an assigned and transferred bond or bonds or any portion or portions thereof in any integral multiple of \$5,000, and in the case of the exchange of a portion the unredeemed portion of a Bond which has been redeemed in part prior to maturity, as provided in this Ordinance, such fees and charges will be paid by the City. In addition, the City hereby covenants with the registered owners of the Bonds that it will (i) pay the reasonable and standard or customary fees and charges of the Paying Agent/Registrar for its services with respect to the payment of the principal of and interest on the Bonds, when due, and (ii) pay the fees and charges of the Paying Agent/Registrar for services with respect to the transfer or registration of Bonds solely to the extent above provided, and with respect to the exchange of Bonds solely to the extent above provided.

(g) The City covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the City will provide a competent and legally qualified bank or trust company to act as and perform the services of Paying Agent/Registrar for the Bonds under this Ordinance, and that the Paying Agent/Registrar will be one entity. The City reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 60 days written notice to the Paying Agent/Registrar. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the City covenants that promptly it will appoint a competent and legally qualified national or state banking institution which shall be 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, subject to supervision or examination by federal or state Authority, and whose qualifications substantially are similar to the previous Paying Agent/Registrar to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the City. Upon any change in the Paying Agent/Registrar, the City promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

Section 6. FORM OF BOND. That the form of all Bonds, including the form of the Paying Agent/Registrar's Certificate, the Form of Assignment, and the form of the Comptroller's Registration Certificate to accompany the Bonds on the initial delivery thereof, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance:

FORM OF BOND:

NO. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF SAN PATRICIO
CITY OF INGLESIDE ON THE BAY, TEXAS
WATER SYSTEM REVENUE BOND,
SERIES 1994

MATURITY
DATE

INTEREST
RATE

ORIGINAL
ISSUE DATE

CUSIP

_____, 1994

ON THE MATURITY DATE SPECIFIED ABOVE, THE CITY OF INGLESIDE ON THE BAY, IN SAN PATRICIO COUNTY, TEXAS (the "Issuer"), hereby promises to pay to _____, or to the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of

_____ and to pay interest thereon, from the Original Issue Date of this Bond specified above, to the date of its scheduled maturity, or to the date of redemption prior to its scheduled maturity, at the rate of interest per annum specified above, with said interest being payable on September 1, 1994, and semiannually on each March 1 and September 1 thereafter, except that if the Paying Agent/Registrar's Authentication Certificate appearing on the face of this Bond is dated later than September 1, 1994, such interest is payable semiannually on each March 1 and September 1 following such date.

THE TERMS AND PROVISIONS of this Bond are continued on the reverse side hereof and shall for all purposes have the same effect as though fully set forth at this place.

*THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity, or upon redemption prior to its scheduled maturity, at the designated corporate trust office in _____, Texas (the "Designated Trust Office") of The Frost National Bank, Austin, Texas, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof as shown by the Registration Books kept by the Paying Agent/Registrar at the close of business on the 15th day of the month next preceding such interest payment date (the "Record Date") by check, draft or wire drawn or transmitted by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided. Any such check or draft shall be sent by the Paying Agent/Registrar by United States mail, postage prepaid, on each such interest payment date, to the registered owner hereof at its

address as it appears on the Record Date on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. Any wire transfer shall be transmitted by the Paying Agent/Registrar on each interest payment date to the registered owner hereof in accordance with written instructions provided to the Paying Agent/Registrar by such registered owner, at the expense of such registered owner. The Issuer covenants with the registered owner of this Bond that no later than each principal payment date and interest payment date for this Bond it will make available to the Paying Agent/Registrar the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

***IN THE EVENT** of a nonpayment of interest on a scheduled payment date, and for 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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date") shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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

***THIS BOND** is one of a series of bonds of like tenor and effect except as to number, principal amount, interest rate, right of prior redemption and maturity, dated March 1, 1994, aggregating \$495,000 (herein sometimes called the "Bonds"), issued for the purpose of acquiring a water system to be owned and operated by the Issuer.

***ON SEPTEMBER 1, 2004**, and on any date thereafter, the Bonds of this Series maturing on and after September 1, 2005, may be redeemed prior to their scheduled maturity, at the option of the Issuer, with funds derived from any available and lawful source, as a whole, or in part (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at the price of the principal amount of the Bonds so called for redemption, plus accrued interest to the date fixed for redemption. The years of maturity of the Bonds called for redemption shall be callable in inverse chronological order of maturity. The Bonds or portions thereof redeemed within a maturity shall be selected at random and by lot by the Paying Agent/Registrar.

