

OFFICIAL CITY  
SECRETARY'S COPY

**CITY OF KENNEDALEE, TEXAS  
\$455,000 COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION**

**SERIES 1996**

**CITY OF KENNEDALE, TEXAS**  
**\$455,000 COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION**  
**SERIES 1996**

**TABLE OF CONTENTS**

1. Resolution Directing Publication of Notice of Intention to Issue Certificates of Obligation
2. Affidavit of Publication
3. Bond Purchase Agreement
4. Ordinance Authorizing the Issuance of Certificates of Obligation
5. Paying Agent/Registrar Agreement
6. Official Statement
7. General Certificate
8. Signature Identification and No-Litigation Certificate
9. Closing Certificate
10. Instruction Letter to Paying Agent
11. Receipt for Proceeds
12. Instruction letter to the Attorney General and Comptroller of Public Accounts
13. No-Arbitrage Certificate
14. Form 8038-G
15. Attorney General's Opinion
16. Bond Counsel Opinion
17. DTC Letter

**CERTIFICATE FOR RESOLUTION**

**THE STATE OF TEXAS                   §**  
**COUNTY OF TARRANT                 §**  
**CITY OF KENNEDALE                 §**

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

1. The City Council of said City convened in Regular Meeting on the 8th day of February, 1996, at the designated meeting place, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Bill Abbott	Mayor
Mark Wright	Mayor Pro tem
Tom Boone	Councilmembers
Ron Kovach	
Robert Mundy	
George Barrett	
Kathy Turner	City Secretary

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

**RESOLUTION DIRECTING PUBLICATION OF NOTICE OF INTENTION  
TO ISSUE COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION**

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

AYES: All members of the City Council shown present above voted "Aye" except as shown below.

NOES:       N/A      

ABSTAIN:       N/A      

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

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

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

SIGNED AND SEALED the 8th day of February, 1996.

  
\_\_\_\_\_  
City Secretary

  
\_\_\_\_\_  
Mayor

(SEAL)

CITY OF KENNEDALE  
RESOLUTION NO. 43

RESOLUTION DIRECTING PUBLICATION OF NOTICE OF INTENTION TO  
ISSUE COMBINATION TAX AND REVENUE CERTIFICATES OF  
OBLIGATION.

THE STATE OF TEXAS            §  
COUNTY OF TARRANT           §  
CITY OF KENNEDALE            §

WHEREAS, the City deems it advisable to give notice of intention to issue one or more series of Certificates of Obligation in the maximum principal amount of \$475,000 for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project; and

WHEREAS, it is hereby officially found and determined that the meeting at which this Resolution was passed was open to the public and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE:

1. That attached hereto is a form of the Notice of Intention to issue Certificates of Obligation, the form and substance of which is hereby adopted and approved.

2. That the City Secretary shall cause said notice to be published in substantially the form attached hereto, in a newspaper of general circulation in said City, and published in said City, on the same day in each of two consecutive weeks, the date of the first publication thereof to be at least 14 days prior to the time set for the first reading of the ordinance authorizing the issuance of such certificates of obligation as shown in said notice.

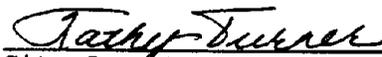
3. That this Resolution shall become effectively immediately upon adoption.

PASSED AND APPROVED ON THIS 8TH DAY OF FEBRUARY, 1996.

APPROVED:

  
\_\_\_\_\_  
Mayor Bill Abbott

ATTEST:

  
\_\_\_\_\_  
City Secretary

## **CITY OF KENNEDALE**

### **NOTICE OF INTENTION TO ISSUE COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION**

The City of Kennedale does hereby give notice of intention to issue one or more series of Combination Tax and Revenue Certificates of Obligation, in the maximum principal amount not to exceed \$475,000, for paying all or a portion of the city's contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project. The City proposes to adopt an ordinance which will provide that the Certificates of Obligation shall be secured by a pledge of funds received from the levy and collection of ad valorem taxes in the City as provided by law, and from a limited pledge of the surplus revenues (the "Surplus Revenues") of the City's Waterworks and Sewer System, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's Waterworks and Sewer System; provided that if there are Surplus Revenues available to pay all or part of the Certificates of Obligation in any fiscal year, the levy of the ad valorem taxes shall be reduced by the amount of Surplus Revenues which are available to pay debt service on the Certificates of Obligation. The City Council intends to consider for passage at a Regular Meeting to be held at 7:30 P.M. on March 14, 1996, an Ordinance authorizing the issuance of Combination Tax and Revenue Certificates of Obligation, at the City Hall, 209 North New Hope Road, Kennedale, Texas.

**CITY OF KENNEDALE**

**Bill Abbott, Mayor**

AFFIDAVIT OF PUBLICATION

THE STATE OF TEXAS  
COUNTY OF TARRANT  
CITY OF KENNEDALE

§  
§  
§

BEFORE ME, a notary public in and for the above named County, on this day personally appeared the person whose name is subscribed below, who, having been duly sworn, says upon oath that he or she is a duly authorized officer or employee of the Kennedale News, which is a newspaper of general circulation in the above named County, devoting not less than 25% of its total column lineage to the carrying of items of general interest, published not less frequently than once each week, entered as second-class postal matter in the county where published, and having been published regularly and continuously for not less than 12 months prior to the making of any publication; and that a true and correct copy of the NOTICE OF INTENTION TO ISSUE COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, a clipping of which is attached to this Affidavit, was published in said Newspaper on the following dates:

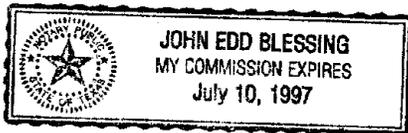
February 22, 1996

February 29, 1996

*Whedde B. Dale*  
Authorized Officer or Employee

SUBSCRIBED AND SWORN TO BEFORE ME on the 6th day of March, 1996.

*John Edd Blessing*  
Notary Public



**CITY OF KENNEDALE**

**NOTICE OF INTENTION TO ISSUE COMBINATION TAX AND  
REVENUE CERTIFICATES OF OBLIGATION**

The City of Kennedale does hereby give notice of intention to issue one or more series of Combination Tax and Revenue Certificates of Obligation, in the maximum principal amount not to exceed \$475,000, for paying all or portion of the city's contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project. The City proposes to adopt an ordinance which will provide that the Certificates of Obligation shall be secured by a pledge of funds received from the levy and collection of ad valorem taxes in the City as provided by law, and from a limited pledge of the surplus revenues (the "Surplus Revenues") of the City's Waterworks and Sewer System, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the city's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's Waterworks and Sewer System; provided that if there are Surplus Revenues available to pay all or part of the Certificates of Obligation in any fiscal year, the levy of the ad valorem taxes shall be reduced by the amount of Surplus Revenues which are available to pay debt service on the Certificates of Obligation. The City Council intends to consider for passage at a Regular Meeting to be held at 7:30 P.M. on March 14, 1996, an Ordinance authorizing the Issuance of Combination Tax and Revenue Certificates of Obligation, at 100 East Broadway Street, (Community Center), Kennedale, Texas. 43-44

**\$455,000**  
**CITY OF KENNEDALE, TEXAS**  
**Combination Tax and Revenue Certificates of Obligation**  
**Series 1996**

**PURCHASE CONTRACT**

March 14, 1996

The Honorable Mayor and Members of the City Council  
City of Kennedale, Texas  
P.O. Box 268  
Kennedale, Texas 76060

Dear Mayor and Members of the City Council:

Service Asset Management Company (the "Underwriter"), offers to enter into this Purchase Contract with the City of Kennedale, Texas (the "City"). This offer is made subject to the City's acceptance of this Purchase Contract on or before 9:00 p.m. Dallas Time on March 14, 1996.

1. **Purchase and Sale of the Certificates.** Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell and deliver to the Underwriter an aggregate of \$455,000 principal amount of Combination Tax and Revenue Certificates of Obligation, Series 1996 (the "Certificates"). The Certificates shall have the dated date, the maturities and bear interest from the date and at the rate or rates per annum as shown on the cover page of the Official Statement (hereinafter defined), such interest being payable as shown on the cover page of the Official Statement. The purchase price for the Certificates shall be \$455,012.20 plus accrued interest on the Certificates from their date to the date of the payment for and delivery of the Certificates (the "Closing").

2. **Ordinance.** The Certificates shall be as described in and shall be issued and secured under the provisions of the Certificate Ordinance adopted by the City on March 14, 1996 (the "Ordinance"). The Certificates shall be secured and payable as provided in the Ordinance.

3. **Public Offering.** It shall be a condition of the obligations of the City to sell and deliver the Certificates to the Underwriter, and of the obligations of the Underwriter to purchase and accept delivery of the Certificates, that the entire principal amount of the Certificates authorized by the Ordinance shall be sold and delivered by the City and accepted and paid for by the Underwriter at the Closing. The Underwriter agrees to make a bona fide public offering of all of the Certificates, at not

in excess of the initial public offering prices, as set forth on the cover page of the Official Statement, plus interest accrued on the Certificates from the date of the Certificates.

4. **Security Deposit.** Delivered to the City herewith is a corporate check of the Underwriter payable to the order of the City in the amount of \$9,000. -. The City agrees to hold such check uncashed until the Closing to ensure the performance of the Underwriter of its obligation to purchase, accept delivery of and pay for the Certificates at the Closing. Concurrently with the payment by the Underwriter of the purchase price of the Certificates, the City shall return such check to the Underwriter as provided in Paragraphs 7 and 8 hereof. Should the City fail to deliver the Certificates at the Closing, or should the City be unable to satisfy the conditions of the obligations of the Underwriter to purchase, accept delivery of and pay for the Certificates, as set forth in this Purchase Contract (unless waived by the Underwriter), or should such obligations of the Underwriter be terminated for any reason permitted by this Purchase Contract, such check shall immediately be returned to the Underwriter. In the event the Underwriter fails (other than for a reason permitted hereunder) to purchase, accept delivery of and pay for the Certificates at the Closing as herein provided, such check shall be retained by the City as and for full liquidated damages for such failure of the Underwriter and for any defaults hereunder on the part of the Underwriter. The Underwriter hereby agrees not to stop or cause payment on said check to be stopped unless the City has breached any of the terms of this Purchase Contract.

5. **Official Statement.** The Official Statement, including the cover page and Appendices thereto, of the City, dated March 14, 1996, with respect to the Certificates, as further amended only in the manner herein provided, is hereinafter called the "Official Statement." The City hereby authorizes the Ordinance and the Official Statement and the information therein contained to be used by the Underwriter in connection with the public offering and sale of the Certificates. The Official Statement is "deemed final" as of its date, within the meaning, and for the purposes, of Rule 15c2-12 promulgated under authority granted by the federal Securities Exchange Act of 1934 (the "Rule"). The City agrees to cooperate with the Underwriter to provide a supply of Official Statements within seven business days of the date hereof in sufficient quantities to comply with the Underwriter's obligations under the Rule and the applicable rules of the Municipal Securities Rulemaking Board. The Underwriter will use its best efforts to assist the City in the preparation of the final Official Statement in order to ensure compliance with the aforementioned rules.

If at any time after the date of this Purchase Contract but before the first to occur of (i) the date upon which the Underwriter notifies the City that the period of the initial public offering of the Certificates has expired or (ii) the date that is 90 days after the date hereof, any event shall occur which might or would cause the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter, and if, in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in the form and in a manner approved by the Underwriter and furnish to the Underwriter a reasonable number of copies requested by the Underwriter in order to enable the Underwriter to comply with the Rule.

**6. Representations, Warranties and Agreements of the City.** On the date hereof, the City represents, warrants and agrees as follows:

(a) The City is a municipal corporation and a political subdivision of the State of Texas and a body politic and corporate operating pursuant to the constitution and laws of the State of Texas and its home rule charter, and has full legal right, power and authority to enter into this Purchase Contract, to adopt the Ordinance, to sell the Certificates, and to issue and deliver the Certificates to the Underwriter as provided herein and to carry out and consummate all other transactions contemplated by the Ordinance and this Purchase Contract;

(b) By official action of the City prior to or concurrently with the acceptance hereof, the City has duly adopted the Ordinance, has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations contained in the Certificates and this Purchase Contract and has duly authorized and approved the performance by the City of its obligations contained in the Ordinance and in this Purchase Contract;

(c) The City is not in breach of or default under any applicable law or administrative regulation of the State of Texas or the United States (including regulations of its agencies) or any applicable judgment or decree or any loan agreement, note, order, agreement or other instrument, except as may be disclosed in the Official Statement, to which the City is a party or is otherwise subject, which would have a material and adverse effect upon the business or financial condition of the City; and the execution and delivery of the Purchase Contract by the City and the execution and delivery of the Certificates and the adoption of the Ordinance by the City and compliance with the provisions of each thereof will not violate or constitute a breach of or default under any existing law, administrative regulation, judgment, decree or any agreement or other instrument to which the City is a party or, to the knowledge of the City, is otherwise subject;

(d) All approvals, consents and orders of any governmental authority or agency having jurisdiction of any matter which would constitute a condition precedent to the performance by the City of its obligations to sell and deliver the Certificates hereunder will have been obtained prior to the Closing;

(e) At the time of the City's acceptance hereof and at the time of the Closing, the Official Statement does not and will not, with respect to the Certificates, the City, its business, finances and affairs, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) Between the date of this Purchase Contract and the Closing, the City will not, without the prior written consent of the Underwriter, issue any additional bonds, notes or other obligations for borrowed money payable in whole or in part from ad valorem taxes and the City will not incur any material liabilities direct or contingent, without the prior consent of the Underwriter, nor will there be any adverse change of a material nature in the financial position of the City;

(g) Except as described in the Official Statement, no litigation is pending or, to the knowledge of the City, threatened in any court affecting the corporate existence of the City, the title of its officers to their respective offices, or seeking to restrain or enjoin the issuance or delivery of the Certificates, the levy, collection or application of the ad valorem taxes pledged or to be pledged to pay the principal of and interest on the Certificates, or in any way contesting or affecting the issuance, execution, delivery, payment, security or validity of the Certificates, or in any way contesting or affecting the validity or enforceability of the Ordinance or this Purchase Contract, or contesting the powers of the City, or any authority for the Certificates, the Ordinance or this Purchase Contract or contesting in any way the completeness, accuracy or fairness of the Official Statement;

(h) The City will cooperate with the Underwriter in arranging for the qualification of the Certificates for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter designates, and will use its best efforts to continue such qualifications in effect so long as required for distribution of the Certificates; provided, however, that the City will not be required to execute a general consent to service of process or to qualify to do business in connection with any such qualification in any jurisdiction;

(i) The descriptions of the Certificates and the Ordinance contained in the Official Statement accurately summarize certain provisions of such instruments, and the Certificates, when validly executed, authenticated and delivered in accordance with the Ordinance and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the City entitled to the benefits of, and subject to the limitations contained in, the Ordinance;

(j) If prior to the Closing an event occurs affecting the City which is materially adverse for the purpose for which the Official Statement is to be used and is not disclosed in the Official Statement, the City shall notify the Underwriter, and if in the opinion of the City and the Underwriter such event requires a supplement or amendment to the Official Statement, the City will supplement or amend the Official Statement in a form and in a manner approved by the Underwriter; and

(k) The financial statements contained in the Official Statement present fairly the financial position of the City as of the date and for the period covered thereby and are stated on a basis substantially consistent with that of the prior year's audited financial statements.

**7. Closing.** At 10:00 A.m., Dallas Time, on April 17, 1996, the City will deliver the initial certificate or certificates (as defined in the Ordinance) to the Underwriter and, provided the Underwriter shall have made arrangements with The Depository Trust Company ("DTC") for the Bonds to be immobilized and thereafter traded as book-entry only securities, the City shall take appropriate steps to provide DTC with one definite bond for each year or maturity of each issue of the Certificates, and to provide the Underwriter with the other documents hereinafter mentioned, and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Paragraph 1 hereof in immediately available funds. Concurrently with such payment by the Underwriter, the City shall return to the Underwriter the check referred to in paragraph 4 hereof. Delivery and payment as aforesaid shall be made at the office of McCall, Parkhurst & Horton L.L.P.,

717 North Harwood, Suite 900, Dallas, Texas 75201, or such other place, as shall have been mutually agreed upon by the City and the Underwriter.

**8. Conditions.** The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and to be contained in the documents and instruments to be delivered at the Closing, and upon the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of Closing. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase and pay for the Certificates shall be subject to the performance by the City of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following conditions:

(a) The representations and warranties of the City contained herein shall be true, complete and correct in all material respects on the date hereof and on and as of the date of Closing, as if made on the date of Closing;

(b) At the time of the Closing, the Ordinance shall be in full force and effect, and the Ordinance shall not have been amended, modified or supplemented and the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter;

(c) At the time of the Closing, all official action of the City related to the Ordinance shall be in full force and effect and shall not have been amended, modified or supplemented;

(d) The City shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

(e) At or prior to the Closing, the Underwriter shall have received each of the following documents:

(1) The Official Statement of the City executed on behalf of the City by the Mayor and City Secretary of the City;

(2) The Ordinance certified by the City Secretary of the City under its seal as having been duly adopted by the City and as being in effect, with such changes or amendments as may have been agreed to by the Underwriter;

(3) The opinion, dated the date of Closing, of McCall, Parkhurst & Horton L.L.P., in substantially the form and substance of Appendix C to the Official Statement;

(4) An opinion or certificate, dated on or prior to the date of Closing, of the Attorney General of Texas, approving the Certificates as required by law and the registration certificate of the Comptroller of Public Accounts of the State of Texas;

(5) A certificate, dated the date of Closing, signed by the Mayor and the City Manager of the City, to the effect that, to the best of their knowledge, (i) the representations and warranties of the City contained herein are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing; (ii) except to the extent disclosed in the Official Statement, no litigation is pending or, to the knowledge of such persons, threatened in any court to restrain or enjoin the issuance or delivery of the Certificates, or the pledge, collection or application of the ad valorem taxes and revenues of the City's utility system pledged or to be pledged to pay the principal of and interest on the Certificates, or in any way contesting or affecting the validity of the Certificates, the Ordinance or this Purchase Contract, or contesting the powers of the City or the authorization of the Certificates or the Ordinance, or contesting in any way the accuracy, completeness or fairness of the Official Statement (but in lieu of or in conjunction with such certificate, the Underwriter may, in its sole discretion, accept certificates or opinions of the City Attorney that, in the opinion thereof, the issues raised in any such pending or threatened litigation are without substance or that the contentions of all plaintiffs therein are without merit); (iii) no event affecting the City has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (iv) that there has not been any material and adverse change in the affairs or financial condition of the City since September 30, 1995, the latest date as to which audited financial information is available;

(7) A certificate of the City, dated the date of the Closing, to the effect that, on the basis of the facts, estimates and circumstances in effect on the date of delivery of the Certificates, it is not expected that the proceeds of the Certificates will be used in a manner that would cause the Certificates to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

(8) Evidence of the ratings on the Certificates, which shall be "Baa" or better by Moody's Investors Service, Inc. ("Moody's"); and

(9) Such additional legal opinions, certificates, instruments and other documents as Bond Counsel or the Underwriter may reasonably request to evidence the truth, accuracy and completeness, as of the date hereof and as of the date of Closing, of the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance and satisfaction by the City at or prior to the date of Closing of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are reasonably satisfactory to the Underwriter.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates as set forth in this Purchase Contract, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except that the respective obligations of the City and the Underwriter set forth in Paragraphs 9 and 11 hereof shall continue in full force and effect.

9. **Termination.** The Underwriter may terminate their obligation to purchase at any time before the Closing if any of the following should occur:

(a) (i) Legislation shall have been enacted by the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported for passage to either House of the Congress by any Committee of such House, or (ii) a decision shall have been rendered by a court established under Article III of the Constitution of the United States or by the United States Tax Court, or (iii) an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service or any other agency of the United States, or (iv) a release or official statement shall have been issued by the President of the United States or by the Treasury Department of the United States or by the Internal Revenue Service, the effect of which, in any such case described in clause (i), (ii), (iii), or (iv), would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Certificates or upon income of the general character to be derived by the City, other than any imposition of federal income taxes upon interest received on obligations of the general character as the Certificates on the date hereof and other than as disclosed in the Official Statement, in such a manner as in the judgment of the Underwriter would materially impair the marketability or materially reduce the market price of obligations of the general character of the Certificates.

(b) Any action shall have been taken by the Securities and Exchange Commission or by a court which would require registration of any security under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Certificates, or any action shall have been taken by any court or by any governmental authority suspending the use of the Official Statement or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) The Constitution of the State of Texas shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of Texas law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State of Texas by an official, agency or department thereof, affecting the tax status of the City, its property or income, its bonds (including the Certificates) or the interest thereon, which in the judgment of the Underwriter would materially affect the market price of the Certificates.

(d) (i) A general suspension of trading in securities shall have occurred on the New York Stock Exchange, or (ii) the United States shall have become engaged in hostilities (including the escalation of any hostilities existing on the date hereof, whether or not foreseeable), the effect of which, in either case described in clause (i) and (ii), is, in the judgment of the Underwriter, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Certificates on the terms and in the manner contemplated in this Purchase Contract and the Official Statement.

(e) An event described in Paragraph 6(j) hereof occurs which, in the opinion of the Underwriter, requires a supplement or amendment to the Official Statement that is deemed by them, in their discretion, to adversely affect the market for the Certificates.

(f) A general banking moratorium shall have been declared by authorities of the United States, the State of New York or the State of Texas.

(g) A lowering of the rating initially assigned to the Certificates by Moody's shall occur prior to the Closing.

10. **Expenses.** (a) The City shall pay out of the bond proceeds all expenses incident to the issuance of the Certificates, including but not limited to: (i) the cost of the preparation, printing and distribution of the Official Statement; (ii) the cost of the preparation and printing of the Certificates; (iii) the fees and expenses of Bond Counsel to the City; (iv) the fees and disbursements of the City's accountants, advisors, and of any other experts or consultants retained by the City; and (v) any travel or other expenses incurred incident thereto;

(b) The Underwriter shall pay (i) all advertising expenses in connection with the offering of the Certificate; and (ii) the cost of the preparation and printing of all the underwriting documents.

11. **Notices.** Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing at the address for the City set forth above, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Service Asset Management Company, 8080 North Central Expressway, Suite 2870, Dallas, Texas 75206.

12. **Parties in Interest.** This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. The City's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriter, and (ii) delivery of any payment for the Certificates hereunder; and the City's representations and warranties contained in Paragraph 6 of this Purchase Contract shall remain operative and in full force and effect, regardless of any termination of this Purchase Contract.

13. **Effective Date.** This Purchase Contract shall become effective upon the execution of the acceptance hereof by the Mayor of the City and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

**SERVICE ASSET MANAGEMENT COMPANY**

By: *Jerry McCarroll*  
Title V.P.

**Accepted:**

This 14th day of March, 1996

By: *Bill Abbott*  
Mayor,  
City of Kennedale, Texas

(CITY SEAL)

**Attest:**

*Tashy Turner*  
City Secretary,  
City of Kennedale, Texas

2

**CERTIFICATE FOR ORDINANCE**

**THE STATE OF TEXAS                   §**  
**COUNTY OF TARRANT                 §**  
**CITY OF KENNEDALE                 §**

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

1. The City Council of said City convened in REGULAR MEETING ON THE 14TH DAY OF MARCH, 1996, at the designated meeting place, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Bill Abbott	Mayor
Mark Wright	Mayor Pro tem
Tom Boone	Councilmembers
Ron Kovach	
Robert Mundy	
George Barrett	
Kathy Turner	City Secretary

and all of said persons were present, except the following absentees: None, thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written

**ORDINANCE AUTHORIZING THE ISSUANCE OF  
CERTIFICATES OF OBLIGATION**

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

AYES: All members of the City Council shown present above voted "Aye" except Kovach & Wright.

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

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

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

SIGNED AND SEALED the 14th day of March, 1996.

