89-2

ORDINANCE AUTHORIZING THE ISSUANCE OF $235,000 CITY OF DANBURY, TEXAS, PUBLIC IMPROVEMENT BONDS, SERIES 1989; LEVYING TAXES TO PROVIDE FOR PAYMENT THEREOF; AND CONTAINING OTHER PROVISIONS RELATING THERETO

THE STATE OF TEXAS §
COUNTY OF BRAZORIA §
CITY OF DANBURY §

WHEREAS, the Constitution and laws of the State of Texas, particularly Chapters 1 and 7 of Title 22, Revised Civil Statutes of Texas, as amended, authorize the City to issue Public Improvement Bonds to obtain funds for needed public improvements; and

WHEREAS, the bonds hereinafter authorized were duly and favorably voted at an election held in the City on the 13th day of November, 1982; and

WHEREAS, the City Council of the City has and does hereby determine that bonds in the amount of $235,000, as a portion and the second and final installment of the $750,000 bonds voted at said election, should now be issued and delivered in order to accomplish the purposes for which they were voted, $515,000 bonds of said voted authorization having been heretofore issued, sold, and delivered; Now, Therefore

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF DANBURY, TEXAS:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1: Definitions. Throughout this ordinance the following terms and expressions as used herein shall have the meanings set forth below:

The term "Bond" or "Bonds" shall mean any bond or all bonds, as the case may be, of the Public Improvement Bonds, Series 1989, authorized in this Ordinance, unless the context clearly indicates otherwise.

The term "Business Day" shall mean any day which is not a Saturday, Sunday, legal holiday, or day on which the Registrar is authorized by law or executive order to remain closed.

The term "City" shall mean the City of Danbury, Texas, and, where appropriate, the City Council.

The term "Construction Fund" shall mean the construction fund established by the City pursuant to Section 6.1 of this Ordinance.

The term "Interest and Sinking Fund" shall mean the interest and sinking fund established by the City pursuant to Section 5.1 of this Ordinance.

The term "Interest Payment Date", when used in connection with any Bond, shall mean March 1, 1990, and each September 1 and March 1 thereafter until maturity or earlier redemption of such Bond.

The term "Issuance Date" shall mean the date on which the Bonds are delivered to and paid for by the TWDB. The Registrar shall cause the Issuance Date to be printed on the Bonds. Bonds delivered on transfer of or in exchange for other Bonds shall bear the same Issuance Date as the Bond or Bonds in lieu of or in exchange for which the new Bond is delivered.

The term "Ordinance" as used herein and in the Bonds shall mean this ordinance authorizing the Bonds and all amendments hereof and supplements hereto.

The term "Owner" shall mean any person who shall be the registered owner of any outstanding Bonds.

The term "Project" shall mean the improvements and extensions to the City's sanitary sewer system financed with proceeds of the Bonds.

The term "Paying Agent" shall mean the Registrar.

The term "Record Date" shall mean, for any Interest Payment Date, the 15th calendar date of the month next preceding such Interest Payment Date.

The term "Register" shall mean the books of registration kept by the Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

The term "Registrar" shall mean MTrust Corp, National Association, Houston, Texas, and its successors in that capacity.

The term "TWDB" shall the Texas Water Development Board.

Section 1.2: Interpretations. All definitions of terms used herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein.

ARTICLE II

TERMS OF THE BONDS

Section 2.1: Amount and Purpose. The Bonds shall be issued in fully registered form, without coupons, in the total authorized aggregate amount of Two Hundred Thirty-Five Thousand Dollars ($235,000) for the purpose of constructing improvements and extensions to the sanitary sewer system of the City.

Section 2.2: Designation, Date, and Interest Payment Dates. The Bonds shall be designated as the "CITY OF DANBURY, TEXAS, PUBLIC IMPROVEMENT BONDS, SERIES 1989", and shall be dated February 1, 1989. Each Bond shall bear interest from the later of the Issuance Date, or the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months, interest payable on March 1, 1990, and semiannually thereafter on September 1 and March 1 of each year until maturity or prior redemption.

