

City

\$300,000
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

Notes Delivered: October 5, 2006

Transcript of Proceedings

LAW OFFICES
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SAN ANTONIO, TEXAS 78205

**\$300,000
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006**

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CERTIFICATE FOR ORDINANCE

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

I, the undersigned City Secretary of the City of Kennedale, Texas (the "City"), hereby certify as follows:

1. The City Council of the City convened in REGULAR MEETING ON THE 14th DAY OF SEPTEMBER, 2006 at the City Hall, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Bryan Lankhorst, Mayor	Brian Johnson, Councilmember, Place 3
John Clark, Councilmember, Place 1	Ronnie Nowell, Councilmember, Place 4
David Green, Councilmember, Place 2	George Barrett, Councilmember, Place 5

and all of said officers and members of said City Council were present, except the following absentees: NONE. Whereupon, among other business, the following was transacted at said Meeting: a written

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006 IN THE AMOUNT OF \$300,000; AUTHORIZING THE LEVYING OF A TAX FOR THE PAYMENT THEREOF; AUTHORIZING EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT; AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATED THERETO; AND DECLARING AN EFFECTIVE DATE

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 adoption of said Ordinance, prevailed and carried by the following vote:

AYES: 5 NOES: 0 ABSTENTIONS: 0

2. A true, full and correct copy of the aforesaid Ordinance adopted at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; the Ordinance has been duly recorded in said City Council's minutes of said Meeting; 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; 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; each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Ordinance would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose, and that said Meeting was open to the public and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

AND SEALED THE 14th DAY OF SEPTEMBER, 2006.



Kelley J. ...

City Secretary

ORDINANCE NO. 346

ORDINANCE AUTHORIZING THE ISSUANCE OF *CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006* IN THE AMOUNT OF \$300,000; AUTHORIZING THE LEVYING OF A TAX FOR THE PAYMENT THEREOF; AUTHORIZING EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT; AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATED THERETO; AND DECLARING AN EFFECTIVE DATE

DATE OF APPROVAL: SEPTEMBER 14, 2006

ORDINANCE NO. 346

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006 IN THE AMOUNT OF \$300,000; AUTHORIZING THE LEVYING OF A TAX FOR THE PAYMENT THEREOF; AUTHORIZING EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT; AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATED THERETO; AND DECLARING AN EFFECTIVE DATE

STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE

§
§
§

WHEREAS, the CITY OF KENNEDALE, TEXAS (the "City") in Tarrant County, Texas, is a political subdivision of the State of Texas operating as a home-rule municipality pursuant to the Texas Local Government Code and its City Charter; and

WHEREAS, pursuant to Chapter 1431, Texas Government Code, as amended (the "Act"), the City Council (the "City Council") of the City is authorized and empowered to issue anticipation notes to pay contractual obligations incurred or to be incurred (i) for the construction of any public work and (ii) for the purchase of materials, supplies, equipment, machinery, buildings, lands and rights-of-way for the City's authorized needs and purposes; and

WHEREAS, in accordance with the provisions of the Act, the City Council hereby finds and determines that anticipation notes should be issued and sold at this time to finance the costs of paying contractual obligations incurred to (i) purchase an ambulance; (ii) purchase a dump truck; (iii) purchase and equip a police vehicle; (iv) purchase computer software and hardware; and (v) pay costs of issuance of such notes; and

WHEREAS, the governing body of the City deems it appropriate to adopt this Ordinance and issue the notes herein authorized as permitted by the Act.

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

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

SECTION 1. AMOUNT AND PURPOSE OF THE NOTES. The Notes of the City are hereby authorized to be issued and delivered in the aggregate principal amount of \$300,000 ***TO FINANCE THE COSTS OF PAYING CONTRACTUAL OBLIGATIONS INCURRED TO PURCHASE AN AMBULANCE, PURCHASE A DUMP TRUCK, PURCHASE AND EQUIP A POLICE VEHICLE, PURCHASE COMPUTER SOFTWARE AND HARDWARE AND PAY COSTS OF ISSUANCE.***