***AT LEAST 30 days** prior to the date fixed for any such redemption, (a) a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first-

class postage prepaid, addressed to each such registered owner at his address shown on the Registration Books of the Paying Agent/Registrar and (b) notice of such redemption shall be published by the Issuer one (1) time in a financial journal or publication of general circulation in the United States of America carrying as a regular feature notices of municipal bonds called for redemption; provided, however, that the failure to send, mail, or receive such notice described in (a) above, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, as the publication of notice as described in (b) above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds. By the date fixed for any such redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required redemption price for this Bond or the portion hereof which is to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion hereof which is to be so redeemed, thereby automatically shall be redeemed prior to its scheduled maturity, and shall not bear interest after the date fixed for its redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such redemptions of principal of this Bond or any portion hereof. If a portion of any Bonds shall be redeemed a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the ordinance authorizing the issuance of the Bonds (the "Ordinance").

***ALL BONDS OF THIS SERIES** are issuable solely as fully registered bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Ordinance, this Bond may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar at the Designated Trust Office, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used

to evidence the assignment of this Bond or any portion or portions hereof from time to time by the registered owner. The one requesting such exchange shall pay the Paying Agent/Registrar's reasonable standard or customary fees and charges for exchanging any Bond or portion thereof. The foregoing notwithstanding, in the case of the exchange of a portion of a Bond which has been redeemed prior to maturity, as provided herein, and in the case of the exchange of an assigned and transferred Bond or Bonds or any portion or portions thereof, such fees and charges of the Paying Agent/Registrar will be paid by the Issuer. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, or exchange as a condition precedent to the exercise of such privilege. In any circumstance, neither the Issuer nor the Paying Agent/Registrar shall be required (1) to make any transfer or exchange during a period beginning at the opening of business 30 days before the day of the first mailing of a notice of redemption of bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any bonds so selected for redemption when such redemption is scheduled to occur within 30 calendar days.

***IN THE EVENT** any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, whose qualifications substantially are similar to the previous Paying Agent/Registrar it is replacing, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

***BY BECOMING** the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Ordinance is duly recorded and available for inspection in the official minutes and records of the Issuer, and agrees that the terms and provisions of this Bond and the Ordinance constitute a contract between each registered owner hereof and the Issuer.

***THE ISSUER** has reserved the right, subject to the restrictions stated, and adopted by reference, in the Ordinance, to issue additional parity revenue bonds which also may be made payable from, and secured by a first lien on and pledge of, the Net Revenues of the Issuer's Water System (each as defined in the Ordinance).

***THE REGISTERED OWNER HEREOF** shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Pledged Revenues.

IT IS HEREBY certified and covenanted that this Bond has been duly and validly authorized, issued and delivered; that all acts, conditions and things required or proper to be performed, exist and be done precedent to or in the authorization, issuance and delivery of this Bond have been performed, existed and been done in accordance with law; that this Bond is a special obligation; and that the principal of and interest on this Bond are payable from, and secured by a first lien on and pledge of, the Net Revenues of the Issuer's Water System.

IN WITNESS WHEREOF, this Bond has been signed with the manual or imprinted or lithographed facsimile signature of the Mayor of said City and attested by the manual or imprinted or lithographed facsimile signature of the City Secretary, and the official seal of said City has been duly affixed to, printed, lithographed or impressed on this Bond.

CITY OF INGLESIDE ON THE BAY, TEXAS

By _____
Mayor

ATTEST:

City Secretary

(SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Ordinance described on the face of this Bond; and that this Bond has been issued in exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated _____

_____,
Paying Agent/Registrar

By _____
Authorized Representative

*

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Please insert Social Security or Taxpayer
Identification Number of Transferee

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to register the transfer of the within Bond on the books kept for registration

thereof, with full power of substitution in the premises.

Dated: _____

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.

NOTICE: The signature above must
correspond with the name of the
registered Owner as it appears upon the
front of this Bond in every particular,
without alteration or enlargement or any
change whatsoever.

**** (FORM OF COMPTROLLER'S CERTIFICATE ATTACHED TO THE BONDS UPON INITIAL DELIVERY THEREOF)**

OFFICE OF COMPTROLLER :

REGISTER NO. _____

STATE OF TEXAS :

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Bond has been examined by him as required by law, and that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding special obligation of the City of Ingleside on the Bay, Texas, payable in the manner provided by and in the ordinance authorizing same, and said Bond has this day been registered by me.

