

ORDINANCE NO. 2008-01

AN ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF CITY OF PEÑITAS, TEXAS CERTIFICATES OF OBLIGATION, SERIES 2008, PAYABLE FROM THE LEVY OF A DIRECT AND CONTINUING ANNUAL AD VALOREM TAX WITHIN THE LIMITS PRESCRIBED BY LAW AND A LIMITED PLEDGE OF THE NET REVENUES (NOT TO EXCEED \$1,000) FROM THE CITY'S WATERWORKS AND SEWER SYSTEM; PROVIDING FOR THE TERMS AND CONDITIONS OF SUCH CERTIFICATES; RESOLVING OTHER MATTERS INCIDENT AND RELATING TO THE ISSUANCE, PAYMENT, SECURITY, SALE, AND DELIVERY OF THE CERTIFICATES; APPROVING AN APPLICATION TO THE UNITED STATES DEPARTMENT OF AGRICULTURE ("USDA"); APPROVING THE LENDING RATE OFFERED BY USDA; AND MAKING OTHER PROVISIONS REGARDING SUCH CERTIFICATES AND MATTERS INCIDENT THERETO

STATE OF TEXAS §
COUNTY OF HIDALGO §
CITY OF PEÑITAS §

WHEREAS, the Board of Aldermen (the "City Council") of the City of Peñitas, Texas (the "City"), desires to construct a wastewater treatment facility and collection system.

WHEREAS, the City Council deems it in the best interests of the City to issue certificates of obligation authorized by the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C of the Texas Local Government Code, as amended (the "Act"), and to use the proceeds thereof to acquire, construct a wastewater treatment facility and collection system, and (ii) to pay the costs of issuance related to the issuance of the certificates of obligation;

WHEREAS, notice of intention to issue the certificates of obligation stating the date, time, and place of the public meeting at which the City Council proposed to adopt the Ordinance authorizing the issuance of the certificates of obligation, the purpose for which the certificates of obligation are to be issued, and the maximum amount of the certificates of obligation proposed to be issued, was published in a newspaper of general circulation published in the City, in the manner provided by applicable law, with the date of the first publication being at least thirty days prior to the date stated therein for the passage of this Ordinance;

WHEREAS, no petition has been filed by the time fixed for the adoption of this Ordinance requesting that an election be held on the question of issuing the certificates of obligation hereinafter authorized, thereby rendering such an election unnecessary;

WHEREAS, the City Council hereby finds and determines that the certificates of obligation herein authorized to be issued can and should be payable both as to principal and interest, from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City and a limited pledge of the Net Revenues from the City's waterworks and sewer system, not to exceed \$10,000; and

WHEREAS, the United States Department of Agriculture (the "USDA") has approved a loan to the City in the amount of One Million Three Hundred Sixty Four Thousand Dollars (\$1,364,000) which may be made by the USDA to the City by purchasing the Certificates;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF PEÑITAS, TEXAS:

Section 1. DEFINITIONS. Throughout this Ordinance the following terms and expressions as used herein shall have the meanings set forth below:

"Agency Rules" means the statutes, rules, regulations and policies of the Rural Utilities Service, in effect on the date hereof, which pertain to or which are applicable to the loan and such future statutes, rules, regulations and policies which are not inconsistent with the express provisions hereof.

"Attorney General" means the Attorney General of Texas.

"Business Day" means any day which is not a Saturday, Sunday, or a day on which banking institutions are authorized by law or executive order to remain closed or a legal holiday.

"Certificates" means the "City of Peñitas, Texas Certificates of Obligation, Series 2008" (and includes all other substitute certificates and replacement certificates issued pursuant hereto).

"City" and "Issuer" means the City of Peñitas, Texas, and any successor to its duties and functions.

"City Council" means the Board of Aldermen of the City.

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

"Dated Date" means May 1, 2008, the Dated Date of the Certificates.

"Cash Reserve Fund" means the Cash Reserve Fund established by the City for the purpose of paying the principal of and interest on the Certificates.

"Facilities" means the sewer plant, sewer lines, lift stations and related improvements which are being constructed with proceeds of the Certificates.

"Fiscal Year" means the City's designated Fiscal Year which is the twelve-month accounting period used in the operation of the System, currently ending on September 30 of each year, which may be any twelve consecutive month period established by the City.

"Government Obligations" means direct obligations of the United States, or obligations unconditionally guaranteed by the United States.

"Gross Revenues" shall mean all of the revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System.

"Loan" means the loan in the amount of \$1,364,000 from the Rural Utilities Service to the City, which has been authorized under 7 U.S.C. §1926, and which is represented by the Rural Utilities Service's purchase of the Certificates.

"Loan Document Provisions" means the terms, conditions, requirements and provisions of the loan instruments and loan documents, including but not limited to, loan resolutions, security agreements, assurance agreements, certifications, and equal opportunity agreements, which were signed by the City for the benefit of the United States of America and/or of the RUS, and for the purpose of obtaining the loan.

"Net Revenues" shall mean the all Gross Revenues of the System after deducting therefrom Operation and Maintenance Expenses as hereinafter defined.