  
City Secretary

  
Mayor

(SEAL)

**ORDINANCE AUTHORIZING THE ISSUANCE  
OF CERTIFICATES OF OBLIGATION**

---

**THE STATE OF TEXAS                   §  
COUNTY OF TARRANT               §  
CITY OF KENNEDALE                 §**

WHEREAS, the City Council deems it advisable to issue Certificates of Obligation in the amount of \$455,000 for the purpose of paying, in whole or in part, the City's contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project; and

WHEREAS, the Certificates of Obligation hereinafter authorized and designated are to be issued and delivered for cash pursuant to Subchapter C of Chapter 271, Local Government Code and Articles 1111-1118, V.A.T.C.S., as amended; and

WHEREAS, the City Council has heretofore passed a resolution authorizing and directing the City Secretary to give notice of intention to issue Certificates of Obligation; and

WHEREAS, said notice has been duly published in a newspaper of general circulation in said City, said newspaper being a "newspaper" as defined in Article 28a, V.A.T.C.S.; and

WHEREAS, the City received no petition from the qualified electors of the City protesting the issuance of such Certificates of Obligation; and

WHEREAS, it is considered to be to the best interest of the City that said interest bearing Certificates of Obligation be issued.

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE:**

Section 1. RECITALS, AMOUNT AND PURPOSE OF THE CERTIFICATES. The recitals set forth in the preamble hereof are incorporated herein and shall have the same force and effect as if set forth in this Section. The certificates of the City of Kennedale, Texas (the "Issuer") are hereby authorized to be issued and delivered in the aggregate principal amount of \$455,000 for the purpose of paying, in whole or in part, contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project.

Section 2. DESIGNATION, DATE, DENOMINATIONS, NUMBERS, AND MATURITIES OF CERTIFICATES. Each certificate issued pursuant to this Ordinance shall be designated: "CITY OF KENNEDALE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATE OF OBLIGATION, SERIES 1996", and initially there shall be issued, sold, and delivered hereunder fully registered certificates, without interest coupons, dated March 1, 1996, in the respective denominations and principal amounts hereinafter stated, numbered consecutively from R-1 upward, payable to the respective initial registered owners thereof (as designated in Section 13 hereof), or to the registered assignee or assignees of said certificates or any portion or portions thereof (in each case, the "Registered Owner"), and said certificates shall mature and be payable serially on February 15 in each of the years and in the principal amounts, respectively, as set forth in the following schedules:

<u>YEARS</u>	<u>AMOUNTS</u>
1997	\$25,000
1998	40,000
1999	40,000
2000	45,000
2001	45,000
2002	45,000
2003	50,000
2004	50,000
2005	55,000
2006	60,000

The term "Certificates" as used in this Ordinance shall mean and include collectively the certificates initially issued and delivered pursuant to this Ordinance and all substitute certificates exchanged therefor, as well as all other substitute certificates and replacement certificates issued pursuant hereto, and the term "Certificate" shall mean any of the Certificates.

Section 3. INTEREST. The Certificates scheduled to mature during the years, respectively, set forth below shall bear interest from the dates specified in the FORM OF CERTIFICATE set forth in this Ordinance to their respective dates of maturity or redemption prior to maturity at the following rates per annum:

Maturity 1997	7.50%
Maturity 1998	7.50%
Maturity 1999	7.45%
Maturity 2000	6.50%
Maturity 2001	4.80%
Maturity 2002	4.90%
Maturity 2003	5.05%
Maturity 2004	5.15%
Maturity 2005	5.30%
Maturity 2006	5.45%

Said interest shall be payable in the manner provided and on the dates stated in the FORM OF CERTIFICATE set forth in this Ordinance.

Section 4. CHARACTERISTICS OF THE CERTIFICATES. Registration, Transfer, Conversion and Exchange; Authentication. (a) The Issuer shall keep or cause to be kept at the principal corporate trust office of Norwest Bank Texas, N.A., Dallas, Texas (the "Paying Agent/Registrar") books or records for the registration of the transfer, conversion and exchange of the Certificates (the "Registration Books"), and the Issuer hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers, conversions and exchanges under such reasonable regulations as the Issuer and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, conversions and exchanges as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Certificate to which payments with respect to the Certificates shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Issuer shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, conversion, exchange and delivery of a substitute Certificate or Certificates. Registration of assignments, transfers, conversions and exchanges of Certificates shall be made in the manner provided and with the effect stated in the FORM OF CERTIFICATE set forth in this Ordinance. Each substitute Certificate shall bear a letter and/or number to distinguish it from each other Certificate.

Except as provided in Section 4(c) of this Ordinance, an authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Certificate, date and manually sign said Certificate, and no such Certificate shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Certificates and Certificates

surrendered for conversion and exchange. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the Issuer or any other body or person so as to accomplish the foregoing conversion and exchange of any Certificate or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Certificates in the manner prescribed herein, and said Certificates shall be printed or typed on paper of customary weight and strength. Pursuant to Vernon's Ann. Tex. Civ. St. Art. 717k-6, and particularly Section 6 thereof, the duty of conversion and exchange of Certificates as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the converted and exchanged Certificate shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Certificates which initially were issued and delivered pursuant to this Ordinance, approved by the Attorney General and registered by the Comptroller of Public Accounts.

(b) Payment of Certificates and Interest. The Issuer hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Certificates, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the Issuer and the Paying Agent/Registrar with respect to the Certificates, and of all conversions and exchanges of Certificates, and all replacements of Certificates, as provided in this Ordinance. However, in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the past due interest shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

(c) In General. The Certificates (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Certificates to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar by the Issuer at least 50 days prior to any such redemption date), (iii) may be converted and exchanged for other Certificates, (iv) may be transferred and assigned (v) shall have the characteristics, (vi) shall be signed, sealed, executed and authenticated, (vii) the principal of and interest on the Certificates shall be payable, and (viii) shall be administered and the Paying Agent/Registrar and the Issuer shall have certain duties and responsibilities with respect to the Certificates, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF CERTIFICATE set forth in this Ordinance. The Certificates initially issued and delivered pursuant to this Ordinance are not required to be, and shall not be, authenticated by the Paying Agent/Registrar, but on each substitute Certificate issued in conversion of and exchange for any Certificate or Certificates issued under this Ordinance the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF CERTIFICATE.

(d) Substitute Paying Agent/Registrar. The Issuer covenants with the registered owners of the Certificates that at all times while the Certificates are outstanding the Issuer will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as

and perform the services of Paying Agent/Registrar for the Certificates under this Ordinance, and that the Paying Agent/Registrar will be one entity. The Issuer reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Certificates, to the new Paying Agent/Registrar designated and appointed by the Issuer. Upon any change in the Paying Agent/Registrar, the Issuer promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Certificates, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

(e) Book-Entry Only System. The Certificates issued in exchange for the Certificates initially issued to the Underwriter specified herein shall be initially issued in the form of a separate single fully registered Certificate for each of the maturities thereof. Upon initial issuance, the ownership of each such Certificate shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and except as provided in subsection (f) hereof, all of the outstanding Certificates shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Certificates registered in the name of Cede & Co., as nominee of DTC, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created ("DTC Participant") to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants or to any person on behalf of whom such a DTC Participant holds an interest in the Certificates. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner of Certificates, as shown on the Registration Books, of any notice with respect to the Certificates, or (iii) the payment to any DTC Participant or any other person, other than a Registered Owner of Certificates, as shown in the Registration Books of any amount with respect to principal of or interest on the Certificates. Notwithstanding any other provision of this Ordinance to the contrary, the Issuer and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Certificate is registered in the Registration Books as the absolute owner of such Certificate for the purpose of payment of principal and interest with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Certificates only to or upon the order of the Registered Owners, as shown in

the Registration Books as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of and interest on the Certificates to the extent of the sum or sums so paid. No person other than a Registered Owner, as shown in the Registration Books, shall receive a certificate evidencing the obligation of the Issuer to make payments of principal and interest pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks being mailed to the Registered Owner at the close of business on the Record date, the words "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(f) Successor Securities Depository; Transfers Outside Book-Entry Only System. In the event that the Issuer determines that DTC is incapable of discharging its responsibilities described herein and in the representations letter of the Issuer to DTC or that it is in the best interest of the beneficial owners of the Certificates that they be able to obtain certificated Certificates, the Issuer shall (i) appoint a successor securities depository, qualified to act as such under Section 17A of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Certificates to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Certificates and transfer one or more separate certificated Certificates to DTC Participants having Certificates credited to their DTC accounts. In such event, the Certificates shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Registered Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.

(g) Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Certificate is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and interest on such Certificate and all notices with respect to such Certificate shall be made and given, respectively, in the manner provided in the representations letter of the Issuer to DTC.

Section 5. FORM OF CERTIFICATES. The form of the Certificates, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be attached to the Certificates initially issued and delivered pursuant to this Ordinance, shall be, respectively, substantially as follows, with such appropriate variations, omissions or insertions as are permitted or required by this Ordinance.

FORM OF CERTIFICATE

NO. R-

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION  
SERIES 1996

PRINCIPAL  
AMOUNT  
\$ \_\_\_\_\_

INTEREST RATE    DATE OF CERTIFICATES    MATURITY DATE    CUSIP NO.

March 1, 1996

REGISTERED OWNER:

PRINCIPAL AMOUNT:

DOLLARS

ON THE MATURITY DATE specified above, the City of Kennedale, in Tarrant County, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "registered owner") the principal amount set forth above, and to pay interest thereon from the Date of Certificates set forth above, on February 15, 1997 and semiannually on each February 15 and August 15 thereafter to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Certificate is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate or Certificates, if any, for which this Certificate is being exchanged or converted from is due but has not been paid, then this Certificate shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON this Certificate are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate shall be paid to the registered owner hereof upon presentation and surrender of this Certificate at maturity, or upon the date fixed for its redemption prior to maturity, at the principal corporate trust office of Norwest Bank Texas, N.A., Dallas, Texas, which is the "Paying Agent/Registrar" for this Certificate. The payment of interest on this Certificate shall be made by the Paying Agent/Registrar to the registered owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the ordinance authorizing the issuance of this Certificate

(the "Certificate Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at its address as it appeared on the last business day of the month preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each owner of a Certificate appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

ANY ACCRUED INTEREST due at maturity or upon the redemption of this Certificate prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Certificate for redemption and payment at the principal corporate trust office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Certificate that on or before each principal payment date, interest payment date, and accrued interest payment date for this Certificate it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Certificate Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Certificates, when due.

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

THIS CERTIFICATE is one of a Series of Certificates dated March 1, 1996, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$455,000, for the purpose of paying, in whole or in part, contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the City and to pay legal, fiscal and engineering fees in connection with this project.

THE CERTIFICATES OF THIS SERIES are not subject to redemption prior to maturity.

ALL CERTIFICATES OF THIS SERIES are issuable solely as fully registered certificates, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the

Certificate Ordinance, this Certificate may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate principal amount of fully registered certificates, without interest coupons, payable to the appropriate registered owner, assignee or assignees, as the case may be, having the same denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee or assignees, as the case may be, upon surrender of this Certificate to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Certificate Ordinance. Among other requirements for such assignment and transfer, this Certificate must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Certificate or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Certificate or any such portion or portions hereof is or are to be registered. The form of Assignment printed or endorsed on this Certificate may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Certificate or any portion or portions hereof from time to time by the registered owner. The Paying Agent/Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Certificate or portion thereof will be paid by the Issuer. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, conversion, or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

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

IT IS HEREBY certified, recited and covenanted that this Certificate has been duly and validly authorized, issued and delivered; that all acts, conditions and things required or proper to be performed, exist and be done precedent to or in the authorization, issuance and delivery of this Certificate have been performed, existed and been done in accordance with law; that this Certificate is a general obligation of said Issuer, issued on the full faith and credit thereof; and that annual ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Certificate, as such interest comes due and such principal matures, have been levied and ordered to be levied against all taxable property in said Issuer, and have been pledged for such payment, within the limit prescribed by law, and that this Certificate is additionally secured by and payable from a limited pledge of not to exceed \$1,000 in aggregate over the life of the issue of the revenues of the Issuer's Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's

revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, all as provided in the Certificate Ordinance.

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

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

\_\_\_\_\_  
(signature)  
City Secretary

\_\_\_\_\_  
(signature)  
Mayor

(SEAL)

**FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE**

**PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE**

(To be executed if this Certificate is not accompanied by an  
executed Registration Certificate of the Comptroller  
of Public Accounts of the State of Texas)

It is hereby certified that this Certificate has been issued under the provisions of the Certificate Ordinance described in the text of this Certificate; and that this Certificate has been issued in conversion or replacement of, or in exchange for, a certificate, certificates, or a portion of a certificate or certificates of a Series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Norwest Bank Texas, N.A.,  
Dallas, Texas  
Paying Agent/Registrar

By: \_\_\_\_\_  
Authorized Representative

FORM OF ASSIGNMENT:  
ASSIGNMENT

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

---

Please insert Social Security or Taxpayer Identification Number of Transferee

---

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

---

the within Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to register the transfer of the within Certificate on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

---

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution participating in a securities transfer association recognized signature guarantee program.

---

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

FORM OF REGISTRATION CERTIFICATE OF

THE COMPTROLLER OF PUBLIC ACCOUNTS:

COMPTROLLER'S REGISTRATION CERTIFICATE: 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 this

---

Comptroller of Public Accounts  
of the State of Texas

(COMPTROLLER'S SEAL)

Section 6. INTEREST AND SINKING FUND. A special "Interest and Sinking Fund" is hereby created and shall be established and maintained by the Issuer at an official depository bank of said Issuer. Said Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of said Issuer, and shall be used only for paying the interest on and principal of said Certificates. All ad valorem taxes levied and collected for and on account of said Certificates shall be deposited, as collected, to the credit of said Interest and Sinking Fund. During each year while any of said Certificates are outstanding and unpaid, the governing body of said Issuer shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on said Certificates as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of said Certificates as such principal matures (but never less than 2% of the original amount of said Certificates as a sinking fund each year); and said tax shall be based on the latest approved tax rolls of said Issuer, with full allowances being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax is hereby levied, and is hereby ordered to be levied, against all taxable property in said Issuer, for each year while any of said Certificates are outstanding and unpaid, and said tax shall be assessed and collected each such year and deposited to the credit of the aforesaid Interest and Sinking Fund. Said ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates, as such interest comes due and such principal matures, are hereby pledged for such payment, within the limit prescribed by law.

Section 7. SURPLUS REVENUES. The Certificates are additionally secured by and shall be payable from and secured by a limited pledge of not to exceed \$1,000 in aggregate over the life of the issue of the revenues of the Issuer's Waterworks and Sewer Systems remaining after payment of all maintenance and operation expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue bonds (now or hereafter outstanding) which are payable from all or part of the Net Revenues of the Issuer's Waterworks and Sewer Systems, constituting "Surplus Revenues." The Issuer shall deposit such Surplus Revenues to the credit of the Interest and Sinking Fund created pursuant to Section 6, to the extent necessary to pay the principal and interest on the Certificates. Notwithstanding the requirements of Section 6, if Surplus Revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied pursuant to Section 6 may be reduced to the extent and by the amount of the Surplus Revenues then on deposit in the Interest and Sinking Fund.

Section 8. DEFEASANCE OF CERTIFICATES. (a) Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Certificate") within the meaning of this Ordinance, except to the extent provided in subsection (d) of this Section 8, when payment of the principal of such Certificate, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Certificates shall have become due and payable. At such

time as a Certificate shall be deemed to be a Defeased Certificate hereunder, as aforesaid, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes or revenues herein levied and pledged as provided in this Ordinance, and such principal and interest shall be payable solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the Issuer also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent/Registrar which is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer.

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

(d) Until all Defeased Certificates shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Certificates the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Ordinance.

Section 9. **DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED CERTIFICATES.** (a) Replacement Certificates. In the event any outstanding Certificate is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar shall cause to be printed, executed and delivered, a new certificate of the same principal amount, maturity and interest rate, as the damaged, mutilated, lost, stolen or destroyed Certificate, in replacement for such Certificate in the manner hereinafter provided.

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

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

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

(e) Authority for Issuing Replacement Certificates. In accordance with Section 6 of Vernon's Ann. Tex. Civ. St. Art. 717k-6, this Section 9 of this Ordinance shall constitute authority for the issuance of any such replacement certificate without necessity of further action by the governing body of the Issuer or any other body or person, and the duty of the replacement of such certificates is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Certificates in the form and manner and with the effect, as provided in Section 4(a) of this Ordinance for Certificates issued in conversion and exchange for other Certificates.

**Section 10. CUSTODY, APPROVAL, AND REGISTRATION OF CERTIFICATES; BOND COUNSEL'S OPINION; CUSIP NUMBERS AND CONTINGENT INSURANCE PROVISION, IF OBTAINED.** The Mayor of the Issuer is hereby authorized to have control of the Certificates initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Certificates pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Certificates said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Certificates, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the Issuer's Certificate Counsel and the assigned CUSIP numbers may, at the option of the Issuer, be printed on the Certificates issued and delivered under this Ordinance, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Certificates. In addition, if bond insurance is obtained, the Certificates may bear an appropriate legend as provided by the insurer.

**Section 11. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE CERTIFICATES.** The Issuer covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Certificates as Obligation described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Issuer covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Certificates (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the Issuer, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the

payment of more than 10 percent of the debt service on the Certificates, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Certificates or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

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

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

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

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

(1) proceeds of the Certificates invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Certificates;

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

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Certificates) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and

to pay to the United States of America, not later than 60 days after the Certificates have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

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

For purposes of the foregoing (a) and (b), the Issuer understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Certificates. It is the understanding of the Issuer that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Certificates, the Issuer will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Certificates under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Certificates, the Issuer agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Certificates under section 103 of the Code. In furtherance of such intention, the Issuer hereby authorizes and directs the Mayor to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Issuer, which may be permitted by the Code as are consistent with the purpose for the issuance of the Certificates.

**Section 12. DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS.** The Issuer hereby designates the Certificates as "qualified tax-exempt obligations" as defined in section 265(b)(3) of the Code. In furtherance of such designation, the Issuer represents, covenants and warrants the following: (a) that during the calendar year in which the Certificates are issued, the Issuer (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Certificates, will result in more than \$10,000,000 of "qualified tax-exempt bonds" being issued; (b) that the Issuer reasonably anticipates that the amount of tax-exempt obligations issued, during the calendar year in which the Certificates are issued, by the Issuer (or any subordinate entities) will not exceed \$10,000,000; and, (c) that the Issuer will take such action or refrain from such action as necessary, and as more particularly set forth in Section 11, hereof, in order that the Certificates will not be considered "private activity bonds" within the meaning of section 141 of the Code.

**Section 13. SALE OF CERTIFICATES.** The Certificates are hereby initially sold and shall be delivered to Service Asset Management Company (the "Purchaser"), pursuant to the terms of a Purchase Contract between the Issuer and the Purchaser, dated March 14, 1996, which Purchase Contract is hereby approved. The Certificates shall be sold to the Purchaser for cash for \$455,012.20 (representing the par amount of the Certificates, plus a premium thereon of \$6,571.85 less an underwriter's discount of \$6,559.65) and accrued interest thereon to date of delivery. The

Certificates shall initially be registered in the name of Service Asset Management Company. It is further officially found, determined and declared that the Certificates have been sold pursuant to an Official Statement dated March 14, 1996, prepared and distributed in connection with the sale of the Certificates. Said Official Statement, and any addenda, supplement or amendment thereto have been and are hereby approved by the governing body of the Issuer, and its use in the offer and sale of the Certificates is hereby approved. It is further officially found, determined and declared that the statements and representations contained in said Official Statement are true and correct in all material respects, to the best knowledge and belief of the governing body of the Issuer.

**Section 14. INTEREST EARNINGS ON CERTIFICATE PROCEEDS; PREMIUM.** Interest earnings derived from the investment of proceeds from the sale of the Certificates shall be used along with other certificate proceeds for the purpose for which the Certificates are issued set forth in Section 1 hereof; provided that after completion of such purpose, if any of such interest earnings remain on hand, such interest earnings shall be deposited in the Interest and Sinking Fund. It is further provided, however, that any interest earnings on certificate proceeds which are required to be rebated to the United States of America pursuant to Section 11 hereof in order to prevent the Certificates from being arbitrage bonds shall be so rebated and not considered as interest earnings for the purposes of this Section.

The Issuer shall deposit all amounts received from the sale of the Certificates which exceed the principal amount thereof to the Interest and Sinking Fund.

**Section 15. APPROPRIATION.** The Issuer hereby appropriates from current funds on hand, and directs the transfer to the Interest and Sinking Fund for the Certificates of, an amount of money sufficient, when added to the accrued interest received from the sale of the Certificates, to pay the interest scheduled to come due on the Certificates on February 15, 1997.

**Section 16. NO RULE 15c2-12 UNDERTAKING.** The Issuer has not made an undertaking in accordance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") in reliance upon an exemption provided therein for offerings of municipal securities aggregating less than \$1,000,000. The Issuer is not, therefore, obligated pursuant to the Rule to provide any on-going disclosure relating to the Issuer or the Certificates.

## PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT entered into as of January 15, 1996 (this "Agreement"), by and between the City of Kennedale, Texas (the "Issuer"), and Norwest Bank Texas, N.A., Dallas, Texas, a banking association duly organized and existing under the laws of the United States of America (the "Bank").

### RECITALS

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Combination Tax and Revenue Certificates of Obligation, Series 1996 (the "Securities") in the aggregate principal amount of \$455,000 such Securities to be issued in fully registered form only as to the payment of principal and interest thereon; and

WHEREAS, the Securities are scheduled to be delivered to the initial purchasers thereof on or about April 17, 1996; and

WHEREAS, the Issuer has selected the Bank to serve as Paying Agent/Registrar in connection with the payment of the principal of, premium, if any, and interest on said Securities and with respect to the registration, transfer and exchange thereof by the registered owners thereof; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and has full power and authority to perform and serve as Paying Agent/Registrar for the Securities;

NOW, THEREFORE, it is mutually agreed as follows:

### ARTICLE ONE

#### APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

##### **Section 1.01. Appointment.**

The Issuer hereby appoints the Bank to serve as Paying Agent with respect to the Securities. As Paying Agent for the Securities, the Bank shall be responsible for paying on behalf of the Issuer the principal, premium (if any), and interest on the Securities as the same become due and payable to the registered owners thereof, all in accordance with this Agreement and the "Order" (hereinafter defined).

The Issuer hereby appoints the Bank as Registrar with respect to the Securities. As Registrar for the Securities, the Bank shall keep and maintain for and on behalf of the

Issuer books and records as to the ownership of said Securities and with respect to the transfer and exchange thereof as provided herein and in the "Order."

The Bank hereby accepts its appointment, and agrees to serve as the Paying Agent and Registrar for the Securities.

**Section 1.02. Compensation.**

As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Schedule A attached hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for municipalities, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year of the Issuer, and shall be effective upon the first day of the following Fiscal Year.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

**ARTICLE TWO  
DEFINITIONS**

**Section 2.01. Definitions.**

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Acceleration Date" on any Security means the date on and after which the principal or any or all installments of interest, or both, are due and payable on any Security which has become accelerated pursuant to the terms of the Security.

"Bank Office" means the principal corporate trust office of the Bank as indicated on the signature page hereof. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

"Fiscal Year" means the fiscal year of the Issuer, ending September 30.

"Holder" and "Security Holder" each means the Person in whose name a Security is registered in the Security Register.

"Issuer Request" and "Issuer Order" means a written request or order signed in the name of the Issuer by the President of the Board of Trustees of the Issuer, any one or more of said officials, delivered to the Bank.

"Legal Holiday" means a day on which the Bank is required or authorized to be closed.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

"Predecessor Securities" of any particular Security means every previous Security evidencing all or a portion of the same obligation as that evidenced by such particular Security (and, for the purposes of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement Security has been registered and delivered in lieu thereof pursuant to Section 4.06 hereof and the Order).

"Redemption Date" when used with respect to any Security to be redeemed means the date fixed for such redemption pursuant to the terms of the Order.

"Order" means the order of the governing body of the Issuer pursuant to which the Securities are issued, certified by the Secretary of the Board of Trustees or any other officer of the Issuer and delivered to the Bank.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration and transfer of the Securities.