WITNESS MY HAND and seal of office at Austin, Texas

_____.

Comptroller of Public Accounts of
the State of Texas

(SEAL)

NOTE TO PRINTER:

*¶s to be on reverse side of bond

**¶ not to be on bond

Section 7. DEFINITIONS. That, as used in this Ordinance, the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

(a) The term "Additional Bonds" shall mean the additional parity revenue bonds which the City reserves the right to issue in the future, as provided in this Ordinance.

(b) The term "Bonds" shall mean the City of Ingleside on the Bay, Texas Water System Revenue Bonds, Series 1994, authorized by this Ordinance.

(c) The terms "City" and "Issuer" shall mean the City of Ingleside on the Bay, in San Patricio County, Texas.

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

(e) The term "Eligible Investments" shall mean those investment securities and instruments described in the Public Funds Investment Act of 1987, Article 842a-2, V.A.T.C.S., as amended.

(f) The terms "Gross Revenues of the City's Water System" and "Gross Revenues" shall mean all revenues, income, and receipts of every nature derived or received by the City from the operation and ownership of the System, including the interest income from the investment or deposit of money in any Fund created by this Ordinance, other than moneys required to be deposited to the credit of the Rebate Fund herein created, as well as 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 may be pledged to the payment of the Bonds or Additional Bonds.

(g) The terms "Net Revenues of the City's Water System" and "Net Revenues" shall mean all Gross Revenues after deducting the expenses of operation and maintenance of the System, as required by Article 1113, V.A.T.C.S., as amended, including all salaries, labor, materials, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the governing body of the City, reasonably and fairly exercised by the adoption of appropriate resolution, necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Bonds or Additional Bonds, shall be deducted in determining "Net Revenues". Depreciation shall never be considered as an expense of operation and maintenance.

(h) The term "TWDB" shall mean the Texas Water Development Board, and its successor and assigns.

(i) The terms "Water System" and "System" shall mean and include the City's water system, together with all future extensions, improvements, enlargements, and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "System" shall not include any water facilities which are declared not to be a part of the System and which are acquired or constructed by the City with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not secured by or payable from the Net Revenues as defined herein, but which are secured by and payable solely from special contract revenues or payments received from any other legal entity in connection with such facilities; and such revenues or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds".

(j) The term "year" shall mean the regular fiscal year used by the City in connection with the operation of the System, which may be any twelve consecutive months period established by the City.

Section 8. PLEDGE. That the Bonds and any Additional Bonds are and shall be secured by and payable from a first lien on and pledge of the Net Revenues; and the Net Revenues are further pledged to the establishment and maintenance of the Debt Service Fund and the Reserve Fund as hereinafter provided. The Bonds and any Additional Bonds are and will be secured by and payable only from the Net Revenues, and are not secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the System.

Section 9. REVENUE FUND. That there is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a special fund to be entitled the "City of Ingleside on the Bay Water System Revenue Bonds Revenue Fund" (hereinafter called the "Revenue Fund"). All Gross Revenues shall be credited to the Revenue Fund immediately upon receipt. All current expenses of operation and maintenance of the System shall be paid from such Gross Revenues credited to the Revenue Fund, as a first charge against same.

Section 10. DEBT SERVICE FUND. That for the sole purpose of paying the principal of and interest on all Bonds and any Additional Bonds, as the same come due, there is hereby created and there shall be established and maintained at an official depository bank of the City a separate fund to be entitled the "City of Ingleside on the Bay Water System Revenue Bonds Debt Service Fund" (hereinafter called the "Debt Service Fund").

Section 11. RESERVE FUND. That there is hereby created and there shall be established and maintained at an official depository bank of the City, a separate fund to be entitled the "City of Ingleside on the Bay Water System Revenue Bonds Reserve Fund" (hereinafter called the "Reserve Fund"). The Required Amount (as hereinafter defined) held on deposit in the Reserve Fund shall be used solely for the purpose of finally retiring the last of any Bonds or Additional Bonds, or for paying principal of and interest on any Bonds or Additional Bonds when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. Any amounts on deposit in the Reserve Fund in excess of the Required Amount may be used in the manner described in Section 16 hereof.