"Operation and Maintenance Expense" shall mean all reasonable and necessary expenses required for the efficient operation and maintenance of the System as authorized by the provisions of Section 1502.056 of the Texas Government Code, as amended, including, without limitation, administrative expenses, management fees, salaries, labor, fees, materials, contractual and professional services, necessary for keeping the System in good condition and working order, making all needed repairs, and providing for all needed periodic and non-recurring items of maintenance, as in the judgment of the City Commission, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining Net Revenues.

"Ordinance" means this Ordinance authorizing the Certificates.

"Owner" means any person who shall be the registered owner of the Certificates, initially USDA.

"Purchaser" means the purchaser of the Certificates.

"RUS" means the Rural Utilities Service, an agency of the United States of America within the United States Department of Agriculture, and any successor agency thereof.

"System" shall mean and include the City's entire Waterworks and Sewer System, together with all future extensions, improvements, enlargements, and additions thereto, and all replacements thereof.

Section 2. FINDINGS. The City hereby finds and determines that the recitations contained in the preamble hereto are true and correct and incorporates the said recitals in the preamble as if set forth in full herein.

Section 3. AUTHORIZATION; PURPOSES. The Certificates shall be designated as the "City of Peñitas, Texas Certificates of Obligation, Series 2008" (the "Certificates"); shall be issued in fully registered form in the total authorized aggregate principal amount of ONE MILLION THREE HUNDRED SIXTY FOUR THOUSAND DOLLARS (\$1,364,000.00) for the following purposes: (i) to construct a wastewater treatment facility and collection system.; and (ii) to pay costs of issuance of the Certificates.

Section 4. DATED DATE, INTEREST PAYMENT DATES. The Certificates shall be dated May 1, 2008. The Certificates shall bear interest at the rates set forth in Section 5 of this Ordinance (or as subsequently agreed to by the City and RUS) from the later of the date of delivery, or the most recent interest payment date to which such interest has been paid or duly provided for, calculated on the basis of a 365-day year, payable on May 15, 2009 and semi-annually on May 15 and November 15 each year thereafter until maturity or prior redemption of any principal of the Certificates.

Section 5. NUMBERS AND DENOMINATIONS.

(a) The Certificates herein authorized shall be issued as separate fully registered Certificates for each date of stated maturity in the applicable principal amounts and denominations and interest payments to become due and payable as provided in this Section 5, and numbered R-1 and upward as provided in this section and shall be registered to the United States of America and delivered to the United States of America upon payment for the Certificates. The Certificates shall be 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 and delivered to the Escrow Agent who will escrow the Certificates until delivery to the Purchaser. The escrow agreement between the City and First National Bank, McAllen, Texas, as escrow agent, attached hereto as Exhibit "A" is adopted herein for purposes of this ordinance (the "Escrow Agreement"). The Initial Certificate submitted to the Attorney General of Texas may be typewritten or photocopied or otherwise reproduced. The City, through its Mayor, Mayor Pro Temp or City Manager, each of whom is hereby authorized to act on its behalf, shall, from the time after the delivery of the Certificates to the Escrow Agent, instruct the Escrow Agent to deliver one or more Certificates, in designated principal amounts to Purchaser on a date certain at which Purchaser will advance the principal amount of the Certificates so delivered. (the "Date of Delivery").

(b) Any Certificates remaining undelivered shall be returned to the City by the Escrow Agent and shall be ordered canceled by the City and shall be returned along with the order of cancellation to the Comptroller of Public Accounts to be attached to the transcript of the proceedings authorizing issuance of the Certificates.

(c) The Certificates shall mature on November 15 in each of the years and in the principal amounts set out in such schedules:

MATURITY SCHEDULE

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Payment</u>	<u>Interest Rate(%)</u>
2010	\$15,431	\$56,265	4.125
2011	16,068	55,628	4.125
2012	16,731	54,966	4.125
2013	17,421	54,276	4.125
2014	18,140	53,557	4.125
2015	18,888	52,809	4.125
2016	19,667	52,030	4.125
2017	20,478	51,218	4.125
2018	21,323	50,374	4.125
2019	22,203	49,494	4.125
2020	23,118	48,578	4.125
2021	24,072	47,624	4.125
2022	25,065	46,631	4.125
2023	26,099	45,598	4.125
2024	27,175	44,521	4.125
2025	28,296	43,400	4.125
2026	29,464	42,233	4.125
2027	30,679	41,017	4.125
2028	31,945	39,752	4.125
2029	33,262	38,434	4.125
2030	34,634	37,062	4.125
2031	36,063	35,633	4.125
2032	37,551	34,146	4.125
2033	39,100	32,597	4.125
2034	40,712	30,984	4.125
2035	42,392	29,305	4.125
2036	44,141	27,556	4.125
2037	45,961	25,735	4.125
2038	47,857	23,839	4.125
2039	49,831	21,865	4.125
2040	51,887	19,810	4.125
2041	54,027	17,669	4.125
2042	56,256	15,441	4.125
2043	58,576	13,120	4.125
2044	60,993	10,704	4.125
2045	63,509	8,188	4.125
2046	66,128	5,568	4.125
2047	68,856	2,840	4.125