"Stated Maturity" means the date specified in the Order the principal of a Security is scheduled to be due and payable.

#### **Section 2.02. Other Definitions**

The terms "Bank," "Issuer," and "Securities (Security)" have the meanings assigned to them in the recital paragraphs of this Agreement.

The term "Paying Agent/Registrar" refers to the Bank in the performance of the duties and functions of this Agreement.

ARTICLE THREE  
PAYING AGENT

**Section 3.01. Duties of Paying Agent.**

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the principal of each Security at its Stated Maturity, Redemption Date, or Acceleration Date, to the Holder upon surrender of the Security to the Bank at the Bank Office.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due, by computing the amount of interest to be paid each Holder and preparing and sending checks by United States Mail, first class postage prepaid, on each payment date, to the Holders of the Securities (or their Predecessor Securities) on the respective Record Date, to the address appearing on the Security Register or by such other method, acceptable to the Bank, requested in writing by the Holder at the Holder's risk and expense.

**Section 3.02. Payment Dates.**

The Issuer hereby instructs the Bank to pay the principal of and interest on the Securities on the dates specified in the Order.

ARTICLE FOUR  
REGISTRAR

**Section 4.01. Security Register - Transfers and Exchanges.**

The Bank agrees to keep and maintain for and on behalf of the Issuer at the Bank Office books and records (herein sometimes referred to as the "Security Register") for recording the names and addresses of the Holders of the Securities, the transfer, exchange and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holders and containing such other information as may be reasonably required by the Issuer and subject to such reasonable regulations as the Issuer and the Bank may prescribe. All transfers, exchanges and replacement of Securities shall be noted in the Security Register.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers, in form satisfactory to the Bank, duly executed by the Holder thereof or his agent duly authorized in writing.

The Bank may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities.

To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof will be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

**Section 4.02. Certificates.**

The Issuer shall provide an adequate inventory of printed Securities to facilitate transfers or exchanges thereof. The Bank covenants that the inventory of printed Securities will be kept in safekeeping pending their use, and reasonable care will be exercised by the Bank in maintaining such Securities in safekeeping, which shall be not less than the care maintained by the Bank for debt securities of other political subdivisions or corporations for which it serves as registrar, or that is maintained for its own securities.

**Section 4.03. Form of Security Register.**

The Bank, as Registrar, will maintain the Security Register relating to the registration, payment, transfer and exchange of the Securities in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Security Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Security Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

**Section 4.04. List of Security Holders.**

The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order and prior to the release or disclosure of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the court order or such release or disclosure of the contents of the Security Register.

**Section 4.05. Return of Cancelled Certificates.**

The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

**Section 4.06. Mutilated, Destroyed, Lost or Stolen Securities.**

The Issuer hereby instructs the Bank, subject to the applicable provisions of the Order, to deliver and issue Securities in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities as long as the same does not result in an overissuance.

In case any Security shall be mutilated, or destroyed, lost or stolen, the Bank, in its discretion, may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such destroyed lost or stolen Security, only after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, or destroyed, lost or stolen.

**Section 4.07. Transaction Information to Issuer.**

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01, Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01, and Securities it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities pursuant to Section 4.06.

ARTICLE FIVE  
THE BANK

**Section 5.01. Duties of Bank.**

The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

**Section 5.02. Reliance on Documents, Etc.**

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

#### **Section 5.03. Recitals of Issuer.**

The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

#### **Section 5.04. May Hold Securities.**

The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

**Section 5.05. Moneys Held by Bank**

The Bank shall deposit any moneys received from the Issuer into a trust account to be held in a fiduciary capacity for the payment of the Securities, with such moneys in the account that exceed the deposit insurance available to the Issuer by the Federal Deposit Insurance Corporation, to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas to secure and be pledged as collateral for trust accounts until the principal and interest on such securities have been presented for payment and paid to the owner thereof. Payments made from such trust account shall be made by check drawn on such trust account unless the owner of such Securities shall, at its own expense and risk, request such other medium of payment.

Subject to the Unclaimed Property Law of the State of Texas, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any Security and remaining unclaimed for three years after the final maturity of the Security has become due and payable will be paid by the Bank to the Issuer if the Issuer so elects, and the Holder of such Security shall hereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease. If the Issuer does not elect, the Bank is directed to report and dispose of the funds in compliance with Title Six of the Texas Property Code, as amended.

**Section 5.06. Indemnification**

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

**Section 5.07. Interpleader**

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the State and County where either the Bank Office or the administrative offices of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to in Section 6.03 of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction to determine the rights of any Person claiming any interest herein.

**Section 5.08. Depository Trust Company Services**

It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the

extent within its control, will comply with the "Operational Arrangements," effective August 1, 1987, which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

## ARTICLE SIX MISCELLANEOUS PROVISIONS

### **Section 6.01. Amendment.**

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

### **Section 6.02. Assignment.**

This Agreement may not be assigned by either party without the prior written consent of the other.

### **Section 6.03. Notices.**

Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature page of this Agreement.

### **Section 6.04. Effect of Headings.**

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

### **Section 6.05. Successors and Assigns.**

All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

### **Section 6.06. Severability.**

In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**Section 6.07. Benefits of Agreement.**

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

**Section 6.08. Entire Agreement.**

This Agreement and the Order constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Order, the Order shall govern.

**Section 6.09. Counterparts.**

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

**Section 6.10. Termination.**

This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon sixty (60) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

**Section 6.11. Governing Law.**

This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NORWEST BANK TEXAS, N.A.

DALLAS, TEXAS

By [Signature]  
Title Vice President

1601 Elm Street, Suite 4300  
Dallas, Texas 75201

Attest:

[Signature]  
Title Vice President

[BANK SEAL]

CITY OF KENNEDALE, TEXAS

By [Signature]  
Mayor

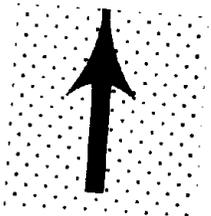
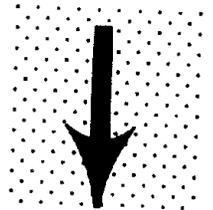
P. O. Box 268, Kennedale, Texas 76060

[ISSUER SEAL]

Attest:

[Signature]  
City Secretary

**SIGN  
HERE**



**SIGN  
HERE**

**\$455,000**

**THE CITY OF KINNEDALE  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,  
SERIES 1996**

**Fee Proposal for Paying Agent and Registrar Services**

**I. Acceptance Fee** **\$200 per issue**

Our acceptance fee covers the review, acceptance and assumption of all responsibilities and duties as trustee under the indenture, participation in document conferences, establishing records and accounts, authentication and delivery of bonds, receipt of funds, consultation with counsel and attendance at closings. This one time fee is payable at the closing of the financing.

**II. Administration Fee** **\$200 per issue**

This annual fee includes the normal day-to-day administration of the issue performed in accordance with the governing documents, maintenance of all administrative records, and the duties and functions associated with the Paying Agency. Our annual administration fee is billed annually in advance.

**III. Out-of-Pocket Expenses** **At cost as incurred**

All out-of-pocket expenses incurred in connection with the acceptance of the paying agent appointment and annual administration will be billed at actual cost as incurred. Expenses for which we are normally reimbursed include, but are not limited to postage, express mail, mail insurance, long distance calls, fax charges, travel expenses, and wire charges.

**IV. Extraordinary Services**

Fees indicated in this schedule are based upon services rendered in accordance with established procedures and during normal business hours. Unusual or extraordinary services such as those provided upon an Event of Default are subject to additional charges based on the duties, responsibilities, and other factors involved.

*Our proposal is subject in all respects to our review and acceptance of the governing documents which set forth our duties and responsibilities.*

OFFICIAL STATEMENT

Dated March 14, 1996

Ratings: Moody's: "Baa1"  
(See "Other Information -  
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$455,000  
CITY OF KENNEDALE, TEXAS  
(Tarrant County)  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 1996

Dated Date: March 1, 1996

Due: February 15, as shown below

**PAYMENT TERMS . . .** Interest on the \$455,000 City of Kennedale, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1996 (the "Certificates") will accrue from the dated date shown above, will be payable February 15 and August 15 of each year commencing February 15, 1997, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Norwest Bank Texas, N.A., Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Kennedale, Texas (the "City"), payable from a combination of (i) 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 (ii) a limited pledge of surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "The Certificates - Authority for Issuance").

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used to (i) purchase a fire truck, (ii) acquire and construct certain improvements for the City's water system, including the acquisition of well control equipment and relocation of water lines, and (iii) pay costs of issuance associated with the Certificates.

MATURITY SCHEDULE

Amount	Maturity	Rate	Price or Yield	Amount	Maturity	Rate	Price or Yield
\$ 25,000	1997	7.50%	4.25%	\$ 45,000	2002	4.90%	5.00%
40,000	1998	7.50%	4.50%	50,000	2003	5.05%	5.10%
40,000	1999	7.45%	4.65%	50,000	2004	5.15%	5.25%
45,000	2000	6.50%	4.80%	55,000	2005	5.30%	5.40%
45,000	2001	4.80%	4.90%	60,000	2006	5.45%	5.55%

(Accrued Interest from March 1, 1996 to be added)

**REDEMPTION . . .** The Certificates are not subject to redemption prior to maturity.

**LEGALITY . . .** The Certificates are offered for delivery when, as and if issued and received by the initial purchaser(s) and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

**DELIVERY . . .** It is expected that the Certificates will be available for delivery through DTC on April 17, 1996.

SERVICE ASSET MANAGEMENT COMPANY

*This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.*

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.*

**TABLE OF CONTENTS**

<b>OFFICIAL STATEMENT SUMMARY</b> .....	3	<b>OTHER INFORMATION</b> .....	23
<b>CITY OFFICIALS, STAFF AND CONSULTANTS</b> ...	5	RATINGS .....	23
ELECTED OFFICIALS .....	5	LITIGATION .....	23
SELECTED ADMINISTRATIVE STAFF .....	5	REGISTRATION AND QUALIFICATION OF CERTIFICATES	
CONSULTANTS AND ADVISORS .....	5	FOR SALE .....	23
<b>INTRODUCTION</b> .....	6	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
<b>THE CERTIFICATES</b> .....	6	PUBLIC FUNDS IN TEXAS .....	23
<b>TAX INFORMATION</b> .....	9	LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE .	23
TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL		AUTHENTICITY OF FINANCIAL DATA AND OTHER	
OBLIGATION DEBT .....	11	INFORMATION .....	24
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY		CONTINUING DISCLOSURE EXEMPTION .....	24
CATEGORY .....	12	CERTIFICATION OF THE OFFICIAL STATEMENT .....	24
TABLE 3 - VALUATION AND GENERAL OBLIGATION		<b>APPENDICES</b>	
DEBT HISTORY .....	13	GENERAL INFORMATION REGARDING THE CITY .....	A
TABLE 4 - TAX RATE, LEVY AND COLLECTION		EXCERPTS FROM THE ANNUAL FINANCIAL REPORT ..	B
HISTORY .....	13	FORM OF BOND COUNSEL'S OPINION.....	C
TABLE 5 - TEN LARGEST TAXPAYERS .....	13		
TABLE 6 - TAX ADEQUACY .....	14		
TABLE 7 - ESTIMATED OVERLAPPING DEBT.....	14		
<b>DEBT INFORMATION</b> .....	15		
TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT			
SERVICE REQUIREMENTS .....	15		
TABLE 9 - INTEREST AND SINKING FUND BUDGET			
PROJECTION .....	15		
<b>FINANCIAL INFORMATION</b> .....	16		
TABLE 10 - GENERAL FUND REVENUES AND			
EXPENDITURE HISTORY .....	16		
TABLE 11 - MUNICIPAL SALES TAX HISTORY .....	16		
TABLE 12 - CURRENT INVESTMENTS.....	19		
<b>THE SYSTEM</b> .....	19		
TABLE 13 - MONTHLY WATER RATES.....	19		
TABLE 14 - HISTORICAL WATER CONSUMPTION .....	19		
TABLE 14 - MONTHLY SEWER RATES .....	19		
TABLE 16 - WASTEWATER USAGE .....	20		
TABLE 17 - WATERWORKS AND SEWER SYSTEM			
CONDENSED STATEMENT OF OPERATIONS .....	20		
<b>TAX MATTERS</b> .....	21		

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY** ..... The City of Kennedale, Texas is a political subdivision and municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 4.5 square miles (see "Introduction - Description of City").
- THE CERTIFICATES** ..... The Certificates are issued as \$455,000 Combination Tax and Revenue Certificates of Obligation, Series 1996. The Certificates are issued as serial certificates maturing February 15, 1997 through February 15, 2006 (see "The Certificates - Description of the Certificates").
- PAYMENT OF INTEREST** ..... Interest on the Certificates accrues from March 1, 1996, and is payable February 15, 1997 and each February 15 and August 15 thereafter until maturity or prior redemption (see "The Certificates - Description of the Certificates" and "The Certificates - Optional Redemption").
- AUTHORITY FOR ISSUANCE** ..... The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended and an Ordinance passed by the City Council of the City (see "The Certificates - Authority for Issuance").
- SECURITY FOR THE CERTIFICATES** ..... The Certificates constitute direct obligations of the City, payable from a combination of (i) 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 (ii) a limited pledge of surplus net revenues of the City's Waterworks and Sewer System (see "The Certificates - Security and Source of Payment").
- QUALIFIED TAX-EXEMPT OBLIGATIONS** ..... The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").
- NO OPTIONAL REDEMPTION** ..... The Certificates are not subject to redemption prior to maturity.
- TAX EXEMPTION** ..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein, including the alternative minimum tax on corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Certificates will be used to (i) purchase a fire truck, (ii) acquire and construct certain improvements for the City's water system, including the acquisition of well control equipment and relocation of water lines, and (iii) pay costs of issuance associated with the Certificates.
- RATINGS** ..... The presently outstanding tax supported debt of the City is rated "Baa 1" by Moody's Investors Service, Inc. ("Moody's") (see "Other Information - Ratings").
- BOOK-ENTRY-ONLY SYSTEM** ..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "The Certificates - Book-Entry-Only System").
- PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt	Per Capita G.O. Tax Debt	Ratio	% of Current Tax Collections
						G.O. Tax Debt to Taxable Assessed Valuation	
1992	4,159	\$ 161,673,792	\$ 38,873	\$ 214,000	\$ 51.45	0.13%	97.37%
1993	4,209	154,405,717	36,685	181,000	43.00	0.12%	97.49%
1994	4,264	145,279,618	34,071	148,000	34.71	0.10%	97.04%
1995	5,065	144,406,825	28,511	114,000	22.51	0.08%	97.99%
1996	5,100	155,180,766	30,428	535,000 <sup>(2)</sup>	104.90	0.34%	68.46% <sup>(3)</sup>

(1) Source: City of Kennedale.

(2) Includes the Certificates.

(3) Partial collections through January 31, 1996.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	Fiscal Year Ended September 30,				
	1995	1994	1993	1992	1991
Beginning Balance	\$ 440,082	\$ 575,409	\$ 740,445	\$ 656,493	\$ 614,012
Total Revenue	1,951,237	1,733,381	1,634,085	1,570,964	1,558,742
Total Expenditures	1,880,836	1,868,708	1,783,784	1,487,012	1,516,261
Net Transfers	(1,706)	-	(15,337)	-	-
Net Funds Available	68,695	(135,327)	(165,036)	83,952	424,841
Ending Balance	\$ 508,777	\$ 440,082	\$ 575,409	\$ 740,445	\$ 656,493

For additional information regarding the City, please contact:

Vicki Thompson  
 Director of Finance  
 P. O. Box 268  
 Kennedale, Texas 76060  
 (817) 478-0351

or

Jason Wilcox  
 W. Boyd London, Jr.  
 First Southwest Company  
 1700 Pacific Avenue, Suite 500  
 Dallas, Texas 75201  
 (214) 953-4000

**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Bill Abbot Mayor	4 Years	May, 1996	Computer Programmer
Mark Wright Mayor Pro Tem	11 Years	May, 1997	Division Manager
Robert Mundy Councilman	7 Years	May, 1997	Business Management
George Barrett Councilman	1 Year	May, 1997	Teacher
Tom Boone Councilman	6 Years	May, 1996	Professor
Ron Kovach Councilman	5 Years	May, 1996	Manager

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Governmental Service</u>
Ted Rowe	City Administrator	12 Years	12 Years
Kathy Turner	City Secretary	11 Years	11 Years
Vicki Thompson	Director of Finance	11 Years	11 Years

**CONSULTANTS AND ADVISORS**

Auditors ..... Guinn & Scott  
Fort Worth, Texas

Bond Counsel..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor.....First Southwest Company  
Dallas, Texas

**THIS PAGE LEFT BLANK INTENTIONALLY**

## OFFICIAL STATEMENT

### RELATING TO

**\$455,000**

### **CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 1996**

#### INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$455,000 City of Kennedale, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1996. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State. The City was incorporated in 1947. The City operates under a Council/Mayor form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the three Councilmembers expiring in odd-numbered years. The City Administrator the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 1990 Census population for the City was 4,096, while the estimated 1996 population is 5,100. The City covers approximately 4.5 square miles.

#### THE CERTIFICATES

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated March 1, 1996, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 1997. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance passed by the City Council.

**SECURITY AND SOURCE OF PAYMENT . . .** All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law. Additionally, the Certificates are payable from and secured by a pledge of the surplus net revenues of the City's Waterworks and Sewer System, provided such pledge is limited to an amount of \$1,000 over the life of the issue, as provided in the Ordinance authorizing the Certificates.

**TAX RATE LIMITATION . . .** The City operates under the general laws of the State of Texas as authorized by Article XI, Section 4 of the Texas Constitution, which limits the maximum tax rate to \$1.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all General Obligation Debt, based on 90% tax collection.

**OPTIONAL REDEMPTION . . .** The Certificates are not subject to redemption prior to maturity.

**BOOK-ENTRY-ONLY SYSTEM . . .** The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Certificates in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein is discontinued.**

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Underwriter.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is Norwest Bank Texas, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

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

**BONDHOLDERS' REMEDIES . . .** The Ordinance does not establish specific events of default with respect to the Certificates. Under State law there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Certificates could presumably obtain a judgment against the City if a default occurred in the payment of principal or interest on any such Certificates, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

## TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the City is the responsibility of the Tarrant County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,00 to a maximum of \$12,000. A constitutional amendment approved by voters in November 1995 will increase the veterans exemption to amounts ranging from \$5,000 to \$12,000 beginning with the 1996 tax year.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“Effective tax rate” means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

“Rollback tax rate” means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000; the disabled are also granted an exemption of \$50,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt; since City does not allow homestead exemptions.

The City does not tax nonbusiness personal property.

The City does allow permit split payments, and discounts are not allowed.

The City does not tax freeport property.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

**TAX ABATEMENT POLICY . . .** On November 14, 1991, the City established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City reviews each abatement request on a case-by-case basis. Projects could be eligible for a tax abatement of up to 100% for a period of ten years. The value of property subject to abatement is shown in Table 1.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

1995/96 Market Valuation Established by Tarrant County Appraisal District (excluding totally exempt property)		\$ 176,968,126
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions	\$ 7,586,968	
Disabled Veterans	58,499	
Agricultural Use Reductions	2,362,587	
Freeport Exemptions	5,933,136	
Tax Abatement Reductions	<u>5,846,170</u>	<u>21,787,360</u>
1995/96 Net Taxable Assessed Valuation		\$ 155,180,766
General Obligation Debt Payable from Ad Valorem Taxes (as of March 1, 1996)		
General Obligation Debt	\$ 105,000	
The Certificates	<u>455,000</u>	
General Obligation Debt Payable from Ad Valorem Taxes		\$ 560,000
General Obligation Interest and Sinking Fund as of September 30, 1995		\$ 12,810
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		0.36%

1996 Estimated Population - 5,100  
 Per Capita Taxable Assessed Valuation - \$30,428  
 Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$110

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	1996		1995		1994	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 75,259,124	42.53%	\$ 70,654,524	42.99%	\$ 67,714,124	40.51%
Real, Residential, Multi-Family	11,398,625	6.44%	8,787,006	5.35%	10,422,273	6.23%
Real, Vacant Lots/Tracts	5,294,373	2.99%	5,490,618	3.34%	7,564,214	4.52%
Real, Acreage (Land Only)	3,427,772	1.94%	3,101,964	1.89%	4,597,244	2.75%
Real, Farm and Ranch Improvements	2,129,261	1.20%	1,971,061	1.20%	2,169,279	1.30%
Real, Commercial	16,178,227	9.14%	14,870,165	9.05%	15,580,452	9.32%
Real, Industrial	6,545,716	3.70%	6,753,615	4.11%	7,075,684	4.23%
Real and Tangible Personal, Utilities	14,357,459	8.11%	14,563,682	8.86%	14,393,748	8.61%
Tangible Personal, Commercial	10,712,449	6.05%	7,995,705	4.87%	6,985,784	4.18%
Tangible Personal, Industrial	30,642,778	17.32%	29,376,932	17.87%	29,367,629	17.57%
Tangible Personal, Other	35,940	0.02%	25,871	0.02%	21,620	0.01%
Tangible Personal, Mobile Homes	511,552	0.29%	439,240	0.27%	458,346	0.27%
Real Property, Inventory <sup>(1)</sup>	474,850	0.27%	319,240	0.19%	815,663	0.49%
Total Appraised Value Before Exemptions	\$ 176,968,126	100.00%	\$ 164,349,623	100.00%	\$ 167,166,060	100.00%
Less: Total Exemptions/Reductions	21,787,360		19,942,798		21,886,442	
Net Value	\$ 155,180,766		\$ 144,406,825		\$ 145,279,618	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	1993		1992	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 65,546,646	38.94%	\$ 65,515,168	37.86%
Real, Residential, Multi-Family	11,082,656	6.58%	11,582,847	6.69%
Real, Vacant Lots/Tracts	8,261,908	4.91%	8,555,138	4.94%
Real, Acreage (Land Only)	5,658,153	3.36%	10,082,399	5.83%
Real, Farm and Ranch Improvements	2,184,166	1.30%	2,684,383	1.55%
Real, Commercial	15,993,487	9.50%	17,046,899	9.85%
Real, Industrial	7,617,704	4.53%	9,777,802	5.65%
Real and Tangible Personal, Utilities	13,562,976	8.06%	13,179,670	7.62%
Tangible Personal, Commercial	7,353,180	4.37%	2,430,673	1.40%
Tangible Personal, Industrial	29,930,167	17.78%	31,097,347	17.97%
Tangible Personal, Other	22,685	0.01%	0	0.00%
Tangible Personal, Mobile Homes	455,293	0.27%	519,729	0.30%
Real Property, Inventory <sup>(1)</sup>	639,253	0.38%	576,220	0.33%
Total Appraised Value Before Exemptions	\$ 168,308,274	100.00%	\$ 173,048,275	100.00%
Less: Total Exemptions/Reductions	13,902,557		11,374,483	
Taxable Assessed Value	\$ 154,405,717		\$ 161,673,792	

(1) Real inventory properties in the hands of developers or builders; each group of properties in this category is appraised on the basis of its value as a sale to another developer or builder. This category initiated in 1988.

NOTE: Valuations shown are certified taxable assessed values reported by the Tarrant County Appraisal District to the State Controller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Per Capita	G.O. Tax Debt Outstanding At End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	Per Capita G.O. Tax Debt
1992	4,159	\$ 161,673,792	\$ 38,873	\$ 214,000	0.13%	\$ 51.45
1993	4,209	154,405,717	36,685	181,000	0.12%	43.00
1994	4,264	145,279,618	34,071	148,000	0.10%	34.71
1995	5,065	144,406,825	28,511	114,000	0.08%	22.51
1996	5,100	155,180,766	30,428	535,000 <sup>(3)</sup>	0.34%	104.90

(1) Source: City of Kennedale.