Section 12. CONSTRUCTION FUND. That there is hereby created and there shall be established and maintained at an official depository of the City, a separate fund to be entitled the "City of Ingleside on the Bay Series 1994 Water System Construction Fund" (hereinafter called the "Construction Fund"). Immediately after the sale and delivery of the Bonds, the Issuer shall deposit into said Construction Fund all of the proceeds from the sale of the Bonds, except for the accrued interest required to be deposited into the Debt Service Fund from such proceeds and except for an amount to be retained by the Issuer for paying all costs and expenses of the authorization, issuance, sale and delivery of the Bonds, including the payment of printing costs, the fees and expenses of financial consultants or advisors, bond counsel, and other professional consultants or advisors. The Construction Fund shall be established, drawn on, and used by the City solely for acquiring the System, as well as, to the extent permitted by law, making improvements and extensions to the System. It is covenanted, agreed, and understood that all such improvements and extensions

of the System shall be and become a part of the System. Any amounts remaining in the Construction Fund after the completion of such improvements and extensions of the System shall be deposited by the City Council in the Debt Service Fund, except as may otherwise be required by Section 25 hereof.

Section 13. DEPOSITS OF PLEDGED REVENUES; INVESTMENTS. (a) That the Net Revenues shall be deposited into the Debt Service Fund and the Reserve Fund when and as required by this Ordinance.

(b) That money in any Fund established pursuant to this Ordinance may, at the option of the City, be placed or invested in Eligible Investments; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued by the City in terms of current market value as of the first day of each month of each year. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

Section 14. FUNDS SECURED. That money in all Funds created by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. DEBT SERVICE REQUIREMENTS. (a) That promptly after the delivery of the Bonds the City shall cause to be deposited to the credit of the Debt Service Fund any accrued interest received from the sale and delivery of the Bonds, and any such deposit shall be used to pay part of the interest next coming due on the Bonds.

(b) That the City shall transfer from the Pledged Revenues and deposit to the credit of the Debt Service Fund the amounts, at the times, as follows:

(1) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the Bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Debt Service Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Bonds and any Additional Bonds on the next succeeding interest payment date; and

(2) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the Bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Fund and available for such purpose, to pay the principal scheduled to

mature and come due on the Bonds and any Additional Bonds on the next succeeding principal payment date.

Section 16. RESERVE REQUIREMENTS. (a) That the City covenants, subject to the covenants set forth in Section 25 hereof relating to the tax-exempt status of the Bonds, that the Reserve Fund shall be maintained in an amount no less than the average annual principal and interest requirements of the Bonds and Additional Bonds (the "Required Amount"), to be funded in the manner described below. On or before the 25th day of each month hereafter, commencing on the 25th day of the month of the initial delivery of the Bonds, or, if the initial delivery of any of the Bonds occurs on or after the 25th day of such month, on the 25th day of the month next succeeding such initial delivery, there shall be deposited into the Reserve Fund 1/60th of the Required Amount, until the Reserve Fund contains the Required Amount. When and so long as the money and investments in the Reserve Fund are not less than the Required Amount, no deposits need be made to credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Amount, then, subject and subordinate to making the required deposits to the credit of the Debt Service Fund, the City shall transfer from the Net Revenues and deposit to the credit of the Reserve Fund, on or before the 25th day of each month, all of the Net Revenues remaining in the Revenue Fund until the Reserve Fund is restored to the Required Amount. The City, may, at its option, withdraw and use for any lawful purpose all surplus in the Reserve Fund over the Required Amount.

(b) The foregoing notwithstanding, monthly deposits to the Reserve Fund to accumulate the Required Amount for the Bonds shall not be necessary to the extent such Required Amount is funded in full from the proceeds of the Bonds.

Section 17. DEFICIENCIES; SURPLUS. (a) That if on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Debt Service Fund and the Reserve Fund, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other sources available for such purpose.

(b) That, subject to making the required deposits to the credit of the Debt Service Fund and the Reserve Fund when and as required by this Ordinance, or any ordinances authorizing the issuance of Additional Bonds, the excess Net Revenues may be used by the City for any lawful purpose.

Section 18. PAYMENT OF BONDS AND ADDITIONAL BONDS. That on or before the day preceding each interest payment date and principal payment date while any of the Bonds or Additional Bonds are outstanding and unpaid, the City shall make available to the paying agents therefor, out of the Debt Service Fund and, if necessary, the Reserve Fund, money sufficient to pay such interest on and such principal of the Bonds and Additional Bonds as will accrue or mature on the next succeeding interest payment date and principal payment date. The paying agents shall destroy all paid Bonds and Additional Bonds, and furnish the City with an appropriate certificate of cancellation or destruction.