Section 6. EXECUTION OF CERTIFICATES; SEAL The Certificates shall be signed by the Mayor of the City and countersigned by the City Secretary, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Certificates shall have the same effect as if each Certificate had been signed manually and in person by each of such officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon the Certificates. If any officer of the City whose signature shall be on the Certificates shall cease to be such officer before the authentication of such Certificate or before the delivery of such Certificate, such signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 7. CONTROL AND CUSTODY; REGISTRATION BY COMPTROLLER. The Mayor and the City Secretary are authorized hereby to have control and custody of the Certificates and all necessary records and proceedings pertaining thereto pending their delivery, and the Mayor and the City Secretary and other officers and employees of the City are hereby authorized and directed to make such certifications and to execute such instruments as may be necessary to accomplish the delivery of the Certificates and to assure the investigation, examination and approval thereof by the Attorney General and the registration of the Initial Certificate by the Comptroller. Upon registration of the Initial Certificate, the Comptroller (or the Comptroller's bond clerk, or an assistant bond clerk lawfully designated in writing to act for the Comptroller) shall manually execute the registration certificate of the Comptroller substantially in the form set out in Section 12 of this Ordinance, and such certificate shall be affixed or attached to the Certificate to be initially issued, and the seal of the Comptroller shall be impressed, or placed in facsimile, thereon.

Section 8. INTEREST ACCRUAL. Notwithstanding any other term, condition, requirement or provision contained in this Ordinance, interest on a Certificate shall continue to accrue and be payable to the United States of America so long as the Certificate remains unpaid and outstanding. Interest will not cease to accrue for any reason (including the establishment of a redemption date or prepayment date) until payment in full has been received at the RUS office designated to receive payments. For the purpose of determining "the date when payment in full has been received at the RUS office designated to receive payments;" such date shall be:

- (a) When payment is made by hand-delivery, the date when such payment has been physically delivered into the possession of such agency at the address given to the Issuer;
- (b) When payment is made by first class mail, the third day following Issuer's mailing of the payment, postage prepaid, using the U.S. Postal Service and Issuer's receipt of written proof of the mailing from the U.S. Postal Service identifying the date of mailing;
- (c) When payment is made by overnight delivery, the first day following Issuer's sending of the payment, using the U.S. Postal Service or another delivery service, such as Federal Express, and Issuer's receipt of written proof of sending from the delivery service identifying the date of sending;

(d) When payment is made by electronic transfer of funds, the date that the electronic transfer of funds for the payment is completed; or

(e) When payment is made by preauthorized electronic debit or draft, the date that the electronic debit or draft for the payment is paid.

Section 9. REGISTRAR. The City covenants that upon the notice of the Purchaser of its intent to sell, assign or transfer any of the Certificates, the City shall promptly appoint a Registrar with responsibilities as Registrar of the Certificates, pursuant to the terms and provisions of the Registrar Agreement, a substantial copy of which is hereto attached as Exhibit "B".

Section 10. OWNERSHIP; UNCLAIMED PRINCIPAL AND INTEREST. The City may treat the person in whose name any Certificate is registered as the absolute Owner of such Certificate for the purpose of making and receiving payment of the principal of or interest on such Certificate and for all other purposes, whether or not such Certificate is overdue, and the City shall not be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Certificate in accordance with this section shall be valid and effectual and shall discharge the liability upon such Certificate to the extent of the sums paid.

Amounts held by the City which represent principal of and interest on the Certificate remaining unclaimed by the Owner after the expiration of three (3) years from the date such amounts have become due and payable shall be reported and disposed of by the City in accordance with the applicable provisions of Texas law, including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

Section 11. MUTILATED OR DESTROYED CERTIFICATES.

In the event any Certificate is mutilated, destroyed, lost or stolen, any security or indemnity as may be required by the City from the registered owner applying for the replacement Certificate shall not be required from the United States of America as long as it is holder of the Certificates.

Section 12. OPTIONAL REDEMPTION PRIOR TO MATURITY. (a) The City reserves the right, at its option, to redeem prior to maturity, in inverse order of maturity, the Certificates maturing on and after November 15, 2019, in whole or in part from time to time on November 15, 2018, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption on the principal amounts called for redemption.

(b) The Certificates may be redeemed only in integral multiples of \$1,000 of principal amount. If the Certificate subject to redemption is in a denomination larger than \$1,000, a portion of such Certificate may be redeemed, but only in integral multiples of \$1,000. In selecting portions of the Certificate for redemption, the City shall treat the Certificate as representing that Certificate of \$1,000 denomination which is obtained by dividing the principal amount of such Certificate by \$1,000. Upon surrender of the Certificate for redemption in part, the Register, in accordance with

Section 13 hereof shall authenticate and deliver in exchange therefor a Certificate of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered.