SECTION 2. DESIGNATION, DATE, DENOMINATIONS, NUMBERS, AND MATURITIES OF NOTES. Each note issued pursuant to this Ordinance shall be designated: "CITY OF KENNEDALE, TEXAS TAX NOTE, SERIES 2006", and initially there shall be issued, sold, and delivered hereunder one fully registered note, without interest coupons, dated September 15, 2006, in the principal amount stated in Section 1 above, numbered T-1 (the "Initial Note"), with notes issued in replacement thereof being in denominations of \$1,000 or any integral multiple thereof and numbered consecutively from R-1 upward, payable to the initial registered owner thereof (with the Initial Note being payable to the initial purchaser designated in Section 13 hereof), or to the registered assignee or assignees of said Notes or any portion or portions thereof (in each case, the "Registered Owner"), and said Notes shall mature and be payable serially on March 1 in each of the years and in the principal amounts as set forth in the following schedule:

MATURITY DATE	PRINCIPAL AMOUNT
03/01/07	\$35,000
03/01/08	40,000
03/01/09	40,000
03/01/10	45,000
03/01/11	45,000
03/01/12	45,000
03/01/13	50,000

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

SECTION 3. INTEREST. The Notes shall bear interest from the dates specified in the FORM OF NOTE set forth in this Ordinance to their respective dates of maturity or redemption prior to maturity at the rate of **4.35%** per annum.

SECTION 4. CHARACTERISTICS OF THE NOTES. (a) Registration, Transfer, and Exchange; Authentication. The City shall keep or cause to be kept at the designated corporate trust office of **WELLS FARGO BANK, N.A., AUSTIN, TEXAS** (the "Paying Agent/Registrar") books or records for the registration of the transfer and exchange of the Notes (the "Registration Books"), and the City hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers and exchanges under such reasonable regulations as the City and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers and exchanges as herein provided. Attached hereto as Exhibit A is a copy of the Paying Agent/Registrar Agreement between the City and the Paying Agent/Registrar which is hereby approved in substantially final form, and the Mayor and City

Secretary of the City are hereby authorized to execute the Paying Agent/Registrar Agreement and approve any changes in the final form thereof.

The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Note to which payments with respect to the Notes 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. To the extent possible and under reasonable circumstances, all transfers of Notes shall be made within three business days after request and presentation thereof. The City 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 Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, exchange and delivery of a substitute Note or Notes shall be paid as provided in the FORM OF NOTE set forth in this Ordinance. Registration of assignments, transfers and exchanges of Notes shall be made in the manner provided and with the effect stated in the FORM OF NOTE set forth in this Ordinance. Each substitute Note shall bear a letter and/or number to distinguish it from each other Note.

Except as provided in (c) below, an authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Note, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Note shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Notes and Notes surrendered for transfer and exchange. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the City or any other body or person so as to accomplish the foregoing transfer and exchange of any Note or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Notes in the manner prescribed herein, and said Notes shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Chapter 1201, Texas Government Code, and particularly Subchapter D and Section 1201.067 thereof, the duty of transfer and exchange of Notes as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of such Notes, the transferred and exchanged Notes shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Notes 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 Notes and Interest. The City hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Notes, all as provided in this Ordinance. The Paying Agent/ Registrar shall keep proper records of all payments made by the City and the Paying Agent/Registrar with respect to the Notes.

(c) In General. The Notes (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Notes to be payable only to the registered owners thereof, (ii) shall be redeemed prior to their scheduled maturities, (iii) may be transferred and assigned, (iv) may be exchanged for other Notes, (v) shall have the characteristics, (vi) shall be signed, sealed, executed and authenticated, (vii) the principal of and interest on the Notes shall be payable, and (viii) shall be administered and the Paying Agent/Registrar and the City shall have certain duties and responsibilities with respect to the Notes, all as provided, and in the manner and

to the effect as required or indicated, in the FORM OF NOTE set forth in this Ordinance. The Initial Note is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Note issued in exchange for the Initial Note 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 NOTE. In lieu of the executed Paying Agent/Registrar's Authentication Certificate described above, the Initial Note delivered on the closing date (as further described in subparagraph (i) below) shall have attached thereto the Comptroller's Registration Certificate substantially in the form set forth in the FORM OF NOTE below, manually executed by the Comptroller of Public Accounts of the State of Texas or by his duly authorized agent, which certificate shall be evidence that the Initial Note has been duly approved by the Attorney General of the State of Texas and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(d) Substitute Paying Agent/Registrar. The City covenants with the registered owners of the Notes that at all times while the Notes are outstanding the City will provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar for the Notes under this Ordinance, and that the Paying Agent/Registrar will be one entity and shall be an entity registered with the Securities and Exchange Commission. The City 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 City 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 Notes, to the new Paying Agent/Registrar designated and appointed by the City. Upon any change in the Paying Agent/Registrar, the City promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Notes, 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 for Notes. The Notes issued in exchange for the Notes initially issued to the purchaser specified in Section 13 herein shall be initially issued in the form of a separate single fully registered Note for each of the maturities thereof. Upon initial issuance, the ownership of each such Note shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("DTC"), and except as provided in subsection (i) hereof, all of the outstanding Notes shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Notes registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any 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 transaction among DTC Participants or to any person on behalf of whom such a DTC Participant holds an interest in the Notes. Without limiting the immediately preceding

sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Notes, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Notes, as shown on the Registration Books, of any notice with respect to the Notes, or (iii) the payment to any DTC Participant or any other person, other than a registered owner of Notes, as shown in the Registration Books of any amount with respect to principal of or interest on the Notes. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Note is registered in the Registration Books as the absolute owner of such Note for the purpose of payment of principal and interest with respect to such Note, for the purpose of registering transfers with respect to such Note, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Notes only to or upon the Ordinance 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 City's obligations with respect to payment of principal of and interest on the Notes 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 Note certificate evidencing the obligation of the City 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 Systems. In the event that the City determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the City to DTC or that it is in the best interest of the beneficial owners of the Notes that they be able to obtain certificated Notes, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) 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 Notes to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Notes and transfer one or more separate Notes to DTC Participants having Notes credited to their DTC accounts. In such event, the Notes 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 Notes 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 Note is registered in the name of Cede & Co., as nominee for DTC, all payments with respect to principal of and interest on such Note and all notices with respect to such Note shall be made and given, respectively, in the manner provided in the representation letter of the City to DTC.

(h) DTC Letter of Representation. The officers of the City are herein authorized for and on behalf of the City and as officers of the City to enter into one or more Letters of Representation with DTC establishing the book-entry only system with respect to the Notes.

(i) Delivery of Initial Note. On the closing date, one Initial Note representing the entire principal amount of the Notes, payable to the initial registered owner named in Section 13 of this Ordinance or its designee, executed by manual or facsimile signature of the Mayor and City Secretary of the City, on behalf of the City, approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of the State of Texas, will be delivered to the initial purchaser or its designee. Upon payment for the Notes, the Paying Agent/Registrar shall cancel the Initial Note and deliver to the initial registered owner or its designee one registered definitive Note for each year of maturity of the Notes, in the aggregate principal amount of all of the Notes for such maturity.

SECTION 5. FORM OF NOTE. The form of Note, 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 only to the Initial Note) shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance.

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FORM OF NOTE

R-	UNITED STATES OF AMERICA STATE OF TEXAS COUNTY OF TARRANT CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006	PRINCIPAL AMOUNT \$ _____
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<u>INTEREST RATE</u> 4.35%	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u> September 15, 2006	<u>CUSIP NO.</u> _____
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REGISTERED OWNER:

PRINCIPAL AMOUNT: _____ **DOLLARS**

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

Owner hereof, at its address as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. 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 (the "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 Registered Owner 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. Any accrued interest due upon the redemption of this Note prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Note for redemption and payment to the Paying Agent/Registrar at the Designated Trust Office (unless the redemption date is a regularly scheduled interest payment date, in which case accrued interest on such redeemed Notes shall be payable in the regular manner described above). The City covenants with the Registered Owner of this Note that on or before each principal payment date, interest payment date, and accrued interest payment date for this Note it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Note Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Notes, when due.

IF THE DATE FOR THE PAYMENT of the principal of or interest on this Note shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, 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, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS NOTE IS ONE OF A SERIES OF NOTES, dated September 15, 2006, authorized and issued in accordance with the Constitution and laws of the State of Texas, including Chapter 1431, Texas Government Code, as amended, in the principal amount of \$300,000 ***TO FINANCE THE COSTS OF PAYING CONTRACTUAL OBLIGATIONS INCURRED TO PURCHASE AN AMBULANCE, PURCHASE A DUMP TRUCK, PURCHASE AND EQUIP A POLICE VEHICLE, PURCHASE COMPUTER SOFTWARE AND HARDWARE AND PAY COSTS OF ISSUANCE.***