(2) As reported by the Tarrant County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Includes the Certificates.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy <sup>(1)</sup>	% Current Collections	% Total Collections
1992	\$ 0.439900	\$ 0.38850	\$ 0.051400	\$ 708,853	97.37%	104.89%
1993	0.462560	0.40891	0.053650	711,052	97.49%	100.17%
1994	0.508680	0.44672	0.061960	732,509	97.04%	99.72%
1995	0.562514	0.50027	0.062245	808,366	97.99%	101.24%
1996	0.582525	0.52586	0.056669	899,104	68.46% <sup>(2)</sup>	N/A <sup>(2)</sup>

(1) Per audited financial statements.

(2) Collections for part year only, through January 31, 1996.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	1995/96 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Harris Corporation	Printing press manufacturing	\$ 17,014,158	10.96 %
Southwestern Bell Telephone	Telephone utility	8,664,573	5.58
Texas Utilities Company	Electric utility	4,479,004	2.89
Chase Elastomer Corporation	Rubber compounds	2,338,807	1.51
Speed Fab Crete Corp., Int'l	Manufacturing/building	1,798,371	1.16
FWT, Inc.	Radio/telephone tower manufacturing	1,374,007	0.89
Tealwood Apartments Co., Ltd.	Real estate - apartments	1,546,575	1.00
Colonial Pacific	Real estate - mini warehouses	943,755	0.61
Kimbell, Inc.	Real estate - retail	841,731	0.54
E.A. Holder, Inc.	Trucking	699,056	0.45
		<u>\$ 39,700,037</u>	<u>25.58 %</u>

**GENERAL OBLIGATION DEBT LIMITATION . . .** No general obligation debt limitation is imposed on the City under current State law (see "Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY**

1996 Principal and Interest Requirements .....	\$40,086
\$0.02720 Tax Rate at 95% Collection Produces .....	\$40,098
Average Annual Principal and Interest Requirements, 1997-2006 .....	\$70,158
\$0.04760 Tax Rate at 95% Collection Produces .....	\$70,173

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	1995/96 Taxable Assessed Value	1995/96 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt As of 3/1/96	Authorized But Unissued Debt As Of 3/1/96
City of Kennedale	\$ 155,180,766	\$ 0.582525	\$ 535,000 <sup>(1)</sup>	100.00%	\$ 535,000	\$ 0
Kennedale Independent School District	321,111,712	1.533000	5,461,000	44.67%	2,439,429	5,235,000
Fort Worth Independent School District	11,943,413,104	1.455000	100,570,118	1.30%	1,307,412	64,313,000
Tarrant County	44,553,425,318	0.218000	155,900,000	0.35%	545,650	500,000
Tarrant County Hospital District	44,559,378,718	0.239840	46,244,987	0.35%	161,857	-0-
Tarrant County Junior College District	44,771,877,576	0.055460	74,270,000	0.35%	259,945	30,000,000
Total Direct and Overlapping Tax Supported Debt					\$ 5,249,293	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					3.38%	
Per Capita Overlapping Tax Supported Debt					\$ 1,029	

(1) Includes the Certificates.

## DEBT INFORMATION

**TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 9/30	Outstanding Debt <sup>(1)</sup>			This \$455,000 Issue <sup>(2)</sup>			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
1996	\$ 34,000	\$ 6,086	\$ 40,086				\$ 40,086	
1997	10,000	4,000	14,000	\$ 25,000	\$ 37,533	\$ 62,533	76,533	
1998	10,000	3,725	13,725	40,000	23,055	63,055	76,780	
1999	10,000	3,175	13,175	40,000	20,065	60,065	73,240	
2000	10,000	2,625	12,625	45,000	17,113	62,113	74,738	39.37%
2001	10,000	2,075	12,075	45,000	14,570	59,570	71,645	
2002	15,000	1,575	16,575	45,000	12,388	57,388	73,963	
2003	15,000	825	15,825	50,000	10,023	60,023	75,848	
2004				50,000	7,473	57,473	57,473	
2005				55,000	4,728	59,728	59,728	89.46%
2006				60,000	1,635	61,635	61,635	100.00%
	<u>\$ 114,000</u>	<u>\$ 24,086</u>	<u>138,086</u>	<u>\$ 455,000</u>	<u>\$ 148,580</u>	<u>\$ 603,580</u>	<u>\$ 741,666</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Average life of the issue - 5.989 years.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-96		\$ 40,086
Interest and Sinking Fund, 9-30-96	\$ 12,810	
Interest and Sinking Fund Tax Levy @ 95% Collection	<u>83,542</u>	<u>\$ 96,352</u>
Estimated Balance, 9-30-96		\$ 56,266

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . .** The City does not have any authorized but unissued General Obligation Bonds.

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . .** The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

**OTHER OBLIGATIONS . . .** The City currently maintains a lease agreement for radio equipment. The annual payments are \$45,986.82 and the lease will expire in May, 2003.

**PENSION FUND . . .** The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note #7.)

**FINANCIAL INFORMATION**

**TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended September 30,					
	Budget 1996 <sup>(1)</sup>	1995	1994	1993	1992	1991
<b>Revenues:</b>						
Taxes	\$ 1,488,236	\$ 1,434,542	\$ 1,255,955	\$ 1,205,422	\$ 1,134,577	\$ 1,084,306
Licenses and Permits	82,592	53,584	47,869	36,829	27,434	21,752
Intergovernmental		123,948	119,845	113,614	112,364	94,065
Charges for Services	244,391	128,768	84,316	75,652	104,618	122,973
Fine and Forfeitures	110,000	128,344	122,320	113,353	105,591	126,945
Interest		42,257	19,776	25,286	33,637	50,358
Miscellaneous	191,759	39,794	83,300	63,929	52,743	58,343
<b>Total Revenues</b>	<b>\$ 2,116,978</b>	<b>\$ 1,951,237</b>	<b>\$ 1,733,381</b>	<b>\$ 1,634,085</b>	<b>\$ 1,570,964</b>	<b>\$ 1,558,742</b>
<b>Expenditures:</b>						
General Government	\$ 455,552	\$ 425,698	\$ 417,093	\$ 423,477	\$ 278,449	\$ 299,848
Police	728,642	716,397	704,178	657,738	661,465	749,346
Fire	358,389	324,759	331,797	399,581	219,873	209,876
Public Works	412,827	361,827	376,476	263,810	290,107	189,481
Culture and Recreation	60,578	52,155	39,164	39,178	37,118	68,074
<b>Total Expenditures</b>	<b>\$ 2,015,988</b>	<b>\$ 1,880,836</b>	<b>\$ 1,868,708</b>	<b>\$ 1,783,784</b>	<b>\$ 1,487,012</b>	<b>\$ 1,516,261</b>
Automotive Sub Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000
Operating Transfer - Net	-	(1,706)	-	(15,337)	-	(20,000)
<b>Total Other Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (1,706)</b>	<b>\$ -</b>	<b>\$ (15,337)</b>	<b>\$ -</b>	<b>\$ -</b>
Excess (Deficiency) of Revenues Over Expenditures and Other Sources (Uses)	\$ 100,990	\$ 68,695	\$ (135,327)	\$ (165,036)	\$ 83,952	\$ 42,481
Beginning Fund Balance		440,082	575,409	740,445	656,493	614,012
<b>Ending Fund Balance</b>	<b>\$ 580,976<sup>(2)</sup></b>	<b>\$ 508,777</b>	<b>\$ 440,082</b>	<b>\$ 575,409</b>	<b>\$ 740,445</b>	<b>\$ 656,493</b>

(1) As adopted [and amended].

**TABLE 11 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. The voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for property tax reduction.

Fiscal Year Ended	Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
1992	\$ 284,840	40.18%	0.1762%	68.49
1993	367,584	51.70%	0.2381%	87.33
1994	365,802	49.94%	0.2518%	85.79
1995	439,758	54.40%	0.3045%	86.82

(1) Includes the sales tax for reduction of property taxes.

The sales tax breakdown for the City is as follows:

Property Tax Relief	1/2¢
City Sales & Use Tax	1¢
State Sales & Use Tax	6-1/4¢
Total	7-3/4¢

## FINANCIAL POLICIES

**Basis of Accounting** . . . The modified accrual basis of accounting is followed by the governmental funds. These revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. Expenditures, other than interest on long-term debt are recorded when the liability is incurred, if measurable. Interest on long-term debt is recorded when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance.

Property and sales tax revenues are recorded under the susceptible to accrual concept. Franchise taxes, licenses and permits, fines and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The accrual basis of accounting is utilized by the proprietary fund type.

For purposes of the statement of cash flows, the Water and Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**Budgetary Procedures** . . . The City Council follows these procedures in establishing the budgetary data reflected in the combined financial statements: (1) Prior to the beginning of the fiscal year, the City Administrator submits to the City Council a proposed budget. The budget includes proposed expenditures and the means of financing them. (2) Public hearings are conducted to obtain taxpayer comments. (3) Prior to September 30, the budget is legally enacted through passage of an ordinance. The annual appropriations lapse at year end. (4) Revisions that alter the total expenditures of any fund must be approved by the City Council. (5) Budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented in the general purpose financial statements are as originally adopted and amended by the City Council.

## INVESTMENTS

The City of Kennedale invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City of Kennedale. Both state law and the City's investment policies are subject to change.

**LEGAL INVESTMENTS** . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits, (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds

registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

**ADDITIONAL PROVISIONS . . .** Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy. (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

It is the policy of the City to invest public funds in a manner which will provide highest investment return without safety or liquidity risk while meeting the daily cash flow demands of the City and conforming to all provisions of the Public Funds Investment Act (HB 2459).

Management responsibility for the investment program is hereby delegated to the Director of Finance under the direct supervision of the City Administrator. The Director of Finance shall serve as the City's Investment Officer. The Director of Finance shall establish written procedures for the operations of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicitly delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided in the terms of this policy and the procedures established by the Director of Finance, under the supervision of the City Administrator. The Director of Finance, under the supervision of the City Administrator shall be responsible for transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The City will diversity its investments by security type and institution. No more than 50% of the City's total investment portfolio will be invested in a single security type with the exception of investment pool securities. No more than 50% of the City's total investment portfolio will be invested in any one specific investment pool.

The Director of Finance shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

The Director of Finance is charged with the responsibility of including a market report on investment activity and returns to Council not less than quarterly.

**TABLE 12 - CURRENT INVESTMENTS**

As of December 31, 1995, the City's investable funds were invested in the following categories:

Type of Investment.

Description	% of Portfolio	Purchase Price	Market Value
Lone Star Money Market	39.1%	\$ 368,174	\$ 370,932
Lone Star Government Securities	17.6%	165,298	166,595
Tex Pool	0.1%	598	601
Alliance Mutual Fund - Central Bank Cash Series	14.7%	138,790	448,813
Federal Government Treasuries	28.5%	268,449	270,960
	100.0%	\$ 941,309	\$ 1,257,901

As of such date, 100% of the City's investment portfolio will mature within 3.5 months. The market value of the investment portfolio was approximately 133% of its purchase price.

**THE SYSTEM**

**WATERWORKS SYSTEM AND SEWER SYSTEM DESCRIPTION**

The City provides water and sewer service primarily for the City and has a small number of customers outside the City limits. The City purchases wastewater treatment from the City of Fort Worth. The City has one overhead storage tank and two ground storage tanks for a total storage capacity of 1.53 million gallons. The City has five water well sites, which provides the source of water.

**TABLE 13 - MONTHLY WATER RATES (EFFECTIVE SEPTEMBER 14, 1995)**

	Inside City Limits		Outside City Limits		Homeowners 65 and Older and/or Disabled Persons	
First 2,000 gallons	\$7.00	(Minimum)	\$22.06	(Minimum)	\$4.30	(Minimum)
Over 2,000 gallons	\$2.59	Per 1,000 gallons	\$3.00	Per 1,000 gallons	\$2.25	Per 1,000 gallons

**TABLE 14 - HISTORICAL WATER CONSUMPTION (GALLONS)**

Fiscal Year Ended	Daily Average	Total Usage	Water Revenue
9-30 1991	505,795	184,615,000	\$ 457,649
1992	505,829	184,127,600	475,768
1993	592,725	216,344,512	556,075
1994	538,810	196,665,500	507,493
1995	582,451	212,544,700	546,755

**TABLE 14 - MONTHLY SEWER RATES (EFFECTIVE SEPTEMBER 14, 1995) <sup>(1)</sup>**

Inside City Limits	
Residential	Homeowners over 65 and/or Disabled
Basic Charge: \$6.00 plus \$1.00 per 1,000 gallons	Basic Charge: \$3.00 plus \$0.92 per 1,000 gallons

Commercial	
Meter Size	Basic Charge <sup>(2)</sup>
3/4" & 1"	\$6.00
1-1/2"	7.15
2"	8.50
3"	11.70
4"	16.40

(1) Outside City rates - double City rate.

(2) Plus \$1.00 per 1,000 gallons.

**TABLE 16 - WASTEWATER USAGE (GALLONS)**

Fiscal Year Ended 9-30	Total Revenue
1991	\$ 226,490
1992	226,229
1993	233,941
1994	240,123
1995	254,246

**TABLE 17 - WATERWORKS AND SEWER SYSTEM CONDENSED STATEMENT OF OPERATIONS**

	Fiscal Year Ended September 30.				
	1995	1994	1993	1992	1991
Operating Revenue	\$ 963,731	\$ 884,418	\$ 926,061	\$ 830,761	\$ 816,450
Operating Expense	\$ 832,106	\$ 755,744	\$ 738,217	\$ 767,726	\$ 641,944
Net Available for Debt Service	\$ 131,625	\$ 128,674	\$ 187,844	\$ 63,035	\$ 174,506
Water Customers	1,701	1,640	1,592	1,561	1,536
Sewer Customers	1,529	1,466	1,422	1,374	1,350

## TAX MATTERS

**OPINION . . .** On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Certificates will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C - Form of Bond Counsel's Opinion.

In rendering their opinion, Bond Counsel will rely upon (a) the City's no-arbitrage certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

The law upon which Bond Counsel have based their opinion is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Certificates (the "Original Issue Discount Certificates") may be less than the principal amount thereof. In such event, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Under existing law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Certificates.

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . .** The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed earned income credit, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Interest on the Certificates will be includable as an adjustment for "adjusted earnings and profits" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for non corporate taxpayers (28 percent for taxable excess exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Certificates is includable in the "alternative minimum taxable income" of a corporation (other than a regulated investment company or a real estate investment trust) for purposes of determining the environmental tax imposed by section 59A of the Code. Section 59A of the Code imposes on a corporation an environmental tax, in addition to any other income tax imposed by the Code, equal to 0.12 percent of the excess of the modified alternative minimum taxable income of such corporation for the taxable year over \$2,000,000.

Interest on the Certificates may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., a market discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**STATE, LOCAL AND FOREIGN TAXES . . .** Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," which are designated by an issuer as "qualified tax-exempt obligations." Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The City expects to designate the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action which would assure or to refrain from such action which would adversely affect the treatment of the Certificates as "qualified tax-exempt obligations."

## OTHER INFORMATION

### RATINGS

The presently outstanding tax supported debt of the City is rated "Baa 1" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings, may have an adverse effect on the market price of the Certificates.

### LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

### REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 9 of the Bond Procedures Act provides that the Certificates "shall constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking fund of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas". The Certificates are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Certificates may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

### LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

#### AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

#### CONTINUING DISCLOSURE EXEMPTION

The offering of the Certificates is exempt from the continuing disclosure requirements of SEC Rule 15c2-12(b)(5), because the offering is less than \$1,000,000 in aggregate principal amount. Accordingly, the City does not contract to provide continuing information to investors after it issues the Certificates.

#### FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. First Southwest Company may submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City.

#### CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

BILL ABBOT  
Mayor  
City of Kennedale, Texas

ATTEST:

KATHY TURNER  
City Secretary

**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**THE CITY . . .** The City of Kennedale is situated at the apex of the southeast border of Fort Worth and the southwest border of Arlington in southern Tarrant County. The City's location is the hub of Interstate Highway 20, Loop 820, and U.S. Highway 287 which combine to provide the most vigorous transportation access in the Metroplex. Tens of thousands of motorists travel through this transportation hub daily. Business Highway 287 (Mansfield Highway) bisects the City of Kennedale from north to south providing easy accessibility to and from all areas of the City.

Twenty-five miles from Dallas/Fort Worth International Airport, ten miles from the downtown areas of the cities of Fort Worth and Arlington, thirty miles from downtown Dallas, and within fifteen miles of five major recreational lakes, the City of Kennedale combines the benefits of being part of one of the largest metropolitan areas in the nation with all of the advantages of a small community atmosphere.

The City of Kennedale has a population of approximately 5,100 with about 50% of its land area developed. Much of the remaining land has been identified and zoned for commercial and industrial use.

City leaders have directed their attention to planning for the future by placing priorities in the areas of economic development, emergency services, land use, water and sewer service, and recreation/open space.

Quality home construction continues at a high pace in Kennedale in several residential developments. The City of Kennedale exhibits pride in providing the type of industrial, commercial, and residential environment that will continue to make Kennedale the location of preference in the southern Metroplex.

**EDUCATION . . .** Most of Kennedale is located within the Kennedale Independent School District, however a portion of the City's northwest land area lies within the Fort Worth Independent School District. Both school districts provide excellent educational opportunities for Kennedale's youth.

With a total enrollment of over 2,100 students, Kennedale Independent School District host one elementary, one middle school and one high school. In addition to standard curriculum, Kennedale Independent School District provides educational opportunities for gifted and special needs students, as well as vocational and technical skills training.

The City is within commuting distance of nine universities and more than 25 colleges, junior and community colleges, and trade schools.

The major universities in the Dallas/Fort Worth area include Texas Christian University and Texas Wesleyan University in Fort Worth, Southern Methodist University in Dallas, the University of North Texas and Texas Woman's University in Denton, the University of Dallas in Irving, and the University of Texas at Arlington in Arlington. These universities offer a variety of undergraduate and graduate degrees in the arts, sciences, and business.

The Tarrant County Junior College system offers a variety of academic, technical and vocational courses toward a two year degree in arts or applied sciences at three campuses. TCJC South Campus is located within three miles of Kennedale.

**MEDICAL FACILITIES AND SERVICE . . .** The hospital needs of Kennedale are served by over 20 hospitals located throughout Tarrant County. Eight major hospitals located within fifteen miles of Kennedale provide a wide range of quality medical and surgical care, covering obstetrics, cardiac care, cancer, neurology, orthopedics, gynecology, kidney treatment, chemical dependency, pediatrics, physical therapy, respiratory treatment, psychiatric, major trauma, general emergency, and much more.

The City of Kennedale Fire Department provides superior emergency medical assistance through the operation of a fully equipped advanced life support ambulance system. Trained paramedics and EMT's respond to emergencies within four minutes of a call for help. The Kennedale ambulance transports to most of the major hospitals in Fort Worth and Arlington.

Helicopter ambulance service is provided to Kennedale from CareFlight, based at Harris Methodist Hospital Fort Worth. A helicopter will respond to an emergency call in less than ten minutes to transport the seriously injured.

Emergency "911" telephone service is available in Kennedale and throughout Tarrant County for police, fire and medical emergency help.

**PARKS AND RECREATIONAL FACILITIES . . .** There are approximately 25 acres of developed parkland in the Kennedale City Park which includes facilities for family or company picnics, fishing and ball fields for all ages.

**PUBLIC LIBRARY . . .** Opened in 1989, Friends of the Library - Kennedale worked diligently to open a library in Kennedale. Through their hard work and dedication of volunteers the Kennedale Library became State Accredited as of September 1, 1994.

**RESIDENTIAL HOUSING AND COMMUNITY CONVENIENCES . . .** Kennedale is about 40% developed not including individual vacant lots. About 2.5 square miles remain to be developed. Much of that land is to the northeast of Highway 287.

EMPLOYMENT . . . The labor market in Tarrant County continues to be strong. Unemployment figures are as follows:

<u>Tarrant County</u>	<u>December 1995</u>	<u>Average Annual 1994</u>	<u>Average Annual 1993</u>	<u>Average Annual 1992</u>	<u>Average Annual 1991</u>
Civilian Labor Force	718,710	703,579	698,623	664,779	657,701
Total Employed	685,859	664,713	645,708	618,022	617,760
Total Unemployed	32,851	38,855	43,915	46,757	42,941
Unemployment Rate	4.6%	5.5%	6.4%	7.0%	6.5%

**PERSONAL INCOME AND BUYING POWER**

<u>Entity</u>	<u>1995 Total Effective Buying Income</u>	<u>1995 Median Household</u>
Tarrant County	24,636,200,000	42,358

**HOUSEHOLD EARNINGS**

	<u>Tarrant County</u>
\$10,000 - \$19,999	11.8%
\$20,000 - \$34,999	20.3%
\$35,000 - \$49,999	19.1%
\$50,000 and over	40.6%

Source: Sales and Marketing Management Survey of Buying Power, August, 1995.