(c) Not less than forty five (45) days prior to a redemption date for the Certificate, notice of such redemption shall be sent by U.S. mail, first class postage prepaid, in the name of the City to each Owner of a Certificate to be redeemed, in whole or in part, at the address of such Owner appearing on the Register at the close of business on the Business Day next preceding the date of mailing. Such notices shall state the redemption date, the redemption price, the place at which the Certificate is to be surrendered for payment and, if less than all of the Certificate outstanding is to be redeemed, the Certificate or portions thereof to be redeemed. Any notice of redemption so mailed as provided in this Section will be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made by the City for payment of the redemption price of the Certificate or portions thereof to be redeemed. When the Certificate has been called for redemption in whole or in part, notice of redemption has been given as herein provided and due provision has been made to redeem the same, the Certificate or portions thereof so redeemed shall no longer be regarded to be outstanding, except for the purpose of receiving payment solely from the funds so provided for redemption, and interest which would otherwise accrue after the redemption date on any Certificate or portion thereof called redemption shall terminate on the date fixed for redemption. If a portion of any Certificate shall be redeemed, a substitute Certificate having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$1,000, 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 City.

Notwithstanding any other term, condition, requirement or provision contained in this Ordinance, redemption or prepayment of the Certificates may occur without presentation of the Certificates.

Section 13. FORM OF CERTIFICATES. The form of the Certificates, including the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas, which shall be attached or affixed to the Certificates shall be, respectively, substantially as follows, with such additions, deletions and variations as are permitted or required by this Ordinance. The Certificates shall be printed, lithographed, or engraved and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Certificates, as evidenced by their execution thereof. The initial Certificates submitted to the Attorney General may be typewritten and photocopied or otherwise reproduced.

FORM OF THE CERTIFICATES

UNITED STATES OF AMERICA
STATE OF TEXAS

REGISTERED

REGISTERED

4. When payment is made by electronic transfer of funds, the date that the electronic transfer of funds for the payment is completed; or
5. When payment is made by preauthorized electronic debit or draft, the date that the electronic debit or draft for the payment is paid.

IF THE DATE for any payment due on the Certificate shall be a Saturday, Sunday, or legal holiday, or a day on which banking institutions are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date of such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS CERTIFICATE IS ONE OF A DULY AUTHORIZED SERIES OF CERTIFICATES dated May 1, 2008 (the "Certificates") aggregating One Million Three Hundred Sixty Four Thousand Dollars (\$1,364,000), issued for the purpose of paying contractual obligations (i) to construct a wastewater treatment facility and collection system.; and (ii) to pay for the cost and expense of issuance of the Certificates, all pursuant to the authority of the Constitution and the laws of the State of Texas, particularly Sections 271.041 through 271.063 of the Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City on May 7, 2008 (the "Ordinance").

THE CITY RESERVES THE RIGHT, at its option, to redeem prior to maturity, in inverse order of maturity, the Certificates (or principal amount) maturing on and after November 15, 2019 on whole or in part from time to time any principal in the amount of \$1,000 or multiple integrals thereof, on November 15, 2018, and on any date thereafter, at the par value thereof, plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

NOT LESS THAN FORTY FIVE (45) DAYS prior to an optional redemption date, notice of such redemption shall be sent by the City by U.S. mail, first-class, postage prepaid, in the name of the City to the Owner of a Certificate to be redeemed in whole or in part at the address of the Owner. When the Certificate has been called for redemption in whole or in part and due provision has been made to redeem the same, the amounts so redeemed shall be payable solely from the funds provided for redemption.

THIS CERTIFICATE shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this Certificate is registered by the Comptroller of Public Accounts of the State of Texas by registration certificate attached or affixed hereto.

THE CITY HAS COVENANTED not to amend the Ordinance as long as the United States of America is the Owner of the Certificates, but has otherwise reserved the right to amend the Ordinance subject to the restrictions stated in the Ordinance.

IT IS HEREBY CERTIFIED, RECITED AND COVENANTED that this Certificate and the series of which it is a part have been duly and validly issued and delivered in accordance with the Constitution and laws of the State of Texas; that all acts, conditions, and things required or proper to be performed, to exist, and to be done precedent to or in the issuance and delivery of this Certificate have been performed, exist and have been done in accordance with law; that the Certificates do not exceed any constitutional or statutory limitation; that the interest on and principal of this Certificate, and the series of which it is a part, are secured by and payable from (1) an annual ad valorem tax, within the limits prescribed by law, sufficient to provide for the payment of the interest on and principal of the Certificates, as such interest comes due and such principal matures; which taxes have been levied and ordered to be levied, within the limits prescribed by law, against all taxable property in the City and have been irrevocably pledged for such payment, and (2) from a limited pledge of the City's Net Revenues as defined in the Ordinance (not to exceed \$1,000).

THE OWNER of this Certificate, by acceptance hereof, acknowledges and agrees to be bound by all the terms and conditions of the Ordinance.

IN WITNESS WHEREOF, this Certificate has been signed with the manual or facsimile signature of the Mayor of the City and countersigned with the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed, or placed in facsimile, on this Certificate.