ALL NOTES OF THIS SERIES are issuable solely as fully registered Notes, without interest coupons, in the denomination of any integral multiple of \$1,000. As provided in the Note Ordinance, this Note, or any unredeemed portion hereof, may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred and exchanged for a like aggregate principal amount of fully registered Notes, 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 \$1,000 as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Note to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Note Ordinance. Among other requirements for such assignment and transfer, this Note must

be presented and surrendered to the Paying Agent/Registrar at the Designated Trust Office, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Note or any portion or portions hereof in any integral multiple of \$1,000 to the assignee or assignees in whose name or names this Note or any such portion or portions hereof is or are to be registered. The form of Assignment printed or endorsed on this Note 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 Note 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 transferring and exchanging any Note or portion thereof shall be paid by the City, but any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer or exchange as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer 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 Note or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Note called for redemption in part.

IN THE EVENT any Paying Agent/Registrar for the Notes is changed by the City, resigns, or otherwise ceases to act as such, the City has covenanted in the Note 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 Notes.

IT IS HEREBY CERTIFIED, RECITED, AND COVENANTED that this Note 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 Note have been performed, existed, and been done in accordance with law; that this Note is a general obligation of the City, issued on the full faith and credit thereof; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Note, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment within the limits provided by law.

THE CITY ALSO HAS RESERVED THE RIGHT to amend the Note Ordinance as provided therein, and under some (but not all) circumstances amendments thereto must be approved by the registered owners of a majority in aggregate principal amount of the outstanding Notes.

BY BECOMING THE REGISTERED OWNER of this Note, the Registered Owner thereby acknowledges all of the terms and provisions of the Note Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Note Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the City, and agrees that the terms and provisions of this Note and the Note Ordinance constitute a contract between each Registered Owner hereof and the City.

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

(facsimile signature)
City Secretary
City of Kennedale, Texas

(facsimile signature)
Mayor
City of Kennedale, Texas

(SEAL)

**FORM OF REGISTRATION CERTIFICATE
OF THE COMPTROLLER OF PUBLIC ACCOUNTS**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

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

Witness my signature and seal this

(COMPTROLLER'S SEAL)

Comptroller of Public Accounts
of the State of Texas

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FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE
(To be executed if this Note 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 Note has been issued under the provisions of the Note Ordinance described in the text of this Note; and that this Note has been issued in exchange for a note or notes, or a portion of a note or notes 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: _____

Wells Fargo Bank, N.A.,
Austin, Texas
Paying Agent/Registrar

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned Registered Owner of this Note, or duly authorized representative or attorney thereof, hereby assigns this Note to

(Assignee's Social Security or
Taxpayer Identification Number)

(Print or typewrite Assignee's name and address,
including zip code)

and hereby irrevocably constitutes and appoints _____
attorney to register the transfer of the within Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

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

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

INITIAL NOTE INSERTIONS

The Initial Note shall be in the form set forth above except that:

- (A) Immediately under the name of the Note, the headings "INTEREST RATE" and "MATURITY DATE" shall be completed with the words "As shown below" and "CUSIP NO. _____" shall be deleted.
- (B) The first paragraph shall be deleted and the following shall be inserted:

"ON THE RESPECTIVE MATURITY DATES specified below, the ***CITY OF KENNEDALE, TEXAS*** (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the respective Principal Installments specified below, and to pay interest thereon (calculated on the basis of a 360-day year composed of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the respective Interest Rates per annum specified below, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the respective Maturity Dates specified below, or the date of redemption prior to maturity. The respective Maturity Dates, Principal Installments and Interest Rates for this Note are set forth in the following schedule:

Maturity Date	Principal Installment	Interest Rate

[Insert information from Sections 2 and 3 above]

- (C) The Initial Note shall be numbered "T-1."

SECTION 6. INTEREST AND SINKING FUND; TAX LEVY. A special Interest and Sinking Fund (the "Interest and Sinking Fund") is hereby created solely for the benefit of the Notes, and the Interest and Sinking Fund shall be established and maintained by the City at an official depository bank of the City for so long as the Notes or interest thereon are outstanding and unpaid. The Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of the City, and shall be used only for paying the interest on and principal of the Notes. Until expended for the purposes set forth in Section 1 hereof, the proceeds derived from the sale of the Notes shall be held as further security for the timely payment of the principal and interest on the Notes. All ad valorem taxes levied and collected for and on account of the Notes and all accrued interest and premium on the Notes received by the City from the initial purchaser of the Notes shall be deposited, as collected, to the credit of the Interest and Sinking Fund. During each year while any of the Notes

or interest thereon are outstanding and unpaid, the City shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient, together with other moneys deposited to the credit of the Interest and Sinking Fund, to raise and produce the money required to pay the interest on the Notes as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of its Notes as such principal matures (but never less than 2% of the original principal amount of the Notes as a sinking fund each year); and said tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax is hereby levied, and is hereby ordered to be levied, against all taxable property in the City for each year while any of the Notes or interest thereon 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 the Notes, as such interest comes due and such principal matures, are hereby pledged for such payment, within the limits provided by law.