**APPENDIX B**

**EXCERPTS FROM THE  
CITY OF KENNEDALE, TEXAS  
ANNUAL FINANCIAL REPORT**

**For the Year Ended September 30, 1995**

The information contained in this Appendix consists of excerpts from the City of Kennedale, Texas Annual Financial Report for the Year Ended September 30, 1995, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

**THIS PAGE LEFT BLANK INTENTIONALLY**

CITY OF KENNEDALE, TEXAS

GENERAL PURPOSE  
FINANCIAL STATEMENTS

SEPTEMBER 30, 1995

GUINN & SCOTT  
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF KENNEDALE, TEXAS  
GENERAL PURPOSE  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

T A B L E O F C O N T E N T S

	<u>PAGE</u>
Auditor's Report	1
General Purpose Combined Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	2-3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Debt Service Funds	5-6
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Types - All Enterprise Fund Types	7
Combined Statement of Cash Flows - Proprietary Fund Type - All Enterprise Fund Types	8-9
Notes to Combined Financial Statements	10-25

# GUINN & SCOTT

CERTIFIED PUBLIC ACCOUNTANTS

C. N. GUINN, C.P.A.  
J. LARRY SCOTT, C.P.A.

1200 SUMMIT AVENUE, SUITE 700  
FORT WORTH, TEXAS 76102

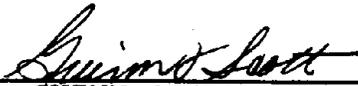
(817) 335-5453  
FAX (817) 335-5458

Honorable Mayor, City Council and City Administrator  
City of Kennedale  
Kennedale, Texas

We have audited the accompanying general purpose financial statements of the City of Kennedale, Texas, as of and for the year ended September 30, 1995, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Kennedale, Texas, as of September 30, 1995, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

  
\_\_\_\_\_  
GUINN & SCOTT

Fort Worth, Texas  
January 25, 1996

CITY OF KENNEDALE, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 SEPTEMBER 30, 1995

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES			ACCOUNT GROUPS			TOTALS	
	GENERAL	DEBT SERVICE		ENTERPRISE			GENERAL			(MEMORANDUM ONLY)	
				WATER AND SEWER	AMBULANCE	FIXED ASSETS	LONG-TERM DEBT	1995	1994		
<b>ASSETS</b>											
Cash (Note 2)	\$ 43,559	\$ 12,518	\$ 221,532	\$ 15,130	\$	\$	\$	\$	\$ 292,739	\$	\$ 84,975
Investments at cost (Note 2)	603,577		354,961	76					958,614		892,761
Receivables (net of allowance for estimated uncollectible accounts of \$50,680 in 1994 & \$61,380 in 1995):											
Taxes (Note 3)	38,659	6,337							44,996		44,078
Accounts	28,935		137,044	4,546					170,525		190,134
Accrued interest	6,218		116						6,334		293
Due from other funds (Note 10)	24,396					16			24,412		31,232
Due from other governments (Note 4)	29,888								29,888		34,308
Restricted Assets:											
Cash (Note 2)			92,476						92,476		1,095
Investments (Note 2)											116,150
Accrued Interest											111
Property, plant and equipment (net where applicable of accumulated depreciation of \$2,012,058) (Notes 5 & 8)			4,404,285	61,559	5,697,029				10,162,873		10,011,917
Amount available in Debt Service Fund										12,810	11,799
Amount to be provided for retirement of general long-term debt										384,624	448,768
<b>TOTAL ASSETS</b>	\$ 775,232	\$ 18,855	\$ 5,210,414	\$ 81,327	\$ 5,697,029	\$ 397,434	\$ 12,180,291	\$ 11,867,621			

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 SEPTEMBER 30, 1995

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES			ACCOUNT GROUPS			TOTALS	
	GENERAL	DEBT		WATER AND SEWER	ENTERPRISE	AMBULANCE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	(MEMORANDUM ONLY)		
		SERVICE							1995	1994	
<b>LIABILITIES</b>											
Accounts payable	\$ 113,935			\$ 96,264	\$ 2,952		\$		\$	213,151	\$ 233,710
Accrued liabilities	110,819			45,075	8,938					164,832	100,071
Revenue bonds - Current (Note 8)											0
Payable from restricted assets:											
Revenue bonds (Note 8)				92,476						92,476	20,000
Deposits											87,796
Accrued interest											104
Due to other funds (Note 10)	16			396		24,000				24,412	31,232
Due to other governments											269
Deferred revenue (Note 3)										47,730	41,140
Notes payable (Note 8)	41,685		6,045					283,434		283,434	312,567
General obligation bonds payable (Note 8)								114,000		114,000	148,000
<b>TOTAL LIABILITIES</b>	<u>\$ 266,455</u>	<u>\$ 6,045</u>	<u>\$ 234,211</u>	<u>\$ 35,890</u>	<u>\$ 397,434</u>	<u>\$ 940,035</u>	<u>\$ 974,889</u>				
<b>FUND EQUITY</b>											
Contributed capital:											
Municipality				\$ 1,079,119	\$ 622		\$		\$	1,079,741	\$ 1,079,741
Developers				1,169,926						1,169,926	1,105,668
Federal grants				1,943,266						1,943,266	1,923,323
Customers					5,281					5,281	5,281
Investments in general fixed assets						5,697,029				5,697,029	5,471,203
Retained earnings:											
Reserved for revenue bond retirement, loans											
Unreserved				783,892						783,892	39,456
Fund balances:											
Reserved for encumbrances											816,179
Reserved for automotive sub-fund											
Unreserved:											
Designated for debt service	11,500									11,500	57,487
Designated for subsequent years' expenditures			12,810							12,810	29,108
Undesignated											
TOTAL FUND EQUITY	<u>155,675</u>									<u>155,675</u>	<u>218,489</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>341,602</u>									<u>341,602</u>	<u>134,998</u>
<b>TOTAL FUND EQUITY</b>	<u>\$ 508,777</u>	<u>\$ 12,810</u>	<u>\$ 4,976,203</u>	<u>\$ 65,437</u>	<u>\$ 5,697,029</u>	<u>\$ 11,240,256</u>	<u>\$ 10,892,732</u>				
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 775,232</u>	<u>\$ 18,855</u>	<u>\$ 5,210,414</u>	<u>\$ 81,327</u>	<u>\$ 5,697,029</u>	<u>\$ 12,180,291</u>	<u>\$ 11,667,621</u>				

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1995

	ALL GOVERNMENTAL FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	GENERAL	DEBT SERVICE	1995	1994
<b>REVENUES:</b>				
Taxes				
Property taxes	\$ 728,564	\$ 89,818	\$ 818,382	\$ 730,490
Franchise taxes	266,220		266,220	247,328
Sales taxes	439,758		439,758	365,802
Total Taxes	<u>\$ 1,434,542</u>	<u>\$ 89,818</u>	<u>\$ 1,524,360</u>	<u>\$ 1,343,620</u>
Licenses and permits	53,584		53,584	47,869
Intergovernmental revenues	123,948		123,948	119,845
Charges for services	128,768		128,768	84,316
Fines and forfeits	128,344		128,344	122,320
Miscellaneous:				
Interest on investments	42,257	2	42,259	19,776
Other	39,794		39,794	83,300
TOTAL REVENUES	<u>\$ 1,951,237</u>	<u>\$ 89,820</u>	<u>\$ 2,041,057</u>	<u>\$ 1,821,046</u>
<b>EXPENDITURES:</b>				
Current:				
General government	\$ 425,698		\$ 425,698	\$ 417,093
Public safety:				
Police	716,397		716,397	704,178
Fire	324,759		324,759	331,797
Public works and streets	361,827		361,827	376,476
Culture and recreation	52,155		52,155	39,164
Debt service:				
Principal retirement		79,987	79,987	78,987
Interest and fiscal charges		8,822	8,822	11,020
TOTAL EXPENDITURES	<u>\$ 1,880,836</u>	<u>\$ 88,809</u>	<u>\$ 1,969,645</u>	<u>\$ 1,958,715</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 70,401	\$ 1,011	\$ 71,412	\$( 137,669)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	( 1,706)		( 1,706)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$( 1,706)</u>		<u>\$( 1,706)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 68,695	\$ 1,011	\$ 69,706	\$( 137,669)
Fund Balance, October 1	440,082	11,799	451,881	589,550
Fund Balance, September 30	508,777	12,810	521,587	451,881

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL AND DEBT SERVICE FUNDS  
 YEAR ENDED SEPTEMBER 30, 1995

	GENERAL FUND		DEBT SERVICE FUND		VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	BUDGET	ACTUAL	
<b>REVENUES:</b>					
<b>Taxes</b>					
Property taxes	\$ 724,632	\$ 728,564	\$ 3,932	\$ 89,818	\$ 292
Franchise taxes	250,611	266,220	15,609		
Sales taxes	439,758	439,758	0		
<b>Total taxes</b>	\$ 1,415,001	\$ 1,434,542	\$ 19,541	\$ 89,818	\$ 292
Licenses and permits	53,584	53,584	0		
Intergovernmental revenues	123,948	123,948	0		
Charges for services	128,768	128,768	0		
Fines and forfeits	128,344	128,344	0		
Miscellaneous					
Interest on investments	41,067	42,257	1,190	2	0
Other	44,918	39,794	( 5,124)		
<b>TOTAL REVENUES</b>	\$ 1,935,630	\$ 1,951,237	\$ 15,607	\$ 89,820	\$ 292
<b>EXPENDITURES:</b>					
General government	\$ 424,558	\$ 425,698	\$( 1,140)	\$	\$
Public safety:					
Police	718,297	716,397	1,900		
Fire	327,835	324,759	3,076		
Public works and streets	360,935	361,827	( 892)		
Culture and recreation	51,692	52,155	( 463)		
Debt services:					
Principal retirement				79,987	0
Interest and fiscal agent charges				8,822	0
<b>TOTAL EXPENDITURES</b>	\$ 1,883,317	\$ 1,880,836	\$ 2,481	\$ 88,809	\$ 0
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	\$ 52,313	\$ 70,401	\$ 18,088	\$ 719	\$ 1,011

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL AND DEBT SERVICE FUNDS  
 YEAR ENDED SEPTEMBER 30, 1995  
 (CONTINUED)

	GENERAL FUND		DEBT SERVICE FUND		VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	BUDGET	ACTUAL	
OTHER FINANCING SOURCES (USES):					
Operating transfers out	\$ 1,706	\$ 1,706	\$ 0	\$ 0	\$
TOTAL OTHER FINANCING SOURCES (USES) (NET)	\$( 1,706)	\$( 1,706)	0	0	\$
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 50,607	\$ 68,695	\$ 18,088	\$ 719	\$ 1,011
Fund Balance, October 1, 1994	440,082	440,082	11,799	11,799	
Fund Balance, September 30, 1995	\$ 490,689	\$ 508,777	\$ 18,088	\$ 12,518	\$ 292

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED  
 EARNINGS  
 PROPRIETARY FUND TYPES - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1995

	WATER AND SEWER FUND		AMBULANCE FUND		TOTALS	
					(MEMORANDUM ONLY)	
					SEPTEMBER 30:	
				1995	1994	
<b>OPERATING REVENUES</b>						
Charges for services	\$	939,960	\$	195,238	\$	1,135,198
						\$ 1,021,516
<b>OPERATING EXPENSES</b>						
Personal services	\$	204,869	\$	105,893	\$	310,762
Contractual services		22,554				22,554
Supplies		23,367		10,446		33,813
Materials		13,827		1,685		15,512
General services		269,737		24,100		293,837
Depreciation		160,411		18,242		178,653
Bad debts		1,918		47,634		49,552
Intergovernmental charges		295,834				295,834
						250,861
<b>TOTAL OPERATING EXPENSES</b>	<b>\$</b>	<b>992,517</b>	<b>\$</b>	<b>208,000</b>	<b>\$</b>	<b>1,200,517</b>
						<b>\$ 1,071,129</b>
<b>OPERATING INCOME (LOSS)</b>		<b>\$( 52,557)</b>		<b>\$( 12,762)</b>		<b>\$( 65,319)</b>
						<b>\$( 49,613)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest revenue		23,771		272		24,043
Interest expense and fiscal charges		( 1,336)		( 1,190)		( 2,526)
Sale of assets		9,888				9,888
						( 2,350)
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>\$</b>	<b>32,323</b>	<b>\$( 918)</b>	<b>\$</b>	<b>31,405</b>	<b>\$ 13,944</b>
<b>NET INCOME (LOSS)</b>		<b>\$( 20,234)</b>		<b>\$( 13,680)</b>		<b>\$( 33,914)</b>
						<b>\$( 35,669)</b>
Contribution from General Fund				1,706		1,706
						0
<b>RETAINED EARNINGS,</b>						
October 1		804,126		51,508		855,634
						891,303
<b>RETAINED EARNINGS,</b>						
September 30	\$	783,892	\$	39,534	\$	823,426
						\$ 855,634

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1995  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

			TOTALS (MEMORANDUM ONLY)	
			SEPTEMBER 30:	
			1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 916,301	\$ 147,024	\$ 1,063,325	\$ 1,024,132
Cash paid to suppliers	( 584,369)	( 36,393)	( 620,762)	( 611,742)
Cash paid to employees	( 202,521)	( 102,879)	( 305,400)	( 296,877)
Net cash provided by operating activities	<u>\$ 129,411</u>	<u>\$ 7,752</u>	<u>\$ 137,163</u>	<u>\$ 115,513</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Water & sewer deposits	<u>\$ 4,680</u>	<u>\$</u>	<u>\$ 4,680</u>	<u>\$ 4,055</u>
Net cash provided by noncapital financing activities	<u>\$ 4,680</u>	<u>\$</u>	<u>\$ 4,680</u>	<u>\$ 4,055</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Sale of assets	\$ 9,888	\$	\$ 9,888	\$
Contribution from General Fund		1,706	1,706	
Proceeds from loan				30,000
Capital expenditures	( 17,142)	( 2,441)	( 19,583)	( 106,590)
Interest and fiscal charges paid	( 1,544)		( 1,544)	( 2,109)
Payment of revenue bonds	( 20,000)		( 20,000)	( 10,000)
Principal payments on loan		( 6,000)	( 6,000)	0
Net cash used for capital and related financing activities	<u>\$( 28,798)</u>	<u>\$( 6,735)</u>	<u>\$( 35,533)</u>	<u>\$( 88,699)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investment securities	\$	\$	\$	\$( 28,354)
Proceeds from maturities of investment securities	28,355		28,355	26,177
Interest on investments	<u>23,766</u>	<u>273</u>	<u>24,039</u>	<u>16,219</u>
Net cash provided by investing activities	<u>\$ 52,121</u>	<u>\$ 273</u>	<u>\$ 52,394</u>	<u>\$ 14,042</u>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<u>\$ 157,414</u>	<u>\$ 1,290</u>	<u>\$ 158,704</u>	<u>\$ 44,911</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>511,555</u>	<u>13,916</u>	<u>525,471</u>	<u>480,560</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 668,969</u>	<u>\$ 15,206</u>	<u>\$ 684,175</u>	<u>\$ 525,471</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS (CONTINUED)  
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY  
 OPERATING ACTIVITIES  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1995

	WATER AND SEWER FUND		AMBULANCE FUND		TOTALS (MEMORANDUM ONLY)			
					SEPTEMBER 30:			
					1995	1994		
OPERATING INCOME (LOSS)	\$(	52,557)	\$(	12,762)	\$(	65,319)	\$(	49,613)
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation		160,411		18,242		178,653		167,120
Provision for uncollectible accounts		136		10,563		10,699		19,247
Change in assets and liabilities:								
Decrease in accounts receivable								18,439
Increase in accounts receivable	(	23,796)	(	11,142)	(	34,938)	(	16,024)
Decrease in due from other funds		1,223		389		1,612		0
Increase in due from other funds							(	1,222)
Increase in accounts payable		12,013				12,013		1,627
Decrease in accounts payable			(	551)	(	551)	(	29,439)
Increase in accrued liabilities		31,981		3,013		34,994		5,378
		31,981		3,013		34,994		5,378
Net cash provided by operating activities	\$	129,411	\$	7,752	\$	137,163	\$	115,513
		129,411		7,752		137,163		115,513

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

During the year C.D.B.G. paid for and contributed street improvements and water lines in the amount of		\$ 122,352
Developers paid for and contributed waterlines and storm sewers in the amount of		86,072

The accompanying notes to financial statements are an integral part of this statement.

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kennedale was incorporated in 1947. The City operates under a Mayor-Council form of government and provides the following services:

Police and fire protection, public works, ambulance and general administrative services. In addition, the City owns and operates a water and sewer system.

The combined general purpose financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

The reporting entity for financial reporting purposes include all activities over which the City Council exercises oversight responsibility. Therefore, the following are not included because they are autonomous entities:

Kennedale Independent School District - provides educational services.

The accounting policies of the City of Kennedale, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The various funds are grouped by type in the combined general purpose financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. There are two sub funds of the general fund, they are part of the general fund and reported there.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUND TYPE

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the City, other than those accounted for in proprietary funds.

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term debt of the City except that accounted for in proprietary funds.

Total Columns On Combined Statements - Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

**B. BASIS OF ACCOUNTING**

The modified accrual basis of accounting is followed by the governmental funds. These revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. Expenditures, other than interest on long-term debt are recorded when the liability is incurred, if measurable. Interest on long-term debt is recorded when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance.

Property and sales tax revenues are recorded under the susceptible to accrual concept. Franchise taxes, licenses and permits, fines and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The accrual basis of accounting is utilized by the proprietary fund type.

For purposes of the statement of cash flows, the Water and Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**C. BUDGETARY DATA**

(1) General Budget Policies

The City Council follows these procedures in establishing the budgetary data reflected in the combined financial statements:

1. Prior to the beginning of the fiscal year, the City Administrator submits to the City Council a proposed budget. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through passage of an ordinance. The annual appropriations lapse at year end.
4. Revisions that alter the total expenditures of any fund must be approved by the City Council.

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

5. Budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented in the general purpose financial statements are as originally adopted and amended by the City Council.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balances because they do not constitute expenditures or liabilities.

E. INVESTMENTS

Investments are stated at cost, which approximates market. (See Note 2)

F. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded at estimated fair market value at the time received.

Fixed assets consisting of certain improvements (other than buildings and street improvements funded by General Obligation Bonds) including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have not been capitalized prior to 1980. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets and no interest has been capitalized.

G. PROPERTY, PLANT AND EQUIPMENT - ENTERPRISE FUNDS

Property, plant and equipment owned by Enterprise Funds are stated at cost or estimated fair market value at the date contributed. Depreciation has been provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

Buildings, structures and improvements	20 & 50 years
Machinery and equipment	4 - 10 years
No interest has been capitalized.	

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

H. COMPENSATED ABSENCES

Vacation, sick leave and compensatory time are granted to City employees in limited amounts. Accumulated vested amounts that are expected to be liquidated with expendable available financial resources are accrued as expenditures and fund liabilities in the General Fund and Enterprise Funds. Liabilities accrued as of September 30, 1995 by fund are:

General Fund	\$ 72,740.28
Water & Sewer Fund	9,724.21
Ambulance Fund	4,966.76
	\$ 87,431.25
	=====

I. RESERVES

Retained earnings have been reserved for the excess of restricted assets over related liabilities.

J. UNBILLED CHARGES

Unbilled utility service charges of the Water and Sewer Fund at year end are estimated and recorded as receivables, net of estimated uncollectibles.

K. TRANSACTIONS BETWEEN FUNDS

Residual equity transfers between funds are reported as changes to fund balances of governmental funds and contributed capital of the proprietary funds. There were none this year. All other transfers between funds are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

NOTE 2 - CASH AND INVESTMENTS

The City maintains a cash pool and an investment pool that is available for use by all funds. Each fund type's portion of these pools is displayed on the combined balance sheet as "Cash" and "Investments". In addition, investments are separately held by several of the City's funds.

Deposits

At year-end, the carrying amount of the City's cash on hand and deposits was \$291,156 (including deposits in transit) and the bank balance was \$289,767. The bank balance was entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

Investments

The City in general, is authorized to invest its public funds in any obligations or securities described in Section 2 or 3 of the Public Funds Investment Act of 1987 as amended; and, specifically three government pools within certain limitations.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

	CATEGORY			CARRYING AMOUNT	MARKET VALUE
	1	2	3		
Treasury bills	\$264,396			\$ 264,396	\$ 269,540
Mutual funds/pools:					
Texpool				592	592
Lone Star Investment Pool				528,193	528,193
Treasury Cash Series-Federal funds				257,909	257,909
Total investments				\$ 1,051,090	\$1,056,234

Investments during the fiscal years ended September 30, 1994 and 1995 were limited to governmental pools investing in government securities and to U.S. Treasury obligations only.

NOTE 3 - PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each October 1 on the assessed value for all real property and certain personal property located in the City. The assessed value, net of exemptions, upon which the fiscal 1994-95 levy was based was approximately \$143,701,798.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 1995 was \$.562514 per \$100 of assessed valuation.

Property taxes are due by January 31 following the levy date. Current tax collections for the year ended September 30, 1995 were 97.99% of the tax levy. Property taxes are being collected by Tarrant County for the City.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

Property taxes of \$808,366 were levied for 1994-95 and are recorded as receivables, net of estimated uncollectibles. The net receivables collected and those considered "available" at September 30, 1995 (i.e., property taxes collected within 60 days of year end) are recognized as revenues in 1995. Prior year levies were recorded using these same principles. The remaining receivables are reflected as deferred revenue.

The appraisal of property within the City is the responsibility of a county-wide Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of the property within the Appraisal District must be reviewed every two years; however, the City may, at its own expense, require annual reviews of appraised values.

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The amount due for City sales tax revenue for September 1995 amounted to \$29,888.

NOTE 5 - FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>BALANCE OCTOBER 1, 1994</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE SEPTEMBER 30, 1995</u>
Land, buildings and improvements	\$1,581,370	\$	\$	\$ 1,581,370
Machinery and equipment	1,472,070	80,422	33,911	1,518,581
Streets and other improvements	<u>2,417,763</u>	<u>179,315</u>	<u>          </u>	<u>2,597,078</u>
	<u>\$5,471,203</u>	<u>\$ 259,737</u>	<u>\$ 33,911</u>	<u>\$ 5,697,029</u>

A summary of proprietary fund type property, plant and equipment at September 30, 1995 follows:

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>
Land	\$ 66,060	\$
Buildings, structures and improvements	5,998,805	
Machinery and equipment	<u>254,124</u>	<u>158,913</u>
	\$6,318,989	\$ 158,913
Less accumulated depreciation	<u>1,914,704</u>	<u>97,354</u>
	<u>\$4,404,285</u>	<u>\$ 61,559</u>

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

**CAPITAL LEASES**

Leased property at September 30, 1995 under Capital leases is capitalized in general fixed assets - Machinery and equipment in the amount of \$475,726.

The following is a schedule by years of future minimum lease payments under Capital leases together with the present value of the net minimum lease payments as of September 30, 1995:

Year ending September 30:

1996	\$ 49,056
1997	49,056
1998	49,056
1999	47,779
2000	45,987
2001	45,987
2002	45,987
2003	<u>45,987</u>
Total minimum lease payments	\$ 378,895
Less: Amount representing interest	<u>95,460</u>
Present value of net minimum lease payments	<u><u>\$ 283,435</u></u>

**NOTE 6 - RISK MANAGEMENT**

The City carries its general insurance risks with a public entity risk pool by transferring all risks to the insurance carrier except for small deductible amounts.

**NOTE 7 - EMPLOYEE PLANS**

a. **Deferred Compensation Plan**

The government offers its employees a deferred compensation plan administered by a trust established by public employers in which the deferred amounts are not held by nor required to be considered assets of the City and are not subject to the claims of the City's general creditors. No costs or liabilities are incurred by the City.

b. **Volunteer Fire/Ambulance Incentive Program (VIP)**

This program was established March 9, 1989 by City Council as an incentive to encourage volunteers to join and/or stay in the program by providing life insurance and saving plan benefits. All costs are to be paid by the City and includes furnishing \$5,000 of permanent life insurance and \$200 per year in the savings plan for each volunteer. The volunteers may continue the

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

insurance coverage at their own expense in case of departure. The savings program vests 75% after 10 years up to 100% after 15 years. The City reserves the right to discontinue the program at anytime by giving 30 days notice.

The contribution by the City to the saving plan for the current year amounted to \$1,680. The balance including interest in the cash account at September 30, 1995 was \$19,774. Life insurance premiums paid during the year amounted to \$2,249.

- c. Cafeteria Plan (IRC Sec 125)  
Plan benefits consist of a health plan (hospitalization) and a dental plan for which the city pays the employee portion of the premiums. Dependent coverage is funded by charges to employees. Disability and accident coverage was added to the plan this year and is paid entirely by employees.

d. Pension Plan

1. Plan Description

Beginning April 1, 1992, all full-time employees of the City are covered by the Texas Municipal Retirement System (TMRS), which is a multiple-employer public employee retirement system. It is the opinion of the TMRS management that the plans in TMRS are substantially defined contribution plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the Plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

the current employee contribution rate and City matching percent has always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he is vested. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 100%, both as adopted by the governing body of the City. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to city matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began April 1992. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll for the year ended September 30, 1995 was \$1,106,286, and their contributions were based on a participating payroll of \$1,104,800. Both the City and the employees made the required contributions, amounting to \$39,786 at a retirement rate of 3.58% for the City and \$55,240 (5%) for the employees. There were no related party transactions.

3. Funding Status and Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, some additional voluntary disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation due to the monetary credits granted by the City for service rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the annual actuarial valuation as of December 31, 1994. Because of the money-purchase nature of the plan, the interest rate assumption, currently 8.0% per year, does not have as much impact on the results as it does for a defined benefit plan. Market value of assets is not determined for each city's plan, but the market value of assets for TMRS as a whole was 98.6% of book value as of December 31, 1994.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

Pension benefit obligation	MEMBER CITIES (Amts in Millions)
Annuitants currently receiving benefits	\$ 488.6
Terminated employees	362.0
Current employees - Accumulated employee contributions including allocated invested earnings	1,279.3
Employer-financed vested	1,948.8
Employer-financed nonvested	<u>309.5</u>
Total	\$ 4,388.2
Net assets available for benefits, at book value	<u>3,394.2</u>
Unfunded pension benefit obligation	<u>\$ 994.0</u>

The book value of assets is the amortized cost for bonds and original cost for short-term securities and stocks. The actuarial assumptions used to compute the actuarially determined City contribution rate are the same as those used to compute the pension benefit obligation.