CITY OF PEÑITAS, TEXAS

Mayor

City Secretary

(SEAL)

[FORM OF COMPTROLLER'S REGISTRATION CERTIFICATE, FORM OF REGISTRAR'S AUTHENTICATION CERTIFICATE, AND FORM OF ASSIGNMENT FOR THE CERTIFICATES OF OBLIGATION]

FORM OF COMPTROLLER'S REGISTRATION CERTIFICATE

The following form of Comptroller's Registration Certificate shall be attached or affixed to each of the Certificates initially delivered:

THE STATE OF TEXAS
OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS

REGISTER NO.

I hereby certify that this certificate has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and that this certificate has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY SIGNATURE AND SEAL OF OFFICE this the ____ day of _____, 2008.

[SEAL]

Comptroller of Public Accounts of the State of Texas

FORM OF REGISTRAR'S AUTHENTICATION CERTIFICATE

The following form of authentication certificate shall be printed on the face of each of the Certificates other than those initially delivered:

AUTHENTICATION CERTIFICATE

This Certificate is one of the Certificates described in and delivered pursuant to the within-mentioned Ordinance; and except for the Certificates initially delivered, this Certificate has been issued in exchange for or replacement of a Certificate, Certificates, or a portion of a Certificate or Certificates of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of the Public Accounts of the State of Texas.

Date of Authentication:

By: _____
Authorized Signature

FORM OF ASSIGNMENT

The following form of assignment shall be printed on the back of each of the Certificates:

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

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

(Please insert Social Security or Taxpayer Identification
Number of Transferee) the within certificate and all rights thereunder, and hereby irrevocably
constitutes and appoints _____, attorney, to transfer

such certificates on the books kept for registration thereof, with full power of substitution in the premises.

DATED:

Signature

Guaranteed: _____

Registered Owner

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

NOTICE: The signature above must correspond to the same name of the registered owner as shown on the face of this certificate in every particular, without any alteration, enlargement, or change whatsoever.

Section 14. DEBT SERVICE FUND; TAX LEVY AND PLEDGE.

(a) Certificates of Obligation Debt Service Fund. A special fund entitled "City of Peñitas, Texas Certificates of Obligation, Series 2008 Debt Service Fund" (the "Debt Service Fund") is hereby created and shall be established and maintained by the City at its official depository. The Debt Service Fund shall be kept separate and apart from all other funds and accounts of the City, and shall be used only for paying the interest on and principal of the Certificates.

(b) Tax Levy. All ad valorem taxes levied and collected for and on account of the Certificates shall be deposited, as collected, to the credit of the Debt Service Fund. During each year while any of the Certificates or interest thereon are Outstanding or unpaid, the City Commission shall compute and ascertain a rate and amount of ad valorem taxes which will be sufficient to raise and produce the amount required to provide for the payment of the interest on the Certificates as such interest comes due and to provide and maintain a sinking fund adequate to pay the principal of the Certificates as such principal matures (but never less than 2% of the original principal amount of the Certificates in any year); and such tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection. Such rate and amount of ad valorem taxes are hereby levied, and are hereby ordered to be levied, within the limits prescribed by law, against all taxable property in the City for each year while any of the Certificates or interest thereon are Outstanding; such tax shall be assessed and collected each such year, and the proceeds of such tax shall be transferred by the Authorized Officials and deposited into the Debt Service Fund and appropriated and applied to the payment of principal of and interest on the Certificates.

(c) System Revenue Pledge. While any of the Certificates or interest thereon is outstanding or unpaid, the City also pledges to the payment of the principal of and interest on the Certificates of the Net Revenues (but never to exceed, in the aggregate, the amount of \$1,000) for such purpose. Such pledge shall be subordinate and inferior in all respects to the pledge of any or all of the Net Revenues which are pledged to the payment of any obligation of the City, whether authorized heretofore or hereafter which the City designates as having a pledge senior to the pledge of any or all

of such Net Revenues pledged to the payment of the Certificates, and the City reserves the right to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligations and other obligations of any kind payable in whole or in part from any or all of the Net Revenues secured by a pledge of any or all of the Net Revenues that may be prior and superior in right to or on a parity with the Certificates.

Section 15. ESTABLISHMENT AND APPLICATION OF CASH RESERVE FUND.

(a) There has been established and there shall be maintained on the books of the City an account designated as the "Cash Reserve Fund" to be maintained by the City in strict accordance with the provisions of this section.

(b) Beginning sixty (60) days after issuance of the Certificates, the City shall deposit to the Cash Reserve Fund monthly deposits equal to one-tenth (1/10) of the total annual installment required on the Certificates until the Cash Reserve Fund shall have a balance equal to one annual installment. The City may, at its sole discretion, and in conformance with the Code and the Regulations, and subject to the approving opinion of tax counsel, deposit funds from any legally available source to the Cash Reserve Fund. Funds on deposit in the Cash Reserve Fund shall be transferred to the Debt Service Fund to pay principal and interest with respect to the Certificates to the extent funds in the Debt Service Fund are not sufficient therefor.