Section 2.3: Numbers, Denomination, Interest Rates and Maturities. The Bonds shall be issued bearing the numbers, in the principal amounts, and bearing interest at the rates set forth in the following schedule, and may be transferred and exchanged as set out in this Ordinance. The Bonds shall mature, subject to prior redemption in accordance with this Ordinance, on March 1 in each of the years and in the amounts set out in such schedule. Bonds delivered in transfer of or in exchange for other Bonds shall be numbered in order of their authentication by the Registrar, shall be in the denomination of $5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Bond or Bonds in lieu of which they are delivered.

Bond Number	Year	Principal Amount	Interest Rate
R- 1	1990	$ 10,000	6.25%
R- 2	1991	10,000	6.50%
R- 3	1992	10,000	6.70%
R- 4	1993	10,000	6.90%
R- 5	1994	10,000	7.05%
R- 6	1995	10,000	7.15%
R- 7	1996	10,000	7.25%
R- 8	1997	15,000	7.35%
R- 9	1998	15,000	7.45%
R-10	1999	15,000	7.55%
R-11	2000	20,000	7.65%
R-12	2001	20,000	7.75%
R-13	2002	20,000	7.85%
R-14	2003	20,000	7.95%
R-15	2004	20,000	8.05%
R-16	2005	20,000	8.15%

Section 2.4: Execution of Bonds; Seal. The Bonds shall be signed by the Mayor of the City and countersigned by the City Secretary of the City, by their manual, lithographed, or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the City had been manually impressed upon each of the Bonds. If any officer of the City whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the

authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 2.5: Authentication. Except for the Bonds to be initially issued, which need not be authenticated, only such Bonds as shall bear thereon a certificate of authentication, substantially in the form provided in Section 4.3 of this Ordinance, manually executed by an authorized officer of the Registrar, shall be entitled to the benefits of this Ordinance or shall be valid or obligatory for any purpose. Such duly executed certificate of authentication shall be conclusive evidence that the Bond so authenticated was delivered by the Registrar hereunder.

The Registrar, when it authenticates a Bond, shall cause the Issuance Date to be stamped, typed or imprinted on such Bond. Bonds issued on transfer of or in exchange for Bonds which were originally delivered to the TWDB shall bear the same Issuance Date as the Bond or Bonds originally delivered to the TWDB.

Section 2.6: Medium and Place of Payment. The Registrar is hereby appointed as the Paying Agent for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they become due and payable, whether at maturity or by prior redemption, at the corporate trust office of the Registrar. The interest on each Bond shall be payable by check or draft payable on the Interest Payment Date mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register. Any accrued interest payable at maturity shall be paid upon presentation and surrender of the Bond to which such interest appertains.

If the date for payment of the principal of or interest on any Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date payment was due.

Section 2.7: Successor Registrars. The City covenants that at all times while any Bonds are outstanding it will provide a bank, trust company, financial institution or other entity duly qualified and duly authorized to act as Registrar for the Bonds. The City reserves the right to change the Registrar on not less than 60 days written notice to the Registrar, so long as any such notice is effective not less than 60 days prior to the next succeeding principal or interest payment date on the Bonds. Promptly upon the appointment of any successor Registrar, the previous Registrar shall deliver the Register or copies thereof to the new Registrar, and the new Registrar shall notify each Owner, by United States mail, first class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

Section 2.8: Special Record Date. If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class postage prepaid, not later than five (5) days prior to the Special Record Date, to each affected Owner of record as of the close of business on the day prior to the mailing of such notice.

Section 2.9: Ownership; Unclaimed Principal and Interest. The City, the Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with this Section 2.9 shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Bond to the extent of the sums paid.

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

Section 2.10: Registration, Transfer and Exchange. So long as any Bonds remain outstanding, the Registrar shall keep the Register at its corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of this Ordinance. The Issuance Date of each Bond originally delivered to and paid for by the TWDB shall be recorded in the Register.