4. <u>City's Contributions</u>	<u>FYE 9-30-95</u>	<u>FYE 9-30-94</u>
General Fund	\$ 27,845	\$ 31,330
Water and Sewer Fund	5,875	5,737
Ambulance Fund	<u>2,251</u>	<u>2,729</u>
	<u>\$ 35,971</u>	<u>\$ 39,796</u>

5. Trend Information  
 Ten-year historical trend information presenting the TMRS progress in accumulating sufficient assets to pay benefits when due is presented in the TMRS December 31, 1994, Comprehensive Annual Financial Report.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

NOTE 8 - LONG-TERM DEBT

Long-term debt transactions of the City for the year ended September 30, 1995 were as follows:

General Obligation Bonds		DATE OF ISSUE	ORIGINAL AMOUNT	BALANCE AT 10-01-94	DEBT INCURRED	DEBT RETIRED	BALANCE AT 09-30-95	INTEREST RATE	MATURITY
Sewer system		3-01-60	\$ 80,000	\$ 28,000	\$	\$ 9,000	\$ 19,000	5 1/2 %	9M 96; 10M 97
Sewer system		11-01-62	30,000	30,000			30,000	5 1/2	10M 11-1-98/2000
Sewer construction		7-10-64	25,000	25,000			25,000	5	10M 1-10-2001; 15M 2002
Sewer system		5-01-65	15,000	15,000			15,000	5 1/2	15M 5-1-2003
Sewer		3-01-73	170,000	50,000		25,000	25,000	6 1/4	25M 96
Total Bonds			\$ 148,000	\$ 148,000	\$	\$ 34,000	\$ 114,000		

Other Long-Term Debt  
 To Whom Payable Security

Liabilities on Capital Lease/Purchase:

Corporation	Copier Equipment	12-21-90	7,718	1,672		1,672	0		Final payment made Sept 1995
Corporation	Copier Equipment	3-02-94	12,789	11,025		2,405	8,620		Payable \$269.14 per month for 5 years.
Corporation	Radio Equipment	5-27-93	323,291	299,870		25,056	274,814		Payable \$45,987 per year for 7 years
Total Other			\$ 312,567	\$ 312,567	\$	\$ 29,133	\$ 283,434		

Totals per General Long-Term Debt Account Group

	\$ 460,567	\$	\$ 63,133	\$ 397,434
	=====	=====	=====	=====

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

NOTE 8 - LONG-TERM DEBT (Continued)

	DATE OF ISSUE	ORIGINAL AMOUNT	BALANCE AT 10-01-94	DEBT INCURRED	DEBT RETIRED	BALANCE AT 09-30-95	INTEREST RATE	MATURITY
<u>Revenue Bonds</u>								
W & S Revenue	3-01-73	\$ 140,000	\$ 20,000	\$	\$ 20,000	\$		0
Total Revenue Bonds per Water and Sewer Fund		\$	20,000	\$	20,000	\$		0

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

NOTE 8 - LONG TERM DEBT (CONTINUED)

The annual requirements to amortize all debt outstanding as of September 30, 1995, including interest of \$119,549 are as follows:

<u>YEAR ENDING SEPTEMBER 30,</u>	<u>NOTES PAYABLE</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>TOTAL</u>
1996	49,056	40,085	89,141
1997	49,056	14,000	63,056
1998	49,056	13,725	62,781
1999	47,779	13,175	60,954
2000	45,987	12,625	58,612
2001	45,987	12,075	58,062
2002	45,987	16,575	62,562
2003	45,987	15,825	61,812
	<u>\$ 378,895</u>	<u>\$ 138,085</u>	<u>\$ 516,980</u>

The ordinances authorizing the issuance of General Obligation Bonds created the Debt Service Fund. All taxes levied and collected for and on account of said bonds are pledged to the Debt Service Fund in amounts authorized by the City Council, but never less than annual maturing interest and principal requirements. \$12,810 is available in the Debt Service Fund to service the general obligation bonds.

NOTE 9 - SEGMENTS OF ENTERPRISE ACTIVITIES

This requirement is effectively met in this report by the combined financial statement presentations because the City maintains only two Enterprise Funds and both are reported individually in the statements.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1995

NOTE 10 - TRANSACTIONS BETWEEN FUNDS

Individual fund interfund receivable and payable balances at September 30, 1995 were as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 24,396	\$ 16
Water & Sewer Fund	0	396
Ambulance Fund	<u>16</u>	<u>24,000</u>
	<u>\$ 24,412</u>	<u>\$ 24,412</u>
	=====	=====

The Water & Sewer Fund paid the General Fund \$123,948 as its share of overhead expense as authorized in the budget. The charges are classified as intergovernmental charges.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A sewer contract with the City of Fort Worth is based on volume and is paid monthly.

A garbage disposal contract with a third party commercial contractor is paid monthly with a portion retained as franchise revenue.

The City is tentatively planning to issue Certificates of Obligation for an estimated \$400,000 to \$600,000 to be used for improvements to water and sewer lines and to purchase a fire truck.

**THIS PAGE LEFT BLANK INTENTIONALLY**

**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINION**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**Proposed Form of Bond Counsel Opinion**

**CITY OF KENNEDALE, TEXAS, COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION  
SERIES 1996, DATED MARCH 1, 1996  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$455,000**

---

AS BOND COUNSEL FOR THE ISSUER (the "Issuer") of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the following rates per annum:

Maturity 1997, 7.50%  
Maturity 1998, 7.50%  
Maturity 1999, 7.45%  
Maturity 2000, 6.50%  
Maturity 2001, 4.80%  
Maturity 2002, 4.90%  
Maturity 2003, 5.05%  
Maturity 2004, 5.15%  
Maturity 2005, 5.30%  
Maturity 2006, 5.45%

payable on February 15, 1997, and semiannually thereafter on each February 15 and August 15. The Certificates mature in serial installments on February 15 in each of the years 1997 through 2006. The Certificates are not subject to redemption prior to maturity.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a limited pledge of the revenues of the Issuer's Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, all as provided in the Ordinance of the Issuer authorizing the issuance of the Certificates.

IN OUR OPINION, except as discussed below, the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Certificates. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

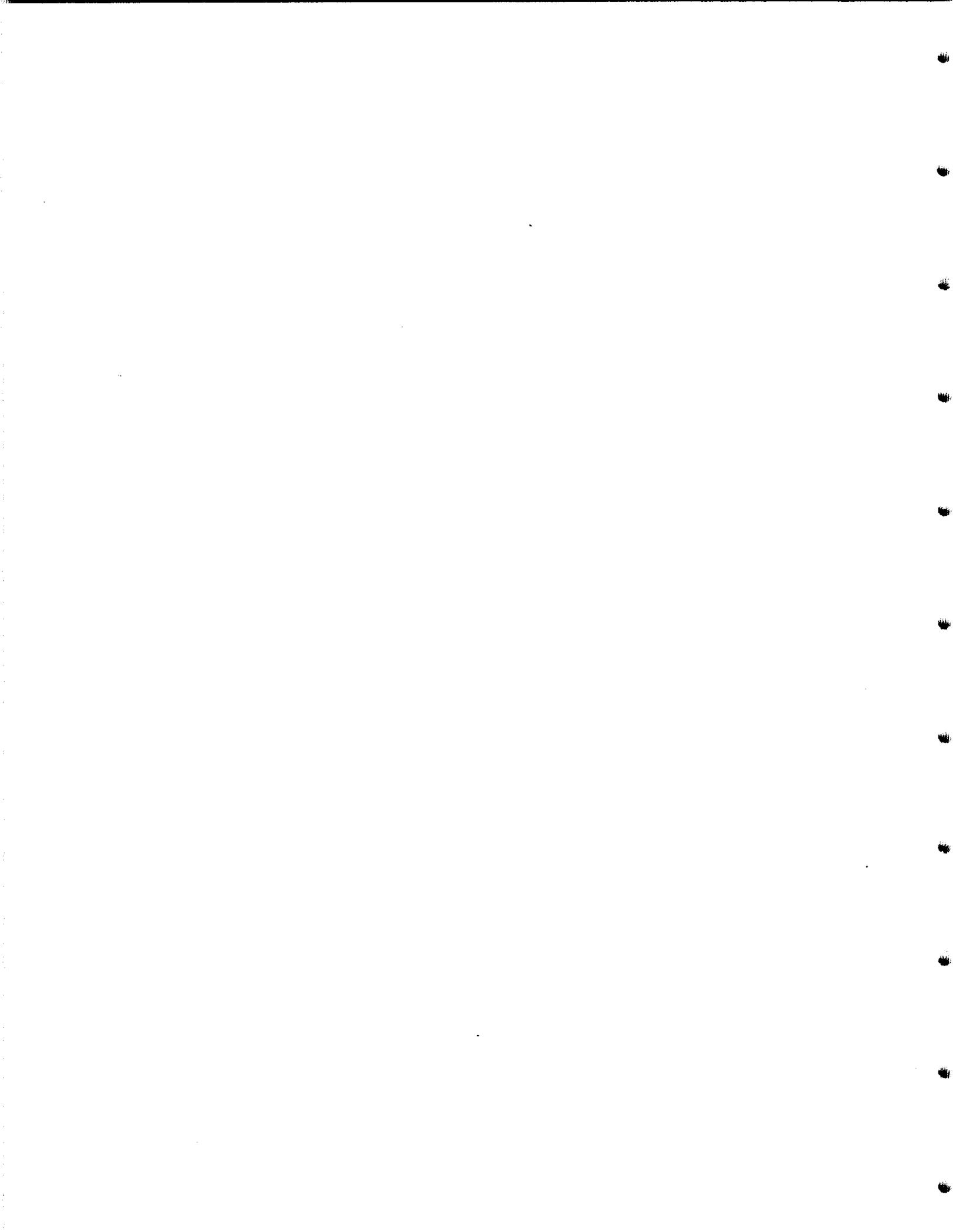
WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax and the environmental tax imposed on corporations by sections 55 and 59A of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income for federal income tax purposes of the interest on the Certificates, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data or other material relating to the financial condition or

capabilities of the Issuer, and have not assumed any responsibility with respect thereto. We have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer.

Respectfully,



GENERAL CERTIFICATE

THE STATE OF TEXAS :  
COUNTY OF TARRANT :  
CITY OF KENNEDALE :

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

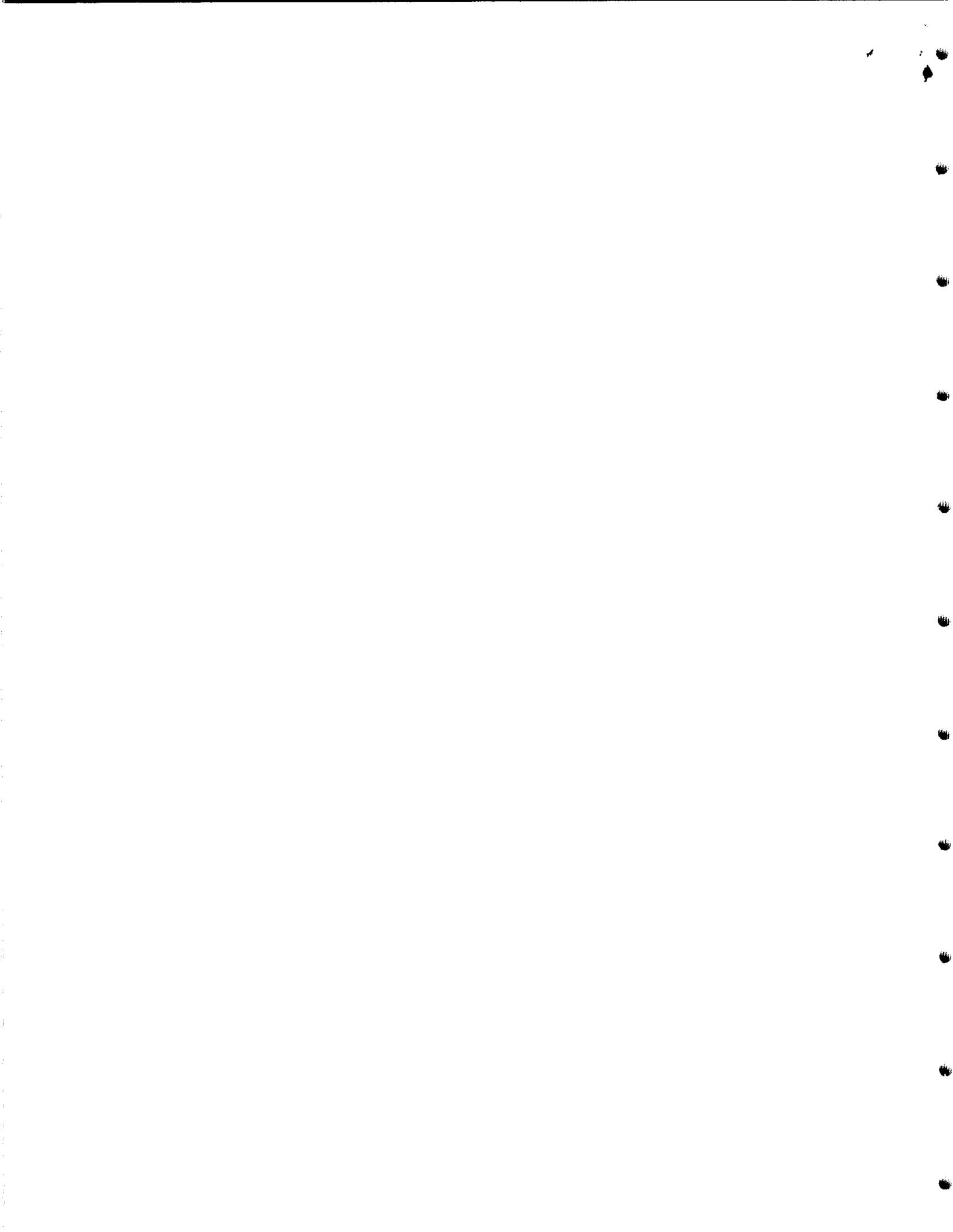
1. That this certificate is executed for and on behalf of said City with reference to the issuance of CITY OF KENNEDALE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 1996, DATED MARCH 1, 1996, IN THE PRINCIPAL AMOUNT OF \$455,000 (the "Certificates").

2. That said City was incorporated; and is now operating and existing under the general laws of the State of Texas as a Type A general law municipality, with an Aldermanic form of government; and that the provisions of Title 28, Revised Civil Statutes of Texas, 1925, as amended, relating to cities and towns, including particularly Chapters 1 through 10 thereof, are applicable to, and have been lawfully accepted or adopted by said City.

3. That no litigation of any nature has ever been filed pertaining to, affecting or contesting: (a) the Ordinance which authorized said City's Certificates described in paragraph 1 of this certificate; (b) the issuance, delivery, payment, security or validity of said Certificates; (c) the authority of the governing body and the officers of said City to issue, execute and deliver said Certificates; (d) the validity of the corporate existence of said City; (e) the current tax rolls of said City; and that no litigation is pending pertaining to, affecting, questioning or contesting the current boundaries of said City.

4. That attached to this certificate and marked Exhibit A, is a true, full and correct debt service schedule for the proposed Certificates, and of the City's outstanding indebtedness which is payable from a pledge of its tax revenues. No default exists in reference to any of the currently outstanding tax-supported indebtedness of the City.

5. That the currently effective ad valorem Tax Rolls of said City are those for the year 1995, being the most recently approved Tax Rolls of said City; that the taxable property in said City has been assessed as required by law; that the Board of Equalization of said City has equalized and approved the valuation of taxable property in said City for said year; that the Tax Assessor of said City has duly verified the aforesaid Tax Rolls, and said Board of Equalization has finally approved the same; and that the assessed value of taxable property in said City upon which the annual ad valorem tax of said City has been levied (after deducting the amount of all exemptions, if any, taken or required to be given under the Constitution and laws of the State of Texas), according to the aforesaid Tax Rolls for said year, as delivered to the City Secretary, and finally approved and recorded by the City Council of said City, is \$155,180,766.



6. That no petition protesting the issuance of the Certificates and requesting a referendum election has been received.

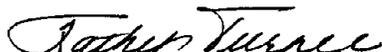
7. That none of the revenues or income of said City's Waterworks and Sewer System are pledged or encumbered to the payment of any debt or obligation of said City or said Waterworks and Sewer System, except in connection with the aforesaid proposed Certificates.

8. That the City's current water and sewer rates are set forth in Exhibit B attached hereto.

9. That the following is a true, full and correct schedule of the income and expenses of the Waterworks and Sewer System for the most recent three years for which audited financial information is available, to wit:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Income	\$963,731	\$884,418	\$926,061
Expenses	<u>832,106</u>	<u>755,744</u>	738,217
Net Revenues	<u>\$131,625</u>	<u>\$128,674</u>	<u>\$187,844</u>

SIGNED AND SEALED this the 17<sup>th</sup> day of April, 1996.

  
\_\_\_\_\_  
City Secretary

  
\_\_\_\_\_  
Mayor

(SEAL)

**EXHIBIT A**

**CITY OF KENNEDALE, TEXAS**  
**\$455,000 Combination Tax and Revenue Certificates of Obligation, Series 1996**  
**Total Debt Service**

Fiscal Year	Outstanding Debt			This \$455,000 Issue			Total Debt Service Requirements
	Ending 9/30	Principal	Interest	Total	Principal	Interest	
1996	\$ 34,000	\$ 6,086	\$ 40,086				\$ 40,086
1997	10,000	4,000	14,000	\$ 25,000	\$ 37,533	\$ 62,533	76,533
1998	10,000	3,725	13,725	40,000	23,055	63,055	76,780
1999	10,000	3,175	13,175	40,000	20,065	60,065	73,240
2000	10,000	2,625	12,625	45,000	17,113	62,113	74,738
2001	10,000	2,075	12,075	45,000	14,570	59,570	71,645
2002	15,000	1,575	16,575	45,000	12,388	57,388	73,963
2003	15,000	825	15,825	50,000	10,023	60,023	75,848
2004				50,000	7,473	57,473	57,473
2005				55,000	4,728	59,728	59,728
2006				60,000	1,635	61,635	61,635
	<u>\$ 114,000</u>	<u>\$ 24,086</u>	<u>138,086</u>	<u>\$ 455,000</u>	<u>\$ 148,580</u>	<u>\$ 603,580</u>	<u>\$ 741,666</u>

EXHIBIT B

CURRENT WATER AND SEWER RATES

MONTHLY WATER RATES (EFFECTIVE SEPTEMBER 14, 1995)

	Inside City Limits		Outside City Limits		Homeowners 65 and Older and/or Disabled Persons	
First 2,000 gallons	\$7.00	(Minimum)	\$22.06	(Minimum)	\$4.30	(Minimum)
Over 2,000 gallons	\$2.59	Per 1,000 gallons	\$3.00	Per 1,000 gallons	\$2.25	Per 1,000 gallons

HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9-30	Daily Average	Total Usage	Water Revenue
1991	505,795	184,615,000	\$ 457,649
1992	505,829	184,127,600	475,768
1993	592,725	216,344,512	556,075
1994	538,810	196,665,500	507,493
1995	582,451	212,544,700	546,755

MONTHLY SEWER RATES (EFFECTIVE SEPTEMBER 14, 1995) <sup>(1)</sup>

Inside City Limits	
Residential	Homeowners over 65 and/or Disabled
Basic Charge: \$6.00 plus \$1.00 per 1,000 gallons	Basic Charge: \$3.00 plus \$0.92 per 1,000 gallons

Commercial	
Meter Size	Basic Charge <sup>(2)</sup>
3/4" & 1"	\$6.00
1-1/2"	7.15
2"	8.50
3"	11.70
4"	16.40

(1) Outside City rates - double City rate.

(2) Plus \$1.00 per 1,000 gallons.

**SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE**

<b>THE STATE OF TEXAS</b>	<b>§</b>
<b>COUNTY OF TARRANT</b>	<b>§</b>
<b>CITY OF KENNEDALE</b>	<b>§</b>

We, the undersigned officers of the City of Kennedale, Texas (the "Issuer"), hereby certify as follows:

(a) That this certificate is executed and delivered with reference to CITY OF KENNEDALE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 1996, dated March 1, 1996, in the principal amount of \$455,000 (the "Certificates").

(b) That we officially executed and signed said Certificates with our manual signatures or by causing facsimiles of our manual signatures to be imprinted or lithographed on each of said Certificates, and, if appropriate, we hereby adopt said facsimile signatures as our own, respectively, and declare that said facsimile signatures constitute our signatures the same as if we had manually signed each of said Certificates.

(c) That said Certificates are substantially in the form, and have been duly executed and signed in the manner, prescribed in the Ordinance authorizing the issuance of said Certificates.

(d) That at the time we so executed and signed said Certificates we were, and at the time of executing this certificate we are, the duly chosen, qualified and acting officers indicated therein, and authorized to execute the same.

(e) That no litigation of any nature has been filed or is now pending to restrain or enjoin the issuance or delivery of said Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the proceedings or authority concerning the issuance of the Certificates, and that so far as we know and believe no such litigation is threatened.

(g) That neither the corporate existence nor boundaries of the Issuer is being contested, that no litigation has been filed or is now pending which would affect the authority of the officers of the Issuer to issue, execute, sign, and deliver said Certificates, and that no authority or proceedings for the issuance of said Certificates have been repealed, revoked or rescinded.

(h) That we have caused the official seal of the Issuer to be impressed, or printed, or lithographed on said Certificates; and said seal on said Certificates has been duly adopted as, and is hereby declared to be, the official seal of the Issuer.

EXECUTED and delivered this APR 17 1998

<u>MANUAL SIGNATURES</u>	<u>OFFICIAL TITLES</u>
<u>Bill Abbott</u>	Mayor
<u>Fathy Turner</u>	City Secretary

Execute either I or II below:

I. The signatures of the officers subscribed above are hereby certified to be true and genuine.

\_\_\_\_\_

Bank

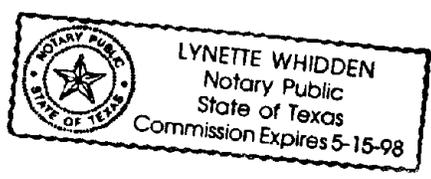
By \_\_\_\_\_

Authorized Officer

(BANK SEAL) or (Initials of Authorized Officer if Bank has no seal on premises \_\_\_\_\_)

II. Before me, on this day personally appeared the foregoing individuals, known to me to be the persons whose names are subscribed to the foregoing instrument.

Given under my hand and seal of office this \_\_\_\_\_.



Lynette Whidden

Notary Public

(My Commission Expires 5-15-98)

(Notary Seal)

**CLOSING CERTIFICATE**

THE STATE OF TEXAS :  
COUNTY OF TARRANT :  
CITY OF KENNEDALE :

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

1. That this certificate is executed for and on behalf of said City with reference to the issuance of the CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 1996, DATED MARCH 1, 1996, in the principal amount of \$455,000. This certificate is given in accordance with Section 8(e)(5) of the Purchase Contract dated March 14, 1996 by and between the City and Service Asset Management Company (the "Purchase Contract"). All capitalized terms used, but not defined, herein shall have the meaning given in the Purchase Contract.

2. That, to the best of our knowledge and belief:

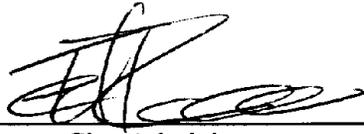
(i) the representations and warranties of the City contained in the Purchase Contract are true and correct in all material respects on and as of the date hereof as if made on the date hereof;

(ii) except to the extent disclosed in the Official Statement, no litigation is pending or, to our knowledge, threatened in any court to restrain or enjoin the issuance or delivery of the Certificates, or the levy, collection or application of the ad valorem taxes or other revenues pledged or to be pledged to pay the principal of and interest on the Certificates, or pledge thereof, or in any way contesting or affecting the validity or authorization of the Certificates, the Ordinance or the Purchase Contract, or contesting the creation, organization, existence or powers of the City, or contesting in any way the accuracy, completeness or fairness of the Official Statement;

(iii) no event affecting the City has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and

(iv) that, except as disclosed in the Official Statement, there has not been any material and adverse change in the affairs or financial condition of the City since the latest date as to which audited financial information is available.

SIGNED AND SEALED this 17 day of April, 1996



---

City Administrator



---

Mayor

Norwest Bank Texas, N.A.  
1601 Elm Street, Suite 4300  
Dallas, Texas 75201

Attention: Corporate Trust Department

Re: City of Kennedale, Texas, Combination Tax and Revenue Certificates of  
Obligation, Series 1996, \$455,000

Ladies and Gentlemen:

The issuer and the purchaser of the captioned series of Certificates have designated your bank as the place, and as their agent, for the delivery and payment of the Certificates. Upon notice of their registration, you are hereby authorized and directed to receive the Certificates from the Public Finance Division of the Office of the Comptroller of Public Accounts, and to hold the Certificates for safekeeping pending said delivery and payment.