(c) Upon redemption of all the Certificates, funds on deposit in the Cash Reserve Fund may be used for any legal purposes.

Section 16. GENERAL COVENANTS. The City further covenants and agrees that it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance and in every Certificate; that it will promptly pay or cause to be paid the principal of and interest on every Certificate, on the dates and in the places and manner prescribed in this Ordinance and the Certificates; 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 Cash Reserve Fund; and any holder of the Certificates may require the City, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of this Ordinance, by all legal and equitable means. The City further covenants as follows:

(a) Operation Of System; No Free Service. While the Certificates 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, lessees, or concessionaires make use of the services and facilities of the System, payment monthly of the standard retail price of the services provided shall be made by the City or any of its agencies or instrumentalities, lessees, or concessionaires out of funds from sources other than the revenues of the System.

(b) Insurance.

(1) The City shall cause to be insured such parts of the System as would usually be insured by corporations operating like properties, 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. All insurance premiums shall be paid as an expense of operation of the System. 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 bondholders 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 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 other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(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 shall state whether or not all insurance premiums upon the insurance policies to which reference is made have been paid.

(c) To the extent permitted by State Law and if such law is not otherwise preempted by federal statute, regulation or rule, the City shall comply with all Agency Rules and Loan Document Provisions.

(d) Notwithstanding any other term, condition, requirement or provision contained in this Ordinance, the Agency Rules and Loan Document Provisions shall, to the extent permitted by State law and if such law is not otherwise preempted by federal statute, regulation or rule, control to the extent of any conflict between the Ordinance and such Agency Rules or such Loan Document Provisions.

(e) Chapter 1208, Government Code, applies to the issuance of the Certificates and the pledge of the taxes granted by the City under Section 13 of this ordinance, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Certificates are outstanding and unpaid such that the pledge of the taxes granted by the City under Section 13 of this ordinance 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 Certificates 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 17. ADDITIONAL COVENANTS.

(a) Proceeds of the Sale and Available Funds of the System. The City covenants and agrees, promptly after the delivery of the Certificates, to deposit the proceeds from the sale and delivery of the Certificates in the amount of \$1,364,000, less Bond Counsel fees and closing costs, to the Construction Fund to be created hereunder and to be used for the purpose of financing improvements and extensions to the City's sewer system. Any unused proceeds from the sale and delivery of the Certificates shall be refunded to RUS or applied as an extra payment on the RUS debt.

(b) Application for Financial Assistance. The City Council hereby approves the form and contents of the Application for Financial Assistance, relating to the Certificates, and any addenda, supplement or amendment thereto and ratifies and approves the submission to the RUS, with such changes therein or additions thereto as the officers executing same may deem advisable, such determination to be conclusively evidenced by their execution thereof. The Mayor is hereby authorized and directed to execute, and the City Secretary is hereby authorized and directed to attest, the final Application for Financial Assistance. It is further hereby officially found, determined and declared that the statements and representations contained in the Application for Financial Assistance are true and correct in all material respects, to the best knowledge and belief of the City Council.

(c) Accounting. The City shall render a final accounting to the RUS in reference to the total cost incurred by the City for improvements and extension of the Waterworks and Sewer System being financed by the City with proceeds of the Certificates together with a copy of "as built" plans of the project.

(d) Additional Obligations. Subject to the prior written consent of USDA Rural Development, 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 obligations, in accordance with law, in any amounts, for any lawful purpose.

(e) Reporting to USDA Rural Development.

(1) During the first full year of operation, the City will furnish to USDA Rural Development Area Director quarterly, or monthly if the need arises, a summary of its operations. Form RD 442-2, "Statement of Budget, Income and Equity," will be provided for this purpose. Audits are to be performed in accordance with generally accepted government auditing standards. In addition, the audits are to be performed in accordance with various Office of Management and Budget circulars. Annual reports and audits are to be furnished as set forth in RUS Instruction 1780, Section 1780-47.

(2) The City shall annually prepare and provide to USDA Rural Development Area Director a

supplemental report containing the following information:

- a. Total gallons of water purchased and/or produced.
- b. Total gallons of water sold.
- c. Total number of customers.
- d. Percentage of water loss.
- e. List of names, addresses, and telephone numbers of current governing body.

(3) An authorized representative of the City will monitor and provide a report to USDA Rural Development on actual performance during construction.

Section 18. SALE TO THE UNITED STATES OF AMERICA. The Certificates are hereby sold to the United States of America for the par value of the Certificates.

Section 19. INVESTMENTS; FUNDS SECURED. Money in all funds created, or continued, by this Ordinance (the "Funds") shall be invested in investments in institutions insured by the State of Texas or the United States of America or invested in readily marketable securities backed by the full faith and credit of the United States Collateral Act (Texas, Government Code, Chapter 2257).

Section 20. APPROVAL, REGISTRATION, AND DELIVERY. The Mayor is hereby authorized to have control and custody of the Certificates and all necessary records and proceedings pertaining thereto pending their delivery, and the Mayor and other officers and employees of the City are hereby authorized and directed to make such certifications and to execute such instruments as may be necessary to accomplish the delivery of the certificates and to assure the investigation, examination and approval thereof by the Attorney General of the State of Texas and the registration of the Initial Certificate by the Comptroller.