Each Bond shall be transferable only upon the presentation and surrender thereof at the corporate trust office of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Bond for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three Business Days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, aggregate principal amount, and Issuance Date, and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the corporate trust office of the Registrar for a Bond or Bonds of the same maturity, Issuance Date, and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this Section 2.10. Each Bond delivered in accordance with this Section 2.10 shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The City or the Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the City.

The Registrar shall not be required to transfer or exchange any Bond during a period beginning at the opening of business fifteen (15) calendar days prior to the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing.

Section 2.11: Cancellation. All Bonds paid or redeemed in accordance with this Ordinance, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding such payment or redemption. The Registrar shall furnish the City with appropriate certificates of destruction of such Bonds.

Section 2.12: Replacement Bonds. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, Issuance Date, interest rate and principal amount, bearing a number not contemporaneously outstanding. The City or the Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

If any Bond is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute and the Registrar shall authenticate and deliver a replacement Bond of like maturity, Issuance Date, interest rate and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

(a) furnished to the City and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;

(b) furnished such security or indemnity as may be required by the Registrar and the City to save them harmless;

(c) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and

(d) met any other reasonable requirements of the City and the Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a replacement Bond, authorize the Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section 2.12 shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

ARTICLE III

OPTION OF PRIOR REDEMPTION

Section 3.1: Optional Redemption. The City reserves the right, at its option, to redeem prior to maturity the Bonds maturing on or after March 1, 1999, in whole or from time to time in part, in inverse numerical order, on March 1, 1998, or on any Interest Payment Date thereafter at par plus accrued interest on the Bonds called for redemption to the date fixed for redemption. If less than all of the Bonds

within a stated maturity are redeemed at any time, the Bonds to be redeemed shall be selected by the City.

Section 3.2: Partial Redemption. Principal amounts may be redeemed only in integral multiples of $5,000. If a Bond subject to redemption is in a denomination larger than $5,000, a portion of such Bond may be redeemed, but only in integral multiples of $5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 2.10 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity, Issuance Date, and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Section 3.3: Notice of Redemption. Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty days prior to the date fixed for redemption by (i) sending written notice by certified mail to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register and (ii) publication one time in a financial journal or publication published in the City of New York, New York, or in the City of Austin, Texas. Such notices shall state the redemption date, the amount of accrued interest payable on the redemption date, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding are to be redeemed, the numbers of the Bonds or portions thereof to be redeemed. Any notice given as provided in this Section 3.3 shall 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 with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

stated maturity are redeemed at any time, the Bonds to be redeemed shall be selected by the City.

Section 3.2: Partial Redemption. Principal amounts may be redeemed only in integral multiples of $5,000. If a Bond subject to redemption is in a denomination larger than $5,000, a portion of such Bond may be redeemed, but only in integral multiples of $5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 2.10 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity, Issuance Date, and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Section 3.3: Notice of Redemption. Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty days prior to the date fixed for redemption by (i) sending written notice by certified mail to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register and (ii) publication one time in a financial journal or publication published in the City of New York, New York, or in the City of Austin, Texas. Such notices shall state the redemption date, the amount of accrued interest payable on the redemption date, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding are to be redeemed, the numbers of the Bonds or portions thereof to be redeemed. Any notice given as provided in this Section 3.3 shall 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 with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

ARTICLE IV

FORM OF BONDS AND CERTIFICATES

Section 4.1: Form of Bonds. The Bonds shall be in substantially the following form, with such additions, deletions and variations as may be necessary or desirable and not prohibited by this Ordinance:

(Face of Bond)

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF BRAZORIA

NUMBER
R-____
REGISTERED

DENOMINATION
$_____
REGISTERED

CITY OF DANBURY, TEXAS
PUBLIC IMPROVEMENT BOND, SERIES 1989

INTEREST RATE: MATURITY DATE: ISSUANCE DATE: CUSIP:

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

THE CITY OF DANBURY, TEXAS (the "City") promises to pay to the registered owner identified above, or registered assigns, on the date specified above, upon presentation and surrender of this bond at the corporate trust office of MTrust Corp, National Association, Houston, Texas (the "Registrar"), the principal amount identified above, payable in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due the United States of America, and to pay interest thereon at the rate shown above, calculated on the basis of a 360-day year of twelve 30-day months, from the later of the Issuance Date identified above, or the most recent interest payment date to which interest has been paid or duly provided for. The date of this Bond is February 1, 1989, but interest shall accrue on the principal amount hereof from the Issuance Date. Interest on this bond is payable by check or draft payable on March 1, 1990 and semiannually thereafter on each September 1 and March 1,

mailed to the registered owner as shown on the books of registration kept by the Registrar as of the 15th calendar date of the month next preceding each interest payment date.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH PROVISIONS SHALL HAVE THE SAME FORCE AND EFFECT AS IF SET FORTH AT THIS PLACE.

IN WITNESS WHEREOF, this bond 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 of the City, and the official seal of the City has been duly impressed, or placed in facsimile, on this bond.

(AUTHENTICATION CERTIFICATE) (SEAL) CITY OF DANBURY, TEXAS

_____
Mayor

_____
City Secretary

(Back Panel of Bond)

THIS BOND is one of a duly authorized series of Bonds, aggregating $235,000 (the "Bonds"), issued for the purpose of constructing improvements and extensions to the sanitary sewer system of the City, and pursuant to an ordinance adopted by the City Council on January 26, 1989 (the "Ordinance").

THE CITY RESERVES THE RIGHT, at its option, to redeem the Bonds maturing on or after March 1, 1999, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of $5,000, on March 1, 1998, or on any interest payment date thereafter at par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. Reference is made to the Ordinance for complete details concerning the manner of redeeming the Bonds.

NOTICE OF ANY REDEMPTION shall be given at least thirty (30) days prior to the date fixed for redemption by certified mail, addressed to the registered owners of each Bond to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar and by publication once in a financial journal or publication published in the City of New York, New York, or in the City of Austin, Texas. When Bonds or portions thereof have been called for redemption, and due provision has been made to redeem the same, the principal amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the amounts called for redemption shall terminate on the date fixed for redemption.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the corporate trust office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THE BONDS ARE EXCHANGEABLE at the principal corporate trust office of the Registrar for bonds in the principal amount of $5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THE REGISTRAR SHALL NOT BE REQUIRED to transfer or exchange any Bond during a period beginning at the opening of business fifteen (15) calendar days prior to the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing.

THIS BOND SHALL NOT BE valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this Bond is either (i) registered by the Comptroller of Public Accounts of the State of Texas by registration certificate attached or affixed hereto or (ii) authenticated by the Registrar by due execution of the authentication certificate endorsed hereon.

IT IS HEREBY CERTIFIED, RECITED AND COVENANTED that this Bond has been duly and validly issued and delivered; 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 Bond have been performed, exist and have been done in accordance with law; and that annual

ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Bond, as such interest comes due and such principal matures, have been levied and ordered to be levied against all taxable property in the City within the limits prescribed by the Constitution and laws of the State of Texas, and have been pledged irrevocably for such payment.

Section 4.2: Registration of Bonds by State Comptroller. Bonds No. R-1 through R-16 shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. The registration certificate of the Comptroller of Public Accounts shall be attached or affixed to Bonds R-1 through R-16 and shall be in substantially the following form:

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

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

WITNESS MY SIGNATURE AND SEAL this_____.

xxxxxxxxxx
Comptroller of Public Accounts
of the State of Texas

(SEAL)

Section 4.3: Form of Authentication Certificate. The following form of authentication certificate shall be printed on the face of each of the Bonds:

AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been delivered pursuant to the Ordinance described in the text of this Bond, in exchange for or in replacement of a Bond, Bonds or a portion of a Bond or Bonds of a Series which was originally approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