Section 19. FINAL DEPOSITS; GOVERNMENTAL OBLIGATIONS. (a) That any Bond or Additional Bond shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Ordinance when payment of the principal of, redemption premium, if any, on such Bond or Additional Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, a paying agent therefor, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, as hereinafter defined in this Section, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such paying agent pertaining to the Bonds and Additional Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such paying agent. At such time as a Bond or Additional Bond shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) That any moneys so deposited with a paying agent may at the direction of the City also be invested in Government Obligations, maturing in the amounts and times hereinbefore set forth, and all income from all Government Obligations in the hands of the paying agent pursuant to this Section which is not required for the payment of the Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) That the City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the Bonds or any Additional Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code.

(d) That for the purpose of this Section, the term "Government Obligations" shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

(e) That notwithstanding any other provisions of this Ordinance, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such Bonds and Additional Bonds, the redemption premium, if any, and interest thereon and the income on such money

or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

Section 20. ADDITIONAL BONDS. (a) That the City shall have the right and power at any time and from time to time, and in one or more Series or issues, to authorize, issue, and deliver additional parity revenue bonds (herein called "Additional Bonds"), in accordance with law, in any amounts, for any lawful purpose, including the refunding of any Bonds, Additional Bonds, or other obligations of the City. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with this Ordinance, shall be secured by and made payable equally and ratably on a parity with the Bonds, and all other outstanding Additional Bonds, from a first lien on and pledge of the Net Revenues.

(b) That the Debt Service Fund and the Reserve Fund established by this Ordinance shall secure and be used to pay all Additional Bonds as well as the Bonds. However, each ordinance under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Ordinance and the provisions of any other ordinance or ordinances authorizing Additional Bonds to be deposited to the credit of the Debt Service Fund, the City shall deposit to the credit of the Debt Service Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due; and that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased (if and to the extent necessary) to an amount not less than the average annual principal and interest requirements of all Bonds and Additional Bonds which will be outstanding after the issuance and delivery of the then proposed Additional Bonds; and that the required additional amount shall be so accumulated by the deposit in the Reserve Fund of all or any part of said required additional amount in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the City, by the deposit of said required additional amount (or any balance of said required additional amount not deposited in cash as permitted above) in monthly installments, made on or before the 25th day of each month following the delivery of the then proposed Additional Bonds, of not less than 1/60th of said required additional amount (or 1/60th of the balance of said required additional amount not deposited in cash as permitted above).

(c) That all calculations of average annual principal and interest requirements made pursuant to this Section shall be made as of and from the date of the Additional Bonds then proposed to be issued.

Section 21. FURTHER REQUIREMENTS FOR ADDITIONAL BONDS. That Additional Bonds shall be issued only in accordance with this Ordinance, but notwithstanding any provisions of this Ordinance to the contrary, no installment, Series, or issue of Additional Bonds shall be issued or delivered unless:

(a) The Mayor of the City signs a written certificate to the effect that the City is not in default as to any covenant, condition, or obligation in connection with all outstanding Bonds and Additional Bonds, and the ordinances authorizing same, and that the Debt Service Fund and the Reserve Fund each contains the amount then required to be therein.

(b) An independent certified public accountant, or independent firm of certified public accountants, signs a written certificate to the effect that, during either the next preceding year, or any twelve consecutive calendar month period ending not more than ninety days prior to the passage of the ordinance authorizing the issuance of the then proposed Additional Bonds, the Net Revenues were, in the opinion thereof, at least equal to 1.25 times the average annual principal and interest requirements of all Bonds and Additional Bonds to be outstanding after the issuance of the then proposed Additional Bonds. In making a determination of the Net Revenues, the aforesaid accountants may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by the certificate based on such change in rates and charges being in effect for the entire period covered by the certificate.

Section 22. GENERAL COVENANTS. That the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(a) PERFORMANCE. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance, and each ordinance authorizing the issuance of Additional Bonds, and in each and every Bond and Additional Bond; that it will promptly pay or cause to be paid the principal of and interest on every Bond and Additional Bond, on the dates and in the places and manner prescribed in such ordinances and Bonds or Additional Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Debt Service Fund and the Reserve Fund; and any holder of the Bonds or Additional Bonds may require the City, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of this Ordinance, or any ordinance authorizing the issuance of Additional Bonds, 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, its officials, and employees.