Section 21. APPROVAL OF LOAN DOCUMENTS. The Mayor and the City Secretary and other officers and employees of the City are hereby authorized and directed to execute, or obtain proper execution from third parties of, those documents as may be necessary to accomplish delivery of the Certificates and to assure the City receives the benefits of the RUS loan and grant, including:

(a) Form SF-5510, "Authorization Agreement for Pre-Authorized Payments," for the USDA loan, as well as any other USDA loan to the City. A copy of this agreement(s) will be forwarded to the State Office and the Letter of Conditions based upon 5366 water and 5338 sewer users that will use the facilities when service becomes initially available. Verification of users will be made by the Rural Development Manager using RUS Bulletin-TX 1780-40.

(b) Form SF-3381, Electronic Funds Transfer Payment Enrollment Form for each account where funds will be electronically received.

(c) Form RD-1910-11, "Applicant Certification – Federal Collection Policies For Consumer

of Commercial Debts” prior to Closing.

(d) RUS Bulletin 1780-12, “Water and Waste System Grant Agreement.”

(e) RUS Bulletin 1780-27, “Loan Resolution (Public Bodies).”

(f) Forms RD 400-4, “Assurance Agreement,” and RD 400-1, “Equal Opportunity Agreement.”

(g) Form AD-1047, “Certification Regarding Debarment, Suspension, and Other Responsibility Matters – Primary Cover Transactions,” to certify that the City is not debarred or suspended from Government assistance.

(h) Form AD-1048, “Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion – Lower Tier Covered Transactions,” required from any person or entity it does business with as a result of this Government assistance.

(i) Certification that the City will provide a drug free workplace as a prior condition of being awarded a grant and execute Form AD-1049, certifying the provisions of the Drug Free Workplace Act of 1988.

Section 22. 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, effective on or before the Closing Date.

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

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

"Investment" has the meaning set forth in Section 1.148-l(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 Certificates are invested and which is not acquired to carry out the governmental purposes of the Certificates.

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

"Regulations" means the Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1986, which are applicable to the Certificates (and any rulings thereunder). Any reference to any specific Regulation shall also mean,

as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of

- (1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations;
- and
- (2) the Certificates has the meaning set forth in Section 1.148-4 of the Regulations.

(b) General Tax Covenant. The City intends that the interest on the Certificates shall be excludable from gross income for purposes of federal income taxation pursuant to Sections 103 and 141 through 150 of the Code and applicable Regulations. The City covenants and agrees not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Certificates to be includable in gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of this Section; provided, however, that the City shall not be required to comply with any particular requirement of this Section if the City has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Certificates or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Section. In the event the provisions of the Code are amended, or new regulations or rulings are promulgated or issued thereunder, such that requirements in addition to those stated herein become applicable to the Certificates, the City covenants to comply with such additional requirements to the extent necessary to prevent any adverse effect on the exclusion of interest on the Certificates from gross income for federal income tax purposes.

(c) Use of Proceeds. The City covenants and agrees that its use of the Gross Proceeds of the Certificates will at all times satisfy the following requirements:

(i) Private Business Use. Except as permitted by section 141 of the Code and the Regulations, the City shall at all times prior to the last stated maturity of the Certificates:

(A) not use or permit the use of Gross Proceeds of the Certificates 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

(B) not directly or indirectly impose or accept any charge or other payment by any person who is treated as using Gross Proceeds of the Certificates 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 ad valorem taxes or interest earned on Investments acquired with such Gross Proceeds pending application for their intended purposes.

(ii) Private Loan Use. Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Certificates to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(iii) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code, and the Regulations, the City shall not 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 Certificates.

(iv) 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 Certificates to be federally guaranteed within the meaning of section 149(b) of the Code.

(v) 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.

(vi) No-Arbitrage Covenant. The City shall certify, through an authorized officer, employee or agent, that based upon all facts and estimates known or reasonably expected to be in existence on the date the Certificates are delivered, the City will reasonably expect that the proceeds of the Certificates will not be used in a manner that would cause the Certificates to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Certificates (including interest or other investment income derived from Certificate proceeds), regulate investments of proceeds of the Certificates and take such other and further action as may be required so that the Certificates will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

(vii) Arbitrage Rebate. The City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the "gross proceeds" of the Certificates (within the meaning of Section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) obtain information and maintain records regarding the receipt, investment and expenditure of the gross proceeds of the Certificates as may be required to calculate the amount earned on the investment of the gross proceeds of the Certificates and to identify the gross proceeds of the Certificates separately from records of amounts on deposit in the funds and

accounts of the City allocable to other bond issues of the City or moneys which do not represent gross proceeds of any bonds of the City, (ii) calculate, at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Certificates which is required to be rebated to the federal government and (iii) pay, at such times and in such manner as required by applicable regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Certificates that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(viii) Elections. The City hereby directs and authorizes the President and the Vice-President of the Board, either or any combination of them, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Certificates, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

Section 23. DEFAULT.