MTrust Corp, National Association
Houston, Texas
Paying Agent/Registrar
By _____
Authorized Signature

Date of Authentication:_____

Section 4.4: Form of Assignment. The following form of assignment shall be printed on the back of each of the Bonds:

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 bond and all rights thereunder, and hereby irrevocably constitutes and appoints

_____

attorney to transfer said bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____ _____

Signature Guaranteed:

_____

_____

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

_____

Registered Owner

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

Section 4.5: Legal Opinion; CUSIP. The approving opinion of Vinson & Elkins, Houston, Texas, and CUSIP Numbers may be printed on the Bonds, but errors or omissions in the printing of such opinion or such numbers shall have no effect on the validity of the Bonds.

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Section 5.1: Interest and Sinking Fund; Tax Levy. The proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by this Ordinance shall be deposited, as collected, in a special fund to be designated "City of Danbury, Texas, Public Improvement Bonds, Series 1989, Interest and Sinking Fund". While said Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, there is hereby levied and there shall be annually levied, assessed and collected in due time, form and manner within the limits prescribed by law, and at the same time other City taxes are levied, assessed and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax upon all taxable property in said City sufficient to pay the current interest on said Bonds as the same becomes due, and to provide and maintain a sinking fund adequate to pay the principal of the Bonds as such principal matures but never less than two percent (2%) of the original principal amount of the Bonds each year, full allowance being made for delinquencies and costs of collection, and said taxes when collected shall be applied to the payment of the interest on and principal of said Bonds and to no other purpose. In addition, interest accrued from the date of the Bonds until their delivery, and premium if any, is to be deposited in such fund.

Section 5.2: Investment of Interest and Sinking Fund. Money in the Interest and Sinking Fund may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law; provided that all such deposits and investments shall be made in such manner that money required to be expended from the Interest and Sinking Fund will be available at the proper time or times. All such investments shall be valued in terms of current market value no less frequently than the last business day of the City's fiscal year, except that any direct obligations of the United States of America - State

and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in such Interest and Sinking Fund may be invested, together with money in the Construction Fund or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository of the City, which shall not be deemed to be or constitute a commingling of such money or Funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default. All interest and income derived from such deposits and investments of the Interest and Sinking Fund shall be credited to the Interest and Sinking Fund. So long as any Bonds remain outstanding, all uninvested moneys on deposit in, or credited to, the Interest and Sinking Fund shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

ARTICLE VI

CONSTRUCTION FUND

Section 6.1: Construction Fund. There is hereby created and established a special fund of the City, to be known as the "City of Danbury, Texas, Public Improvement Bonds, Series 1989, Construction Fund", which shall be established at an official depository of the City and maintained as a separate account on the books of the City. Money on deposit in the Construction Fund shall be secured in the manner provided by law for the security of City funds and shall be used only for the purposes set forth in Section 2.1 of this Ordinance, except that interest and income derived from deposit and investment of moneys in the Construction Fund may be utilized as provided below in Section 6.2 hereof.

Section 6.2: Investment of Money in Construction Fund. Money on deposit in the Construction Fund may, at the option of the City, be invested as permitted by Texas law; provided

that all such deposits and investments shall be made in such manner that the money required to be expended from the Construction Fund will be available at the proper time or times. All such investments shall be valued in terms of current market value no less frequently than the last business day of the City's fiscal year, except that any direct obligations of the United States of America -- State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in the Construction Fund may be invested, together with money in the Interest and Sinking Fund or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository of the City, which shall not be deemed to be or constitute a commingling of such money or Funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by the Construction Fund are held by or on behalf of the Construction Fund. All interest and income derived from such deposits and investments shall remain in the Construction Fund, except that to the extent required by law, such interest and income may be applied to make such payments to the United States of America as shall be required to assure that interest on the Bonds is exempt from federal income taxation.