Upon your receipt of the final unqualified approving legal opinion of McCall, Parkhurst & Horton L.L.P. as to the validity of the Certificates, you are authorized and directed to deliver the Certificates to the purchasers thereof, Service Asset Management Company, when you have received payment for the Certificates, in immediately available funds, at a price of \$455,012.20 plus accrued interest to the date of delivery, in the amount of \$3,377.17.

You are further authorized and directed to remit all of the aforesaid proceeds received from the delivery and payment of the Certificates, immediately upon receipt, and by the fastest means available, to the credit of the issuer of the Certificates, at its official depository, as follows:

Central Bank and Trust,  
Kennedale, Texas

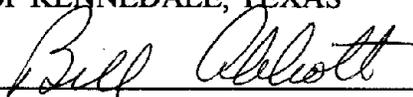
Enclosed herewith are signed but undated copies of each of the RECEIPT FOR PROCEEDS, SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE and CLOSING CERTIFICATE for said series of Certificates. You are hereby authorized and directed to date each of said documents concurrently with the date of delivery of and payment for the Certificates.

If any litigation or contest should develop or be filed, or if any event should occur, or any knowledge should come to our attention, which would change or affect the veracity of the statements and representations contained in any of said documents, the undersigned will notify you thereof immediately by telephone and telegraph. With this assurance you can rely on the absence of any such litigation, contest, event, or knowledge, and on the veracity and currency of each of said documents at the time of delivery of and payment for the Certificates, unless you are notified otherwise as aforesaid. After each of said documents has been dated in accordance with the foregoing instructions, please send all of them to McCall, Parkhurst & Horton L.L.P.

Sincerely yours,

CITY OF KENNEDALE, TEXAS

By

A handwritten signature in cursive script, appearing to read "Bill Elliott", is written over a horizontal line.

Mayor

## RECEIPT FOR PROCEEDS

THE STATE OF TEXAS                   §  
COUNTY OF TARRANT                 §  
CITY OF KENNEDALE                   §

The undersigned hereby certifies as follows:

- (a) That this certificate is executed and delivered with reference to  
City of Kennedale, Texas, Combination Tax and Revenue Certificates of  
Obligation, Series 1996, dated March 1, 1996, in the aggregate principal  
amount of \$455,000.
- (b) That the undersigned is duly qualified to execute this receipt on behalf of  
the issuer for the proceeds of the Certificates of Obligation.
- (c) That said Certificates of Obligation have been duly delivered to the  
purchaser thereof, Service Asset Management Company.
- (d) That said Certificates of Obligation have been paid for in full by said  
purchasers concurrently with the delivery of this certificate, and the issuer of said  
Certificates of Obligation has received, and hereby acknowledges receipt of, the agreed  
purchase price for said Certificates of Obligation, being \$455,012.20 plus accrued  
interest in the amount of \$ 3,377.17.

EXECUTED and delivered this 17 day of April, 1996

  
\_\_\_\_\_  
Mayor

March 14, 1996

The Attorney General of Texas  
Public Finance Division  
300 W. 15th Street, 10th Floor  
Austin, Texas 78701

The Comptroller of Public Accounts  
Public Finance Division  
Capitol Station  
Austin, Texas 78774

Re: City of Kennedale, Texas Combination Tax and Revenue Certificates of  
Obligation, Series 1996, \$455,000

*To the Attorney General:*

The initial certificates of the captioned issue of Certificates of Obligations are being sent to your office, and it is requested that you examine and approve the Certificates in accordance with law. After such approval, please deliver the Certificates to the Comptroller of Public Accounts for registration.

Enclosed herewith are signed but undated copies of the SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE for said Certificates. You are hereby authorized and directed to date said CERTIFICATE concurrently with the date of approval of the Certificates. If any litigation or contest should develop pertaining to the Certificates or any other matters covered by said CERTIFICATE, the undersigned will notify you thereof immediately by telephone. With this assurance you can rely on the absence of any such litigation or contest, and on the veracity and currency of said CERTIFICATE, at the time you approve the Certificates, unless you are notified otherwise as aforesaid.

*To the Comptroller of Public Accounts:*

The approved Certificates of the captioned series will be delivered to you by the Attorney General of Texas. You are hereby requested to register the Certificates as required by law and by the proceedings authorizing the Certificates.

After such registration you are hereby authorized and directed to ship the Certificates together with four copies of each the Attorney General's Approving Opinion and the Comptroller's Registration Certificate by overnight delivery service to: McCall, Parkhurst & Horton L.L.P., 717 North Harwood, Ninth Floor, Dallas, Texas 75201, Attention: Dan S. Culver.

Your statement for service should be sent to: First Southwest Company, 1700 Pacific Avenue, 5th Floor, Dallas, Texas 75201, Attention: Jason Wilcox.

Sincerely yours,

CITY OF KENNEDALE, TEXAS

By Bill Abbott  
Mayor

## NO-ARBITRAGE CERTIFICATE

### 1. In General.

1.1. The undersigned is the Mayor of the City of Kennedale, Texas (the "Issuer").

1.2. This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Issuer's Combination Tax and Revenue Certificates of Obligation, Series 1996 (the "Certificates"). The Certificates are being issued pursuant to an ordinance of the Issuer (the "Ordinance") adopted on the date of sale of the Certificates. The Ordinance is incorporated herein by reference.

1.3. To the best of the undersigned's knowledge, information and belief, the expectations contained in this Certificate are reasonable.

1.4. The undersigned is an officer of the Issuer delegated with the responsibility of issuing and delivering the Certificates.

1.5. The undersigned is not aware of any facts or circumstances that would cause him to question the accuracy of the representations made by Service Asset Management Company (the "Purchaser") in Section 5 of this Certificate.

### 2. The Purpose of the Certificates.

2.1. The Certificates are being issued pursuant to the Ordinance (a) to provide for the payment of costs of issuing the Certificates, and (b) to pay, in whole or in part, contractual obligations for the acquisition of a fire truck and acquisition and construction of certain improvements for its water system, including the acquisition of well control equipment and the relocation of water lines in the Issuer (the "Project").

2.2. All earnings, such as interest and dividends, received from the investment of the proceeds of the Certificates during the period of acquisition and construction of the Project and not used to pay interest on the Certificates, will be used to pay the costs of the Project, unless required to be rebated and paid to the United States in accordance with section 148(f) of the Internal Revenue Code of 1986 (the "Code").

2.3. The proceeds of the Certificates, together with any investment earnings thereon, are expected not to exceed the amount necessary for the governmental purpose of the Certificates.

### 3. Temporary Period and Hedge Bond.

3.1. The Issuer will incur, within six months after the date of issue of the Certificates, a binding obligation to commence the Project, either by entering into contracts for the construction of the Project or by entering into contracts for architectural or engineering services for such Project, or contracts for the development, purchase of construction materials, or purchase of equipment, for the Project, with the amount to be paid under such contracts to be in excess of five percent of the proceeds which are estimated to be used for the cost of the Project.

3.2. After entering into binding obligations, work on such Project will proceed promptly with due diligence to completion.

3.3. All original proceeds derived from the sale of the Certificates to be applied to the Project and all investment earnings thereon (other than any amounts required to be rebated to the United States pursuant to section 148(f) of the Code) will be expended for the Project no later than a date which is three years after the date of issue of the Certificates.

3.4. The Issuer will not invest the proceeds in any guaranteed investment contract or other nonpurpose investment with a substantially guaranteed yield for a period equal to or greater than four years.

4. Interest and Sinking Fund.

4.1. A separate and special Interest and Sinking Fund has been created and established solely to pay the principal of and interest on the Certificates, with a portion of the Interest and Sinking Fund constituting a bona fide debt service fund for the Certificates, and money deposited into the Interest and Sinking Fund for the Certificates will not be invested at a yield higher than the yield on the Certificates, except during the thirteen month period beginning on the date of each such deposit of money, and the amounts received from the investment of money in the Interest and Sinking Fund will not be invested at a yield higher than the yield on the Certificates, except during the one year period beginning on the date of receipt of such amounts; provided, however, and except that, if any money so deposited, and any amounts received from the investment thereof, are accumulated in the Interest and Sinking Fund and remain on hand in the Interest and Sinking Fund after thirteen months from the date of deposit of any such money or one year after the receipt of any such amounts from the investment thereof, such money and amounts, to the extent of an aggregate not exceeding the lesser of 5 percent of the proceeds of the Certificates or \$100,000 will not be subject to investment yield restrictions, and shall constitute a separate portion of the Interest and Sinking Fund.

4.2. It is expected that a portion of the Interest and Sinking Fund will be used primarily to achieve a proper matching of revenues collected for the Certificates and debt service on the Certificates within each bond year, and it is expected that such portion of the Interest and Sinking Fund will be depleted once a year on a first-in - first-out basis, except for a possible carryover amount which will not exceed the greater of one year's earnings on such fund or 1/12 of annual debt service payable from such fund, but any money and amounts which may be accumulated in the Interest and Sinking Fund, to constitute a debt service reserve fund for the Certificates as described in Section 4.1, above, shall constitute a separate portion of the Interest and Sinking Fund, and will not be depleted annually, and will not be subject to yield restrictions; provided that in no event will such debt service reserve fund portion of the Interest and Sinking Fund ever exceed the lesser of 5 percent of the proceeds of the Certificates or \$100,000.

5. Yield.

All of the Certificates have been the subject of a bona fide initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices no higher or at yields no lower than that shown on the cover of the Official Statement. At least 10 percent of the principal amount of each maturity of the Certificates were sold to the public (excluding such bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at an initial offering price or yield not greater than the price or

not lower than the yield shown on the cover of the Official Statement for such maturity. The Official Statement is included in the transcript for the Certificates and is incorporated herein by reference.

6. Invested Sinking Fund Proceeds, Replacement Proceeds.

6.1. The Issuer has, in addition to the moneys received from the sale of the Certificates, certain other moneys that are invested in various funds which are pledged for various purposes. These other funds are not available to accomplish the purposes described in Section 2 of this Certificate.

6.2. Other than the Interest and Sinking Fund, there are, and will be, no other funds or accounts established, or to be established, by or on behalf of the Issuer (a) which are reasonably expected to be used, or to generate earnings to be used, to pay debt service on the Certificates, or (b) which are reserved or pledged as collateral for payment of debt service on the Certificates and for which there is reasonable assurance that amounts therein will be available to pay such debt service if the Issuer encounters financial difficulties. Accordingly, there are no other amounts constituting "gross proceeds" of the Certificates, within the meaning of section 148 of the Code.

7. Other Obligations.

There are no other obligations of the Issuer which (a) are sold at substantially the same time as the Certificates (i.e., within 15 days of the date of sale of the Certificates), (b) are sold pursuant to a common plan of financing with the Certificates, and (c) will be payable from the same source of funds as the Certificates.

8. Rebate to United States.

The Issuer has covenanted in the Ordinance that it will comply with the requirements of the Code, including section 148(f) of the Code, relating to the required rebate to the United States. Specifically, the Issuer will take steps to ensure that all earnings on gross proceeds of the Certificates in excess of the yield on the Certificates required to be rebated to the United States will be timely paid to the United States. The Issuer acknowledges receipt of the memorandum attached hereto as Exhibit "A" which discusses regulations promulgated pursuant to section 148(f) of the Code. This memorandum does not constitute an opinion of Bond Counsel as to the proper federal tax or accounting treatment of any specific transaction.

**[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.]**

DATED: April 17, 1996

CITY OF KENNEDALE, TEXAS

By: Bill Abbott  
Mayor

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Section 5 of this No-Arbitrage Certificate are accurate.

SERVICE ASSET MANAGEMENT COMPANY

By: Bill Abbott

**Exhibit "A"**

LAW OFFICES

**MCCALL, PARKHURST & HORTON L.L.P.**

3100 ONE AMERICAN CENTER

AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

717 NORTH HARWOOD

NINTH FLOOR

DALLAS, TEXAS 75201-6587

TELEPHONE: 214 220-2800

FACSIMILE: 214 754-9250

1225 ONE RIVERWALK PLACE

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2984

January 1, 1995

**ARBITRAGE REBATE REGULATIONS**

The Tax Reform Act of 1986 amended the provisions of the Internal Revenue Code by providing a newly-enacted section 148(f) of the Internal Revenue Code of 1986 (the "Code"), relating to arbitrage rebate. This arbitrage rebate requirement generally provides that in order for interest on any issue of obligations to be excluded from gross income (i.e., tax-exempt) the issuer must rebate to the United States the sum of, (1) the excess of the amount earned on all "nonpurpose investments" acquired with "gross proceeds" of the issue over the amount which would have been earned if such investments had been invested at a yield equal to the yield on the issue, and (2) the earnings on such excess earnings. These rules are substantially similar to the rules which, prior to the Tax Reform Act of 1986, applied to industrial development bonds and mortgage revenue bonds.

Section 148(f) of the Code has been amended by several subsequent tax acts, most notably, the Revenue Reconciliation Acts of 1989 and 1990. These amendments primarily provided a special exception to rebate for certain construction issues, as discussed under the heading "Exceptions to Rebate."

On June 18, 1993, the U.S. Treasury Department promulgated regulations relating to the computation of arbitrage rebate and the rebate exceptions. These regulations, which replace the previously-published regulations promulgated on May 15, 1989, and on May 18, 1992, are effective for bonds issued after June 30, 1993. These newly-promulgated regulations also replace the arbitrage regulations, other than those relating to rebate, which were published in 1978. This memorandum was prepared by McCall, Parkhurst & Horton L.L.P. and provides a general discussion of the arbitrage rebate regulations. This memorandum does not otherwise discuss the general arbitrage regulations, other than as they may incidentally relate to rebate. This memorandum also does not attempt to provide an exhaustive discussion of the arbitrage rebate regulations and should not be considered advice with respect to the arbitrage rebate requirements as applied to any individual or governmental unit or any specific transaction. McCall, Parkhurst & Horton L.L.P. remains available to provide legal advice to issuers with respect to the provisions of these tax regulations but recommends that issuers seek competent

financial and accounting assistance in calculating the amount of such issuer's rebate liability under section 148(f) of the Code and in making elections to apply the rebate exceptions.

In this memorandum the word "bond" is defined to include any bond, note, certificate, financing lease or other obligation of an issuer.

### Effective Dates

The regulations promulgated on June 18, 1993, generally apply to bonds delivered after June 30, 1993, but, as discussed below, also permit an issuer to elect to apply the newly-promulgated rules to bonds issued prior to that date. The temporary regulations adopted by the U.S. Treasury Department in 1989 and 1992 incorporated the same effective dates which generally apply for purposes of section 148(f) of the Code. The statutory provisions of section 148(f) of the Code, other than the exception for construction issues, apply to all bonds issued after August 15, 1986, (for private activity bonds) and August 31, 1986, (for governmental public purpose bonds). As such, the previous versions of the rebate regulations generally applied to bonds issued between August 1986 and June 30, 1993 (or, with an election, to bonds issued prior to August 15, 1993). The statutory exception to rebate applicable to construction issues generally applies to such issues if delivered after December 19, 1989.

The newly-promulgated regulations provide numerous transitional rules for bonds sold prior to July 1, 1993. Moreover, since, under prior law, rules were previously published with respect to industrial development bonds and mortgage revenue bonds, the transitional rules contained in these newly-promulgated regulations permit an issuer to elect to apply certain of these rules for computing rebate on pre-1986 bonds. The regulations provide for numerous elections which would permit an issuer to apply the newly-promulgated rules (other than 18-month spending exception) to bonds which were issued prior to July 1, 1993 and remain outstanding on June 30, 1993. Due to the complexity of the regulation, it is impossible to discuss in this memorandum all circumstances for which specific elections are provided. If an issuer would prefer, in certain circumstances, to use the newly-promulgated regulations in lieu of the computational method stated under prior law (e.g., due to prior redemption) or the previously-published regulations, please contact McCall, Parkhurst & Horton L.L.P. for advice as to the availability of such options.

### Future Value Computation Method

The regulations employ an actuarial method for computing the rebate amount based on the future value of the investment receipts (i.e., earnings) and payments. The rebate method employs a two-step computation to determine the amount of the rebate payment. First, the issuer determines the bond yield. Second, the issuer determines the arbitrage rebate amount. The regulations require that the computations be made at the end of each five-year period and upon final maturity of the issue (the "computation dates"). **THE FINAL MATURITY DATE WILL ACCELERATE IN CIRCUMSTANCES IN WHICH THE BONDS ARE OPTIONALLY REDEEMED PRIOR TO MATURITY. AS SUCH, IF BONDS ARE REFUNDED OR OTHERWISE REDEEMED, THE REBATE MAY BE DUE EARLIER THAN INITIALLY PROJECTED.** In order to accommodate accurate record-keeping and to assure that sufficient amounts will be available for the payment of arbitrage rebate liability, however, we recommend that the computations be performed at least annually.

Under the future value method, the amount of rebate is determined by compounding the aggregate earnings on all the investments from the date of receipt by the issuer to the computation date. Similarly, a payment for an investment is future valued from the date that the payment is made to the computation date. The receipts and payments are future valued at a discount rate equal to the yield on the bonds. The rebatable arbitrage, as of any computation date, is equal to the excess of the (1) future value of all receipts (i.e., earnings) from investments, over (2) the future value of all payments.

The following example is provided in the regulations to illustrate how arbitrage rebate is computed under the future value method for a fixed-yield bond:

"On January 1, 1994, City A issues a fixed yield issue and invests all the sale proceeds of the issue (\$49 million). There are no other gross proceeds. The issue has a yield of 7.0000 percent per year compounded semiannually (computed on a 30 day month/360 day year basis). City A receives amounts from the investment and immediately expends them for the governmental purpose of the issue as follows:

<u>Date</u>	<u>Amount</u>
2/1/1994	\$3,000,000
4/1/1994	5,000,000
6/1/1994	14,000,000
9/1/1994	20,000,000
7/1/1995	10,000,000

City A selects a bond year ending on January 1, and thus the first required computation date is January 1, 1999. The rebate amount as of this date is computed by determining the future value of the receipts and the payments for the investment. The compounding interval is each 6-month (or shorter) period and the 30 day month/360 day year basis is used because these conventions were used to compute yield on the issue. The future value of these amounts, plus the computation credit, as of January 1, 1999, is:

<u>Date</u>	<u>Receipts (Payments)</u>	<u>FY (7.0000 percent)</u>
1/1/1994	(\$49,000,000)	(\$69,119,339)
2/1/1994	3,000,000	4,207,602
4/1/1994	5,000,000	6,932,715
6/1/1994	14,000,000	19,190,277
9/1/1994	20,000,000	26,947,162
1/1/1995	(1,000)	(1,317)
7/1/1995	10,000,000	12,722,793
1/1/1996	(1,000)	(1,229)
Rebate amount (1/01/1999)		<u>\$878,664"</u>

## General Method for Computing Yield on Bonds

In general, the term "yield," with respect to a bond, means the discount rate that when used in computing the present value of all unconditionally due payments of principal and interest and all of the payments for a qualified guarantee produces an amount equal to the present value of the issue price of the bond. For this purpose, the term "issue price" has the same meaning as provided in sections 1273 and 1274 of the Code. That is, if bonds are publicly offered (i.e., sold by the issuer to a bond house, broker or similar person acting in the capacity of underwriter or wholesaler), the issue price of each bond is determined on the basis of the initial offering price to the public (not to the aforementioned intermediaries) at which price a substantial amount of such bond was sold to the public (not to the aforementioned intermediaries). The "issue price" is separately determined for each bond (i.e., maturity) which comprises an issue.

The regulations also provide varying periods for computing yield on the bonds depending on the method by which the interest payment is determined. Thus, for example, yield on an issue of bonds sold with variable interest rates (i.e., interest rates which are reset periodically based on changes in market) is computed separately for each annual period ending on the first anniversary of the delivery date that the issue is outstanding. In effect, yield on a variable yield issue is determined on each computation date by "looking back" at the interest payments for such period. The regulations, however, permit an issuer of a variable-yield issue to elect to compute the yield for annual periods ending on any date in order to permit a matching of such yield to the expenditure of the proceeds. Any such election must be made in writing, is irrevocable, and must be made no later than the earlier of (1) the fifth anniversary date, or (2) the final maturity date.

Yield on a fixed interest rate issue (i.e., an issue of bonds the interest rate on which is determined as of the date of the issue) is computed over the entire term of the issue. Issuers of fixed-yield issues generally use the yield computed as of the date of issue for all rebate computations. Such yield on fixed-yield issues generally is recomputed only if (1) the issue is sold at a substantial premium, may be retired within five years of the date of delivery, and such date is earlier than its scheduled maturity date, or (2) the issue is a stepped-coupon bond. In such cases, the regulations require the issuer to recompute the yield on such issues by taking into account the early retirement value of the bonds. Similarly, recomputation occurs in circumstances in which the issuer or bondholder modify or waive certain terms of, or rights with respect to, the issue or in sophisticated hedging transactions. IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.

For purposes of determining the principal or redemption payments on a bond, different rules are used for fixed-rate and variable-rate bonds. The payment is computed separately on each maturity of bonds rather than on the issue as a whole. In certain circumstances, the yield on the bond is determined by assuming that principal on the bond is paid as scheduled and that the bond is retired on the final maturity date for the stated retirement price. For bonds subject to early redemption or stepped-coupon bonds, described above, or for bonds subject to mandatory early redemption, the yield is computed assuming the bonds are paid on the early redemption date for an amount equal to their value.

Section 148 of the Code provides that premiums paid to guarantee the payment of debt service on bonds are taken into account in computing the yield on the bond. Payments for

guarantees are taken into account by treating such premiums as the payment of interest on the bonds. This treatment, in effect, raises the yield on the bond, thereby permitting the issuer to recover such fee with excess earnings.

The guarantee must be an unconditional obligation of the guarantor enforceable by the bondholder for the payment of principal or interest on the bond or the tender price of a tender bond. The guarantee may be in the form of an insurance policy, surety bond, irrevocable letter or line of credit, or standby purchase agreement. Importantly, the guarantor must be legally entitled to full reimbursement for any payment made on the guarantee either immediately or upon commercially reasonable repayment terms. The guarantor may not be a co-obligor of the bonds or a user of more than 10 percent of the proceeds of the bonds.

Payments for the guarantee may not exceed a reasonable charge for the transfer of credit risk. This reasonable charge requirement is not satisfied unless it is reasonably expected that the guarantee will result in a net present value savings on the bond (i.e., the premium does not exceed the present value of the interest savings resulting by virtue of the guarantee). If the guarantee is entered into after June 14, 1989, then any fees charged for the nonguarantee services must be separately stated or the guarantee fee is not recoverable.

The regulations also treat certain "hedging" transactions in a manner similar to qualified guarantees. "Hedges" are contracts, e.g., interest rate swaps, futures contracts or options, which are intended to reduce the risk of interest rate fluctuations. Hedges and other financial derivatives are sophisticated and ever-evolving financial products with which a memorandum, such as this, can not readily deal. IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.

#### Earnings on Nonpurpose Investments

The arbitrage rebate provisions apply only to the receipts from the investment of "gross proceeds" in "nonpurpose investments." For this purpose, nonpurpose investments are stock, bonds or other obligations acquired with the gross proceeds of the bonds for the period prior to the use of the gross proceeds for its ultimate purpose. For example, investments deposited to construction funds, reserve funds (including surplus taxes or revenues deposited to sinking funds) or other similar funds are nonpurpose investments. Such investments include only those which are acquired with "gross proceeds." For this purpose, "gross proceeds" include original proceeds received from the sale of the bonds, investment earnings from the investment of such original proceeds, amounts pledged to the payment of debt service on the bonds or amounts actually used to pay debt service on the bonds. The regulations do not provide sufficient amount of guidance to include an exhaustive list of "gross proceeds" for this purpose; however, it can be assumed that "gross proceeds" represent all amounts received from the sale of bonds, amounts earned as a result of such sale or amounts (including taxes and revenues) which are used to pay, or secure the payment of, debt service for the bonds. The total amount of "gross proceeds" allocated to a bond generally can not exceed the outstanding principal amount of the bonds.