(b) CITY'S LEGAL AUTHORITY. It is a duly created and existing city of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the holders and owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) TITLE. It has or will obtain lawful title to the lands, buildings, structures, and facilities constituting the System, that it warrants that it will defend the title to all the aforesaid lands, building, structures, and facilities, and every part thereof, for the benefit of the holders and owners of the Bonds and Additional Bonds, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds and Additional Bonds in the manner prescribed herein, and has lawfully exercised such rights.

(d) **LIENS.** 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, or the System, that 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 that 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.

(e) **OPERATION OF SYSTEM; NO FREE SERVICE.** While the Bonds or any Additional Bonds are outstanding and unpaid the City shall continuously and efficiently operate the System, and shall maintain the System in good condition, repair, and working order, all at reasonable cost. No free 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 shall be made by the City out of funds from sources other than the revenues of the System, unless made from surplus or excess Net Revenues as permitted in Section 17(b) hereof.

(f) **FURTHER ENCUMBRANCE.** While the Bonds or any Additional Bonds are outstanding and unpaid, the City shall not additionally encumber the Net Revenues in any manner, except as permitted in this Ordinance in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Ordinance; but the right of the City to issue revenue bonds or other obligations payable from a subordinate lien on the Net Revenues is specifically recognized and retained.

(g) **SALE OR DISPOSAL OF PROPERTY.** While the Bonds or any Additional Bonds are outstanding and unpaid, the City shall not sell, convey, mortgage, encumber, lease, or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any property, machinery, fixtures, or equipment, it may sell or otherwise dispose of such property, machinery, fixtures, or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined by resolution of the governing body of the City that no such replacement or substitute is necessary. Nothing herein shall be construed to prevent the City from making contracts with a district, as authorized by the Texas Water Code, under which the district will make a disposal system available to the City and will furnish waste collection, transportation, treatment, and disposal services to the City, a group of public agencies, or other persons through the district's disposal system. Such contracts may provide for the operation, or the acquisition by purchase or lease, of the City's waste treatment and disposal facilities or systems, in whole or in part, by the district.

(h) INSURANCE. (1) The City shall cause to be insured such parts of the System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents, or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney of the City gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the registered owners of Bonds and Additional Bonds and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be used promptly as follows:

(i) for the redemption prior to maturity of the Bonds and Additional Bonds, ratably in the proportion that the outstanding principal of each Series or issue of Bonds or Additional Bonds bears to the total outstanding principal of all Bonds and Additional Bonds, provided that if on any such occasion the principal of any such Series or issue is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or

(ii) if none of the outstanding Bonds or Additional Bonds is subject to redemption, then for the purchase on the open market and retirement of said Bonds and Additional Bonds in the same proportion as prescribed in the foregoing clause (i), to the extent practicable; provided that the purchase price for any Bond or Additional Bond shall not exceed the redemption price of such Bond or Additional Bond on the first date upon which it becomes subject to redemption; or (iii) to the extent that the foregoing clauses (i) and (ii) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(2) The annual audit hereinafter required shall contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made

have been paid; provided however, that such section is not required to comment on the adequacy of the insurance coverage.

(i) **RATE COVENANT.** The governing body of the City will fix, establish, maintain, and collect such rates, charges, and fees for the use and availability of the System at all times as are necessary to produce Gross Revenues sufficient, (1) to pay all current operation and maintenance expenses of the System, (2) to produce Net Revenues for each year at least equal to 1.15 times the principal and interest requirements of all then outstanding Bonds and Additional Bonds for the year during which such requirements are scheduled to be the greatest and (3) to pay any other obligations reasonably anticipated by the City to be payable from the Net Revenues of the System.

(j) **RECORDS.** It will keep proper books of record and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the System, the Net Revenues, and the Funds created pursuant to this Ordinance, and all books, documents, and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any registered owner of Bonds or Additional Bonds.

(k) **AUDITS.** After the close of each year while any of the Bonds or any Additional Bonds are outstanding, an audit will be made of the bonds and accounts relating to the System and the Net Revenues by an independent certified public accountant or an independent firm of certified public accountants. As soon as practicable after the close of each such year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding year shall be mailed to the Municipal Advisory Council of Texas and to any registered owner of 5% or more in aggregate principal amount of then outstanding Bonds or Additional Bonds who shall so request in writing. Such annual audit reports shall be open to the inspection of the registered owners and their agents and representatives at all reasonable times.