ARTICLE VII

PROVISIONS CONCERNING SALE AND DISPOSITION OF PROCEEDS OF BONDS

Section 7.1: Sale of Bonds. The sale of the Bonds to the TWDB at the price of par is hereby authorized, approved, ratified and confirmed, subject to the unqualified approving opinions as to the legality of the Bonds of the Attorney General of the State of Texas, and of Vinson and Elkins, Houston, Texas, bond counsel. Proceeds from the sale of the Bonds shall immediately be deposited in the Construction Fund and shall be dispersed solely in connection with the Project.

Section 7.2: Approval, Registration and Delivery. After the Bonds to be initially issued shall have been executed, it

shall be the duty of the Mayor of the City to deliver the Bonds to be initially issued and all pertinent records and proceedings to the Attorney General of Texas, for examination and approval by the Attorney General. After the Bonds to be initially issued shall have been approved by the Attorney General, they shall be delivered to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Bonds to be initially issued, the Comptroller of Public Accounts (or a deputy lawfully designated in writing to act for the Comptroller) shall manually sign the Comptroller's Registration Certificate prescribed herein to be attached or affixed to the Bonds to be initially issued, and the seal of said Comptroller shall be impressed, or placed in facsimile, thereon.

Section 7.3: Tax Exemption. (a) General Tax Covenant. The City intends that the interest on the Bonds 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 knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds 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 7.3; provided, however, that the City shall not be required to comply with any particular requirement of this Section 7.3 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 Bonds or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Section 7.3 will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Section 7.3.

(b) Use of Proceeds. The City covenants and agrees that its use of the Net Proceeds of the Bonds (as hereinafter defined) will at all times satisfy the following requirements:

(i) The City will limit the amount of original or investment proceeds of the Bonds to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Bonds ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the Bonds in any manner contrary to the guidelines set forth in Revenue Procedures 82-14, 1982-1 C.B. 459, and 82-15, 1982-1 C.B. 460, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit;

(ii) The City will not permit more than five percent of the Net Proceeds of the Bonds to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of the Bonds. Further, the amount of private-use proceeds of the Bonds in excess of five percent of the Net Proceeds of the Bonds ("excess private-use proceeds") will not exceed the proceeds of the Bonds expended for the governmental purpose of the Bonds to which such excess private-use proceeds relate; and

(iii) The City will not permit an amount of proceeds of the Bonds exceeding the lesser of (a) $5,000,000 or (b) five percent of the Net Proceeds of the Bonds to be used, directly or indirectly, to finance loans to persons other than governmental units.

When used in this Section 7.3, the term Net Proceeds of the Bonds shall mean the proceeds from the sale of the Bonds, including investment earnings on such proceeds, less accrued interest.

(c) No Federal Guaranty. The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b)(3) of the Code and such regulations.

(d) 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 Bonds are delivered, the City will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds 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 Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

(e) Arbitrage Rebate. The City will use at least 95% of the Net Proceeds of the Bonds for local governmental activities of the City (including governmental units the jurisdiction of which is entirely within the jurisdiction of the City) and reasonably expects that the aggregate amount of all tax-exempt bonds (other than "private activity bonds" within the meaning of Section 141 of the Code) issued by the City (and all subordinate entities of the City and entities to which the City is subordinate within the meaning of Section 148 of the Code) during the 1989 calendar year will not exceed $5,000,000. 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 Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be

required to calculate the amount earned on the investment of the gross proceeds of the Bonds 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 Bonds which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds, 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 Bonds that might result in a "prohibited payment" within the meaning of Temp. Treas. Reg. §1.103-15AT.

(f) Information Reporting. The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and applicable regulations thereunder.

Section 7.4: Qualified Tax-Exempt Obligations. The City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b) of the Code. In connection therewith, the City represents (a) that the aggregate amount of tax-exempt obligations issued by the City during calendar year 1989, including the Bonds, which have been designated as "qualified tax-exempt obligations" under section 265(b)(3) of the Code does not exceed $10,000,000, and (b) that the reasonably anticipated amount of tax-exempt obligations which will be issued by the City during calendar year 1989, including the Bonds, will not exceed $10,000,000. For purposes of this section 7.4, the term "tax-exempt obligation" does not include "private activity bonds" within the meaning of section 141 of the Code, other than "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code. In addition, for purposes of this section 7.4, the City includes all governmental units which are "subordinate entities" of the City, within the meaning of section 265(b) of the Code.