The regulations provide generally that an investment is allocated to an issue for the period (1) that begins on the date gross proceeds are used to acquire the investment, and (2) that ends on the date such investment ceases to be allocated to the issue. In general, proceeds are

allocated to a bond issue until expended for the ultimate purpose for which the bond was issued or for which such proceeds are received (e.g., construction of a bond-financed facility or payment of debt service on the bonds). Deposit of gross proceeds to the general fund of the issuer (or other fund in which they are commingled with revenues or taxes) does not alleviate the obligation to compute rebate in most cases. As such, proceeds commingled with the general revenues of the issuer are not "freed-up" from the rebate obligation. An exception to this commingling limitation for bonds, other than private activity bonds, permits "investment earnings" (but not sale proceeds or other types of gross proceeds) to be considered spent when deposited to a commingled fund if those amounts are reasonably expected to be spent within six months. Other than for these amounts, issuers may consider segregating investments in order to more easily compute the amount of such arbitrage earnings by not having to allocate investments.

Special rules are provided for purposes of advance refundings. These rules are too complex to discuss in this memorandum. Essentially, the rules relating to refundings, however, do not require that amounts deposited to the escrow fund to defease the prior obligations of the issuer be subject to arbitrage rebate to the extent that the investments deposited to the escrow fund do not have a yield in excess of the yield on the bonds. Any loss resulting from the investment of proceeds in an escrow fund below the yield on the bonds, however, may be recovered by combining those investments with investments deposited to other funds, e.g., reserve or construction funds.

The arbitrage regulations also provide that the investment of bond proceeds in tax-exempt obligations does not result in arbitrage. The provisions of the Technical and Miscellaneous Revenue Act of 1988, however, amended that rule by providing that investment of bond proceeds in "private activity bonds" (i.e., bonds subject to the alternative minimum tax under section 57(a)(5) of the Code) are treated as investments in taxable obligations. As such, earnings from these tax-exempt investments are subject to rebate.

Similarly, the investment of gross proceeds in certain tax-exempt mutual funds are treated as a direct investment in the tax-exempt obligations deposited in such fund. While issuers may invest in such funds for purposes of avoiding arbitrage rebate, they should be aware that if "private activity bonds" are included in the fund then a portion of the earnings will be subject to arbitrage rebate. Issuers should be prudent in assuring that the funds do not contain private activity bonds.

The arbitrage regulations provide a number of instances in which earnings will be imputed to the nonpurpose investments. Receipts generally will be imputed to investments that do not bear interest at an arm's-length (i.e., market) interest rate. As such, the regulations adopt a "market price" rule. In effect, this rule prohibits an issuer from investing bond proceeds in investments at a price which is higher than the market price of comparable obligations, in order to reduce the yield. Special rules are included for determining the market price for investment contracts, certificates of deposit and certain U.S. Treasury obligations. For example, to establish the fair market value of investment contracts a bidding process between three qualified bidders must be used. The fair market value of certificates of deposit which bear a fixed interest rate and are subject to an early withdrawal penalty is its purchase price if that price is not less than the yield on comparable U.S. Treasury obligations and is the highest yield available from the institution. In any event, a basic "common sense" rule-of-thumb that can be used to determine whether a fair market value has been paid is to ask whether the general funds of the issuer would

be invested at the same yield. An exception to this market price rule is available for United States Treasury Obligations - State or Local Government Series in which case the purchase price is always the market price.

### Reimbursement and Working Capital

The final regulations provide new rules for purposes of determining whether gross proceeds are used for working capital and, if so, at what times those proceeds are considered spent. In general, working capital financings are subject to many of the same rules that have existed since the mid-1970s. For example, the regulations generally continue the 13-month temporary period. By adopting a "proceeds-spent-last" rule, the regulations also generally require that an issuer actually incur a deficit (i.e., expenditures must exceed receipts) for the computation period (which generally corresponds to the issuer's fiscal year). Also, the regulations continue to permit an operating reserve, but unlike prior regulations the amount of such reserve may not exceed five percent of the issuer's actual working capital expenditures for the prior fiscal year. Another change made by the regulations is that the issuer may not finance the operating reserve with proceeds of a tax-exempt obligation.

Importantly, the regulations also adopt rules for determining whether proceeds used to reimburse an issuer for costs paid prior to the date of issue of the obligation, in fact, are considered spent at the time of reimbursement. These rules apply to an issuer who uses general revenues for the payment of all or a portion of the costs of a project then uses the proceeds of the bonds to reimburse those general revenues. Failure to comply with these rules would result in the proceeds continuing to be subject to federal income tax restrictions, including rebate.

To qualify for reimbursement, a cost must be described in an expression (e.g., resolution, legislative authorization) evidencing the issuer's intent to reimburse which is made no later than 60 days after the payment of the cost. Reimbursement must occur no later than 18 months after the later of (1) the date the cost is paid or (2) the date the project is placed in service. Except for projects requiring an extended construction period or small issuers, in no event can a cost be reimbursed more than three years after the cost is paid.

Reimbursement generally is not permitted for working capital; only capital costs, grants and loans may be reimbursed. Moreover, certain anti-abuse rules apply to prevent issuers from avoiding the limitations on refundings. IN CASES INVOLVING WORKING CAPITAL OR REIMBURSEMENT, ISSUERS ARE ADVISED TO CONTACT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION.

### Rebate Payments

Rebate payments generally are due 60 days after each installment computation date. The interim computation dates occur each fifth anniversary of the issue date. The final computation date is on the latest of (1) the date 60 days after the date the issue of bonds is no longer outstanding, (2) the date eight months after the date of issue for certain short-term obligations (i.e., obligations retired within three years), or (3) the date the issuer no longer reasonably expects any spending exception, discussed below, to apply to the issue. On such payment dates, other than the final payment date, an issuer is required to pay 90 percent of the

rebateable arbitrage to the United States. On the final payment date, an issuer is required to pay 100 percent of the remaining rebate liability.

Failure to timely pay rebate does not necessarily result in the loss of tax-exemption. Late payments, however, are subject to the payment of interest, and unless waived, a penalty of 50 percent (or, in the case of private activity bonds, other than qualified 501(c)(3) bonds, 100 percent) of the rebate amount which is due. IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.

Rebate payments are refundable. The issuer, however, must establish to the satisfaction of the Commissioner of the Internal Revenue Service that the issuer paid an amount in excess of the rebate and that the recovery of the overpayment on that date would not result in additional rebateable arbitrage. An overpayment of less than \$5,000 may not be recovered before the final computation date.

#### Alternative Penalty Amount

In certain cases, an issuer of a bond the proceeds of which are to be used for construction may elect to pay a penalty, in lieu of rebate. The penalty may be elected in circumstances in which the issuer expects to satisfy the two-year spending exception which is more fully described under the heading "Exceptions to Rebate." The penalty is payable, if at all, within 60 days after the end of each six-month period. This is more often than rebate. The election of the alternative penalty amount would subject an issuer, which fails the two-year spend-out requirements, to the payment of a penalty equal to one and one-half of the excess of the amount of proceeds which was required to be spent during that period over the amount which was actually spent during the period.

The penalty has characteristics which distinguish it from arbitrage rebate. First, the penalty would be payable without regard to whether any arbitrage profit is actually earned. Second, the penalty continues to accrue until either (1) the appropriate amount is expended or (2) the issuer elects to terminate the penalty. To be able to terminate the penalty, the issuer must meet specific requirements and, in some instances, must pay an additional penalty equal to three percent of the unexpended proceeds.

#### Exceptions to Rebate

The Code and regulations provide certain exceptions to the requirement that the excess investment earnings be rebated to the United States.

a. Small Issuers. The first exception provides that if an issuer (together with all subordinate issuers) during a calendar year does not issue tax-exempt obligations in an aggregate face amount exceeding \$5 million, then the obligations are not subject to rebate. Only issuers with general taxing powers may take advantage of this exception. For this purpose, "private activity bonds" neither are afforded the benefit of this exception nor are taken into account for purposes of determining the amount of bonds issued. Subordinate issuers are those issuers which derive their authority to issue bonds from the same issuer, e.g., a city and a health

facilities development corporation, or which are controlled by the same issuer, e.g., a state and the board of a public university.

b. Spending Exceptions.

Six-Month Exception. The second exception to the rebate requirement is available to all tax-exempt bonds, all of the gross proceeds of which are expended during six months. The six month rule is available to bonds issued after the effective date of the Tax Reform Act of 1986. See the discussion of effective dates on page two. For this purpose, proceeds used for the redemption of bonds (other than proceeds of a refunding bond deposited to an escrow fund to discharge refunded bonds) can not be taken into account as expended. As such, bonds with excess gross proceeds generally can not satisfy the second exception unless the amount does not exceed the lesser of five percent or \$100,000 and such de minimis amount must be expended within one year.

Certain gross proceeds are not subject to the spend-out requirement, including amounts deposited to a bona fide debt service fund, to a reserve fund and amounts which become gross proceeds received from purpose investments. These amounts themselves, however, may be subject to rebate even though the originally expended proceeds were not.

The Code provides a special rule for tax and revenue anticipation notes (i.e., obligations issued to pay operating expenses in anticipation of the receipt of taxes and other revenues). Such notes are referred to as TRANs. To determine the timely expenditure of the proceeds of a TRAN, the computation of the "cumulative cash flow deficit" is important. If the "cumulative cash flow deficit" (i.e., the point at which the operating expenditures of the issuer on a cumulative basis exceed the revenues of the issuer during the fiscal year) occurs within the first six months of the date of issue and must be equal to at least 90 percent of the proceeds of the TRAN, then the notes are deemed to satisfy the exception. This special rule requires, however, that the deficit actually occur, not that the issuer merely have an expectation that the deficit will occur. In lieu of the statutory exception for TRANs, the regulations also provide a second exception. Under this exception, 100 percent of the proceeds must be spent within six months, but before note proceeds can be considered spent, all other available amounts of the issuer must be spent first ("proceeds-spent-last" rule). In determining whether all available amounts are spent, a reasonable working capital reserve equal to five percent of the prior year's expenditures may be set aside and treated as unavailable.

18-Month Exception. The regulations also establish a non-statutory exception to arbitrage rebate if all of the gross proceeds (including investment earnings) are expended within 18 months after the date of issue. Under this exception, 15 percent of the gross proceeds must be expended within a six-month spending period, 60 percent within a 12-month spending period and 100 percent within an 18-month spending period. The rule permits an issuer to rely on its reasonable expectations for computing investment earnings which are included as gross proceeds during the first and second spending period. A reasonable retainage not to exceed five percent of the sale proceeds of the issue is not required to be spent within the 18-month period but must be expended within 30 months. Rules similar to the six-month exception relate to the definition of gross proceeds.

Two Year Exception. Bonds issued after December 19, 1989 (i.e., the effective date of the Omnibus Reconciliation Act of 1989), at least 75 percent of the net proceeds of which are to be used for construction, may be exempted from rebate if the gross proceeds are spent within two years. Bonds more than 25 percent of the proceeds of which are used for acquisition or working capital may not take advantage of this exception. The exception applies only to governmental bonds, qualified 501(c)(3) bonds and private activity bonds for governmentally-owned airports and docks and wharves. The two-year exception requires that at least 10 percent of the available construction proceeds must be expended within six months after the date of issue, 45 percent within 12 months, 75 percent within 18 months and 100 percent within 24 months. The term "available construction proceeds" generally means sale proceeds of the bonds together with investment earnings less amounts deposited to a qualified reserve fund or used to pay costs of issuance. Under this rule, a reasonable retainage not to exceed five percent need not be spent within 24 months but must be spent within 36 months.

The two-year rule also provides for numerous elections which must be made not later than the date of issuance of the bonds. Once made, the elections are irrevocable. Certain elections permit an issuer to bifurcate bond issues, thereby treating only a portion of the issue as a qualified construction bond; and, permit an issuer to disregard earnings from reserve funds for purposes of determining "available construction proceeds." Another election permits an issuer to pay the alternative penalty amount discussed above in lieu of rebate if the issuer ultimately fails to satisfy the two-year rule. Issuers should discuss these elections with their financial advisors prior to issuance of the bonds. Of course, McCall, Parkhurst & Horton L.L.P. remains available to assist you by providing legal interpretations thereof.

c. Debt Service Funds. Additionally, an exception to the rebate requirement, whether or not any of the previously discussed exceptions are available, applies for earnings on "bona fide debt service funds." A "bona fide debt service fund" is one in which the amounts are expended within 13 months of the accumulation of such amounts by the issuer. In general, most interest and sinking funds (other than any excess taxes or revenues accumulated therein) satisfy these requirements. For private activity bonds, short term bonds (i.e., have a term of less than five years) or variable rate bonds, the exclusion is available only if the gross earnings in such fund does not exceed \$100,000, for the bond year. For other bonds issued after November 11, 1988, no limitation is applied to the gross earnings on such funds for purposes of this exception. Therefore, subject to the foregoing discussion, the issuer is not required to take such amounts into account for purposes of the computation.

**FOR BONDS ISSUED AFTER THE EFFECTIVE DATE OF THE TAX REFORM ACT OF 1986 WHICH WERE OUTSTANDING AS OF NOVEMBER 11, 1988, OTHER THAN PRIVATE ACTIVITY BONDS, SHORT TERM BONDS OR VARIABLE RATE BONDS, A ONE-TIME ELECTION MAY BE MADE TO EXCLUDE EARNINGS ON "BONA FIDE DEBT SERVICE FUNDS" WITHOUT REGARD TO THE \$100,000, LIMITATION. THE ELECTION MUST BE MADE IN WRITING. (AND MAINTAINED AS PART OF THE ISSUER'S BOOKS AND RECORDS) NO LATER THAN THE LATER OF MARCH 21, 1990, OR THE FIRST DATE A REBATE PAYMENT IS REQUIRED.**

## Conclusion

McCall, Parkhurst & Horton L.L.P. hopes that this memorandum will prove to be useful as a general guide to the arbitrage rebate requirements.

Again, this memorandum is not intended as an exhaustive discussion nor as specific advice with respect to any specific transaction. We advise our clients to seek competent financial and accounting assistance. Of course, we remain available to provide legal advice regarding all federal income tax matters, including arbitrage rebate. If you have any questions, please feel free to contact Harold T. Flanagan at (214) 220-2800.

Exhibit "B"

March 14, 1996

Ms. Vicki Thompson  
Director of Finance  
City of Kennedale, Texas  
P.O. Box 268  
Kennedale, Texas 76060

Re: City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 1996

Dear Ms. Thompson:

As you know, the City of Kennedale, Texas (the "Issuer") will issue the captioned certificates in order to provide for the acquisition and construction of the project. As a result of that issuance, the federal income tax laws impose certain restrictions on the investment of amounts deposited to the interest and sinking fund for the captioned certificates. The purpose of this letter is to set forth, in somewhat less technical language, those provisions of the tax law which require that obligations acquired with these amounts be invested at a yield which is not higher than the yield on the captioned certificates. For this purpose, please refer to line 20(f) of the Form 8038-G included in the transcript of proceedings for the yield on the captioned certificates.

Generally, the federal tax laws provide that, unless excepted, amounts deposited to the interest and sinking fund which are allocable to the captioned certificates must be invested in obligations the combined yield on which does not exceed the yield on the certificates. Importantly, for purposes of administrative convenience, the certificates, however, have been structured in such a way as to avoid, for the most part, this restriction on investment yield.

First, the interest and sinking fund is made up of amounts which are received annually for the payment of current debt service on all the Issuer's outstanding bonds. Any taxes or revenues deposited to the interest and sinking fund which are to be used for the payment of current debt service on the captioned certificates, or any other outstanding bonds, are not subject to yield restriction. By definition, current debt service refers only to debt service to be paid within one year of the date of receipt of these amounts. For the most part, this would be debt service in the current fiscal year. These amounts deposited to the account for current debt service may be invested without regard to any constraint imposed by the federal income tax laws.

Second, a portion of the interest and sinking fund is permitted to be invested without regard to yield restriction as a "minor portion." The "minor portion" exception is available for de minimis amounts of taxes or revenues deposited to the interest and sinking fund. The maximum amount that may be invested as part of this account may not exceed the lesser of 5 percent of the principal amount of the certificates or \$100,000.

Accordingly, you should review the current balance in the interest and sinking fund in order to determine if such balance exceeds the aggregate amounts discussed above. Additionally, in the future it is important that you be aware of these restrictions as additional amounts are deposited to the interest and sinking fund. The amounts in this fund which are subject to yield restriction would only be the amounts which are in excess of the sum of (1) the current debt service account and (2) the "minor portion" account. Moreover, to the extent that additional bonds are issued by the Issuer, whether for new money projects or for refunding, these amounts will change in their proportion.

Obviously, this letter only presents a fundamental discussion of the yield restriction rules as applied to amounts deposited to the interest and sinking fund. Moreover, this letter does not address the rebate consequences with respect to the interest and sinking fund and you should review the memorandum attached to the No-Arbitrage Certificate as Exhibit "A" for this purpose. If you have certain concerns with respect to the matters discussed in this letter or wish to ask additional questions with regards to certain limitations imposed, please feel free to contact our firm. Thank you for your consideration and we look forward to our continued relationship.

Very truly yours,

McCALL, PARKHURST & HORTON L.L.P.

LAW OFFICES

MCALL, PARKHURST & HORTON L.L.P.

3100 ONE AMERICAN CENTER

AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

717 NORTH HARWOOD

NINTH FLOOR

DALLAS, TEXAS 75201-6587

TELEPHONE: 214 220-2800

FACSIMILE: 214 754-9250

1225 ONE RIVERWALK PLACE

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2984

August 5, 1996

CERTIFIED MAIL

Internal Revenue Service Center  
Philadelphia, Pennsylvania 19255

Re: Information Reporting - Tax-Exempt Bonds  
City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 1996

Ladies and Gentlemen:

Pursuant to the requirements of Section 149(e) of the Internal Revenue Code of 1986, enclosed please find an original and a photocopy of Form 8038-G which is hereby submitted to you for the above-captioned bonds issued April 17, 1996.

Please file the original and return the receipted copy of Form 8038-G to the undersigned in the enclosed self-addressed, postage paid envelope.

Sincerely,

McCALL, PARKHURST & HORTON L.L.P.



Harold T. Flanagan

HTF:amc

Enclosures

cc: Mr. Dan S. Culver





Office of the Attorney General  
State of Texas

DAN MORALES  
ATTORNEY GENERAL

*DM*

April 5, 1996

THIS IS TO CERTIFY that the City of Kennedale, Texas (the "Issuer"), has submitted to me City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 1996 (the "Certificates") in the aggregate principal amount of \$455,000 for approval. The Certificates are dated March 1, 1996, numbered R-1 through R-10, and were authorized by an Ordinance of the Issuer passed on March 14, 1996 (the "Ordinance").

I have examined the law and such certified proceedings and other papers as I deem necessary to render this opinion.

As to questions of fact material to my opinion, I have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigation.

I express no opinion relating to the official statement or any other offering material relating to the Certificates.

Based on my examination, I am of the opinion, as of the date hereof and under existing law, as follows (capitalized terms, except as herein defined, have the meanings given to them in the Ordinance):

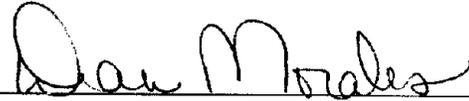
- (1) The Certificates have been issued in accordance with law and are valid and binding obligations of the Issuer.
- (2) The Certificates are payable from the proceeds of an annual ad valorem tax levied, within the limit prescribed by law, upon all taxable property in the Issuer, and are additionally secured by and payable from a limited pledge of not to exceed \$1,000 in aggregate over the life of the issue of the revenues of the Issuer's Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues.

City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 1996  
- \$455,000

Page -2-

---

Therefore, the Certificates are approved.



---

Attorney General of the State of Texas

No. 30180  
Book No. 95-B  
kcw

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, John Sharp, Comptroller of Public Accounts of the State of Texas, do hereby certify that the attachment is a true and correct copy of the opinion of the Attorney General approving the:

City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 1996

numbered R-1 thru R-10, of the denomination of \$ various, dated March 1, 1996, as authorized by issuer, interest various percent, under and by authority of which said bonds/certificates were registered electronically in the office of the Comptroller, on the 5th day of April, 1996, under Registration Number 58124.

Given under my hand and seal of office, at Austin, Texas, the 5th day of April, 1996.



JOHN SHARP  
Comptroller of Public Accounts  
of the State of Texas

OFFICE OF COMPTROLLER  
OF THE STATE OF TEXAS

I, Kaye Tucker,  Bond Clerk  Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 5th day of April, 1996, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 1996,

numbered R-1 thru R-10, dated March 1, 1996, and that in signing the certificate of registration I used the following signature:



IN WITNESS WHEREOF I have executed this certificate this the 5th day of April, 1996.



I, John Sharp, Comptroller of Public Accounts of the State of Texas, certify that the person who has signed the above certificate was duly designated and appointed by me under authority vested in me by TEX. REV. CIV. STAT. ANN. art. 4362 (1969), with authority to sign my name to all certificates of registration, and/or cancellation of bonds required by law to be registered and/or cancelled by me, and was acting as such on the date first mentioned in this certificate, and that the bonds/certificates described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 58124.

GIVEN under my hand and seal of office at Austin, Texas, this the 5th day of April, 1996.



JOHN SHARP  
Comptroller of Public Accounts  
of the State of Texas

LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

300 ONE AMERICAN CENTER

AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

717 NORTH HARWOOD

NINTH FLOOR

DALLAS, TEXAS 75201-6587

TELEPHONE: 214 220-2800

FACSIMILE: 214 754-9250

1225 ONE RIVERWALK PLACE

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2954

*April 17, 1996*

**CITY OF KENNEDALE, TEXAS, COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION  
SERIES 1996, DATED MARCH 1, 1996  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$455,000**

---

AS BOND COUNSEL FOR THE ISSUER (the "Issuer") of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the following rates per annum:

Maturity 1997, 7.50%  
Maturity 1998, 7.50%  
Maturity 1999, 7.45%  
Maturity 2000, 6.50%  
Maturity 2001, 4.80%  
Maturity 2002, 4.90%  
Maturity 2003, 5.05%  
Maturity 2004, 5.15%  
Maturity 2005, 5.30%  
Maturity 2006, 5.45%

payable on February 15, 1997, and semiannually thereafter on each February 15 and August 15. The Certificates mature in serial installments on February 15 in each of the years 1997 through 2006. The Certificates are not subject to redemption prior to maturity.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a limited pledge of the revenues of the Issuer's Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, all as provided in the Ordinance of the Issuer authorizing the issuance of the Certificates.

IN OUR OPINION, except as discussed below, the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Certificates. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax and the environmental tax imposed on corporations by sections 55 and 59A of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income for federal income tax purposes of the interest on the Certificates, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data or other material relating to the financial condition or

capabilities of the Issuer, and have not assumed any responsibility with respect thereto. We have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer.

APR 17 1996

Respectfully,

McCall, Parkhurst & Hoffman LLP



# Blanket Issuer Letter of Representations

[To be Completed by Issuer]

City of Kennedale, Texas

[Name of Issuer]

March 14, 1996

[Date]

Attention: Underwriting Department — Eligibility  
The Depository Trust Company  
55 Water Street; 50th Floor  
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

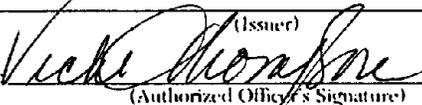
Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

City of Kennedale, Texas

(Issuer)

By:



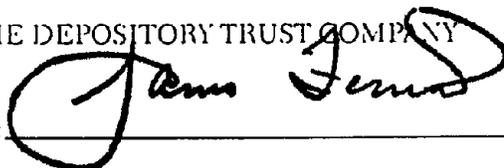
(Authorized Officer's Signature)

Vicki Thompson  
Director of Finance  
City of Kennedale  
P.O. Box 268  
Kennedale, Texas 76060  
Phone: (817) 478-0351  
Fax: (817) 483-0720

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By:



**SAMPLE OFFERING DOCUMENT LANGUAGE  
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$200 million, one certificate will be issued with respect to each \$200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

[6. Redemption notices shall be sent to Cede & Co. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.