(l) **GOVERNMENTAL AGENCIES.** It will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the agency; and the City has 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.

(m) **NO COMPETITION.** It will not grant any franchise or permit for the acquisition, construction, or operation of any competing facilities which might be used as a substitute for the System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

(n) **FINAL ACCOUNTING.** It shall render a final accounting to TWDB in reference to the total cost incurred by the Issuer for System improvements to the Issuer together with a copy of "as built" plans of the project upon completion.

(o) **SURPLUS BONDS PROCEEDS.** It shall use any surplus proceeds from the Bonds remaining after the acquisition and completion of the System improvements, to redeem, in inverse annual order, the Bonds owned by the TWDB, to the extent any such surplus proceeds are not otherwise required to be rebated to the United States of America in accordance with the provisions of Section 25 hereof.

(p) **ANNUAL AND MONTHLY REPORTS.** It shall deliver to TWDB (a) monthly financial statements, to be submitted within ten (10) days after the close of each month until the requirement is waived in writing by the Development Fund Manager of TWDB or the Bonds are paid in full, whichever comes first, and (b) annual audit reports, to be submitted without charge, within 120 days of the close of each fiscal year.

(q) **COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT BOARD'S RULES AND REGULATIONS.** It will comply with the rules and regulations of TWDB, and will maintain insurance on the System in the amount required by TWDB.

Section 23. AMENDMENT OF ORDINANCE. (a) That the registered owners of Bonds and Additional Bonds aggregating in the principal amount 51% of the aggregate principal amount of then outstanding Bonds and Additional Bonds 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 Bonds or Additional Bonds so as to:

- (1) Make any change in the maturity of the outstanding Bonds or Additional Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds or Additional Bonds;
- (3) Reduce the amount of the principal payable on the outstanding Bonds or Additional Bonds;
- (4) Modify the terms of payments of principal or interest on the outstanding Bonds or Additional Bonds, or impose of any conditions with respect to such payment;
- (5) Affect the rights of the registered owners of less than all of the Bonds and Additional Bonds then outstanding;
- (6) Change the minimum percentage of the principal amount of the Bonds and Additional Bonds necessary for consent to such amendment.

without the approval of the registered owner of all Bonds and Additional Bonds then outstanding.

(b) If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, or the City of Austin, Texas, 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 office of the paying agents for the Bonds and Additional Bonds, as the case may be, for inspection by all registered owners of Bonds and Additional Bonds. Such publication is not required, however, if notice in writing is given to each registered owner of Bonds and Additional Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the registered owners of at least 51% in aggregate principal amount of all Bonds and Additional Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the paying agents for the Bonds and Additional Bonds, as the case may be, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations under this Ordinance of the City and all the registered owners of then outstanding Bonds and Additional Bonds and all future Bonds and Additional Bonds shall thereafter be determined, exercised, and enforced hereunder, subject in all respects to such amendments.

(e) Any consent given by the registered owner of a Bond or Additional 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 registered owners of the same Bond or Additional Bond 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 registered owner who gave such consent, or by a successor in title, by filing notice thereof with the paying agents and the City, but such revocation shall not be effective if the registered owner of 51% in aggregate principal amount of the then outstanding Bonds and Additional Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section, the fact of the holding of Bonds or Additional Bonds by any registered owner and the amount and numbers of such Bonds or Additional Bonds and the date of their holding same, shall be proved by the registration books maintained by the registrar for the Bonds and Additional Bonds, as the case may be.

Section 24. **DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.** (a) That in the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered,

a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

(e) In accordance with Section 6 of Art. 717k-6, V.A.T.C.S., this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such bonds in the form and manner and with the effect, as provided in Section 5(d) of this Ordinance for Bonds issued in exchange for other Bonds.

Section 25. TAX COVENANTS. That the Issuer covenants to take any action to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Issuer covenants as follows:

(a) to take any action to assure that no more than ten percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to

a reserve fund, if any) are used for any "private business use", as defined in section 141(b)(6) of the Code or, if more than ten percent of the proceeds are so used, that amounts, whether received by the Issuer, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than ten percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds five percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of five percent is used for a "private business use" which is "related" and not "disproportionate", within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or five percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(1) proceeds of the Bonds invested for a reasonable temporary period of three years or less (or thirty days or less, in the case of a refunding bond) until such proceeds are needed for the purpose for which the bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of section 1.103-13(b)(12) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed ten percent of the proceeds of the Bonds;

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

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings", within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and

(i) to maintain such records as will enable the Issuer to fulfill its responsibilities under this section and section 148 of the Code and to retain such records for at least six years following the final payment of principal and interest on the Bonds.