Section 7.5: Books and Records. So long as any of the Bonds are outstanding the City covenants and agrees that 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 Bonds 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 Owner.

ARTICLE VIII

ACCOUNTING, AUDITS, AND COVENANTS

Section 8.1: Accounts, Records and Accounting Reports. The City covenants and agrees that it will maintain books of records and accounts showing the accounts of the Project as a separate system, in which full, true and proper entries will be made of all dealings, transactions, business and matters which in any way affect or pertain to the allocation and application of the taxes assessed and collected for and on behalf of the Bonds, and that such books will be available for inspection by the Owners of any of the Bonds at reasonable hours and under reasonable circumstances.

In addition, the City will furnish to the TWDB, upon completion of the Project, a final accounting of the Project costs together with "as-built" plans of the Project.

Section 8.2: Audit. After the end of each of the City's fiscal years during which the TWDB is an Owner of the Bonds, the City will have its books audited by a Certified Public Accountant, which audit shall be submitted to the development fund manager of the TWDB within one hundred twenty (120) days after the end of the fiscal year.

Section 8.3: Final Accounting to the TWDB. The City agrees to make a final accounting to the TWDB of the total cost of the Project upon its completion. If the Project is completed at a total cost less than the amount of available funds for construction of the Project, or if the development fund manager disapproves construction of any portion of the Project as not being in accordance with the plans and specifications, the City shall immediately, after filing the final accounting, return to the TWDB the amount of any such excess and/or the cost as determined by the development fund

manager relating to the parts of the Project not constructed in accordance with the plans and specifications, to the nearest multiple of $5,000. Thereupon, the TWDB shall cancel and deliver to the City a like amount of the Bonds of the City held by the TWDB in inverse numerical order. Any remaining funds will be deposited in the Interest and Sinking Fund for the Bonds. In determining the amount of funds for constructing the Project, the City shall account for all monies in the Construction Fund, including all loan funds extended by the TWDB, all other funds available from the Project as described in the project engineer's sufficiency of funds statement required for closing the TWDB's loans, and all interest earned by the City on money in the Construction Fund.

Section 8.4: Insurance. The City covenants that the Project to be financed by the Bonds will be kept continually insured against such perils and to such extent that insurance is customarily carried by cities operating similar facilities in similar locations; provided, however, that the City shall not be required to maintain such insurance so long as builders risk insurance covering such facilities during the period of construction is in effect.

Section 8.5: Additional Covenants. The City further covenants and agrees that it will abide by all applicable requirements contained in the rules, regulations, and policies of the Texas Water Development Board.

ARTICLE IX

MISCELLANEOUS

Section 9.1: Registrar. The form of agreement setting forth the duties of the Registrar is hereby approved, and the appropriate officials of the City are hereby authorized to execute such agreement for and on behalf of the City.

Section 9.2: Further Procedures. The Mayor, and the City Secretary and other appropriate officials of the City are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms and purposes of this Ordinance.

Section 9.3: Severability. If any Section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

Section 9.4: Open Meeting. It is hereby officially found and determined that the meeting at which this Ordinance was adopted was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Vernon's Texas Civil Statutes Article 6252-17, as amended; and that such notice as given is hereby authorized, approved, adopted and ratified.

Section 9.5: Effect of Ordinance. This Ordinance shall be in force and effect from and after its passage, and it is so ordered.

Section 9.6: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

PASSED AND APPROVED this 26th day of January, 1989.

Mayor
CITY OF DANBURY, TEXAS

ATTEST:

City Secretary
CITY OF DANBURY, TEXAS

(SEAL)