(a) Events of Default. Other than to the United States government, the Ordinance, provides no express remedies to a registered owner in the event of default, except for the remedy of mandamus, makes no provision for acceleration of maturity of the Certificates in the event of default, and does not provide for a trustee to protect the rights of the registered owners. Events of default under the Ordinance include: (1) failure to pay interest, principal or premium on the Certificates when and as the same shall have become due and payable; or (2) failure to perform or observe duly or punctually any other covenant, condition or agreement contained in the Certificates or the Ordinance and to be performed by the City, which failure shall have continued for 60 days after notice from the holders of 10% in principal amount of the outstanding Certificates.

(b) Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City has covenanted and agreed that in the event the City (a) defaults in the payment of principal of or interest on the Certificates when due, or (b) fails to make the payments to the funds required by the Ordinance, or (c) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the following remedies shall have available as stated in the Ordinance:

The registered owner or owners of the Certificates shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring officers of the City, to observe and perform any covenant, obligation or condition prescribed in this ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such power or right 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 remedies provided are cumulative of all other available remedies and the

specification of such shall not be deemed to be exclusive.

A registered owner could, in the event of default, ask a court for a writ of mandamus compelling the City to observe the covenants contained in the Ordinance, including the obligation to levy, assess and collect sufficient ad valorem taxes and toll revenues to pay principal and interest as it falls due on the Certificates. The mandamus remedy, however, may be impracticable and difficult to enforce. Because there is no provision for acceleration of maturity of the Certificates in the event of default, the remedy of mandamus might need to be enforced from year-to-year. It is doubtful that a judgment against the City could be effectively enforced by a direct levy and execution against property owned by the City, including any City funds other than those received from the specific tax levy made for the Certificates. The enforcement of a claim for payment of principal of or interest on the Certificates would be subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

Section 24. AMENDMENT OF ORDINANCE. (a) Subject to approval by the Rural Utilities Service while it is the holder of the Certificates, the City 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 Certificates with respect to the following matters:

- (i) Make any change in the maturity of the outstanding Certificates;
- (ii) Reduce the rate of interest borne by the outstanding Certificates;
- (iii) Reduce the amount of the principal payable on the outstanding Certificates;
- (iv) Modify the terms of payment of principal of or interest on the outstanding Certificates or impose any conditions with respect to such payment;
- (v) Affect the rights of the holders of less than all of the Certificates then outstanding;
- (vi) Change the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment.

(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 published in The City of New York, New York, 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 Issuer for inspection by all holders of the Certificates. Such publication is not required, however, if notice in writing is given to the holder of the Certificates.

(c) Whenever at any time not less than 30 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 holders of at least 51% in aggregate principal amount of all Certificates then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically give consent to and approval of such amendment in substantially the form of the copy thereof on file with the City, the City Council 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 the holder of the then outstanding Certificates shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) Any consent given by the holder of a Certificate 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 Certificate 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 a holder who gave such consent, or by a successor in title, by filing notice thereof with the City, but such revocation shall not be effective if the holders of 51% in aggregate principal amount of the then outstanding Certificates 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 identity of the holder of the Certificate, the amounts and numbers of such Certificate and the date of their holding same shall be proved by the registration books of the Issuer. For purposes of this Section, the holder of a Certificate shall be the owner thereof as shown on such registration books. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

(g) The foregoing provisions of this Section notwithstanding, the City by action of the City Council, may amend this Ordinance for any one or more of the following purposes:

(1) To add other covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders, or to surrender, restrict, or limit any right or power herein reserved to or conferred upon the City;

(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 to clarify 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 holder of the Certificate;

(3) To modify any of the provisions of this Ordinance; provided that (i) any modification is expressly effective only after all the Certificates outstanding at the date of the

adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Bonds issued after the date of the adoption of such modification.

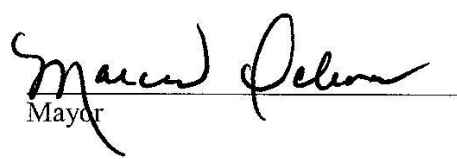
Section 25. REPEALER. All ordinances and resolutions or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

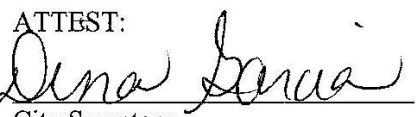
Section 26. NOTICE. Any notice, demand, direction, request, or other instrument authorized or required by this Ordinance to be given to or filed with the City shall be sent by first class mail, postage prepaid, to the address specified below or, to such other address as may be designated in writing by the parties:

Attention: Mayor
City of Peñitas
P.O. Box 204
Peñitas, Texas 78576

Attn: USDA Rural Development
2514 S. I Road, Suite 4
Edinburg, Texas 78539

PASSED AND APPROVED ON _____.


Mayor

ATTEST:

City Secretary

(SEAL)

EXHIBIT A
ESCROW AGREEMENT

EXHIBIT B
REGISTRAR AGREEMENT