It is the understanding of the Issuer that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the Issuer will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the Issuer agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Mayor and the City Manager to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the City, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

In order to facilitate compliance with the above covenants (h) and (i), a "Rebate Fund" is hereby established by the City for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

Section 26. DESIGNATION AS QUALIFIED TAX-EXEMPT BONDS. That the Issuer hereby designates the Bonds as "qualified tax-exempt bonds" as defined in section 265(b)(3) of the Code. In furtherance of such designation, the Issuer represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the Issuer (including any subordinate entities) has not designated nor will designate bonds

which will result in more than \$10,000,000 of "qualified tax-exempt bonds" being issued; (b) that the Issuer reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Bonds are issued, by the Issuer (or any subordinate entities) will not exceed \$10,000,000; and, (c) that the Issuer will take such action or refrain from such action as necessary, and as more particularly set forth in Section 25 of this Ordinance, in order that the Bonds will not be considered "private activity bonds" within the meaning of section 142 of the Code.

Section 27. APPROVAL AND REGISTRATION OF BONDS. That the Mayor of the City is hereby authorized to have control of the Bonds and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Bonds, said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate accompanying the Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on each such certificate.

Section 28. SALE OF BONDS. That the Bonds are hereby sold and shall be delivered to TWDB, for the principal amount thereof.

Section 29. PREAMBLE. That the preamble to this Ordinance is hereby incorporated by reference herein.

Section 30. IMMEDIATE EFFECT. That this Ordinance shall be effective immediately from and after its passage.

CERTIFICATE FOR ORDINANCE AUTHORIZING THE ISSUANCE AND SALE
OF CITY OF INGLESIDE ON THE BAY, TEXAS WATER
SYSTEM REVENUE BONDS, SERIES 1994

THE STATE OF TEXAS :
COUNTY OF SAN PATRICIO :
CITY OF INGLESIDE ON THE BAY :

We, the undersigned officers of said City, hereby certify as follows:

1. The City Council of said City convened in REGULAR MEETING ON THE 19TH DAY OF APRIL, 1994, at the designated meeting place, and the roll was called of the duly constituted officers and members of said City Council, to-wit:

Al Robbins,	:	Mayor
Ed Jones,	:	Mayor Pro-Tem
Dick Ehmann,		
Lillie Dawson,		
Greg Alan,	:	Councilmembers
Betty Harbaugh,		
Ann Rosenkranz,	:	City Secretary

and all of said persons were present, except the following absentees: _____, thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written

ORDINANCE AUTHORIZING THE ISSUANCE AND SALE
OF CITY OF INGLESIDE ON THE BAY, TEXAS WATER
SYSTEM REVENUE BONDS, SERIES 1994

was duly introduced for the consideration of said City Council and read in full. It was then duly moved and seconded that said Ordinance be passed; and, after due discussion, said motion carrying with it the passage of said Ordinance, prevailed and carried by the following vote:

AYES:

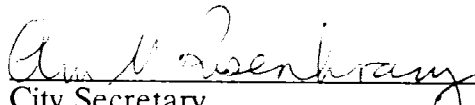
NAYS:

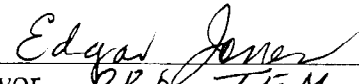
2. That a true, full and correct copy of the aforesaid Ordinance passed at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; that said Ordinance has been duly recorded in said City Council's minutes of said Meeting; that the above and foregoing paragraph is a true, full and correct excerpt from said

City Council's minutes of said Meeting pertaining to the passage of said Ordinance; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said City Council as indicated therein; that each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Ordinance would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose, and that said Meeting was open to the public and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code, as amended.

3. That the Mayor of said City has approved, and hereby approves, the aforesaid Ordinance; that the Mayor and the City Secretary of said City have duly signed said Ordinance; and that the Mayor and the City Secretary of said City hereby declare that their signing of this Certificate shall constitute the signing of the attached and following copy of said Ordinance for all purposes.

SIGNED AND SEALED the 19th day of April, 1994.


City Secretary


Mayor *PRO TEM*

(SEAL)