SECTION 7. CONSTRUCTION FUND. There is hereby created and established in the depository of the City a fund to be called the *City of Kennedale, Texas Tax Notes (Series 2006) Construction Fund* (herein called the "Construction Fund"). All proceeds from the sale and delivery of any Note (excluding accrued interest and premium on such Note, if any, which shall be deposited into the Interest and Sinking Fund) shall be deposited into the Construction Fund. Money in the Construction Fund shall be subject to disbursements by the City for payment of all costs incurred in carrying out the purpose for which the Notes are issued and for paying costs of issuance of the Notes. All funds remaining on deposit in the Construction Fund upon completion of purposes for which the Notes were issued shall be transferred to the Interest and Sinking Fund.

SECTION 8. INVESTMENTS. Funds on deposit in the Interest and Sinking Fund and the Construction Fund shall be secured by the depository bank of the City in the manner and to the extent required by law to secure other public funds of the City and may be invested from time to time in any investment authorized in the Public Funds Investment Act (Chapter 2256, Texas Government Code) and in compliance with the City's investment policy adopted in accordance with the provisions of the Public Funds Investment Act; provided, however, that investments purchased for and held in the Interest and Sinking Fund shall have a final maturity no later than the date the funds from such investments will be required to pay principal and interest next coming due, and investments purchased for and held in the Construction Fund shall have a final maturity of not later than the date the City reasonably expects the funds from such investments will be required to pay costs of the projects for which the Notes were issued. Income and profits from such investments shall be deposited in the respective Fund which holds such investments; however, any such income and profits from investments in the Construction Fund may be withdrawn by the City and deposited in the Interest and Sinking Fund to pay all or a portion of the interest next coming due on the Notes. It is further provided, however, that any interest earnings on Note proceeds which are required to be rebated to the United States of America pursuant to Section 12 hereof in order to prevent the Notes from being arbitrage notes shall be so rebated and not considered as interest earnings for the purposes of this Section.

SECTION 9. DEFEASANCE OF NOTES. (a) Defeased Notes. Any Note and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Note") within the meaning of this Ordinance, except to the extent provided in subsection (d) of this Section, when payment of the principal of such Note, 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 (or another entity permitted by Section 1207.061, Texas Government Code, as amended, or other applicable law, which entity, together with the Paying Agent/Registrar, is referred to collectively in this Section as the "Defeasance Agent"), in accordance with an escrow agreement or other instrument (the "Future Escrow Agreement") for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that 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 City with the Defeasance Agent for the payment of its services until all Defeased Notes shall have become due and payable. At such time as a Note shall be deemed to be a Defeased Note hereunder, as aforesaid, such Note 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 Defeasance Securities.

(b) Investment in Defeasance Securities. Any moneys so deposited with the Defeasance Agent may at the written direction of the City be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Defeasance Agent that is not required for the payment of the Notes and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City, or deposited as directed in writing by the City. Any Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Notes may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsection (a)(i) or (ii) of this Section. All income from such Defeasance Securities received by the Defeasance Agent which is not required for the payment of the Defeased Notes, with respect to which such money has been so deposited, shall be remitted to the City or deposited as directed in writing by the City.

(c) Defeasance Securities. The term "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America., (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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

(e) Selection of Notes for Defeasance. In the event that the City elects to defease less than all of the principal amount of Notes of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Notes by such random method as it deems fair and appropriate.

SECTION 10. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED NOTES. (a) Replacement Notes. In the event any outstanding Note is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new note of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Note, in replacement for such Note in the manner hereinafter provided.

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

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Note 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 Note, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Note) instead of issuing a replacement Note, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Notes. Prior to the issuance of any replacement note, the Paying Agent/Registrar shall charge the registered owner of such Note with all legal, printing, and other expenses in connection therewith. Every replacement note issued pursuant to the provisions of this Section by virtue of the fact that any Note is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen, or destroyed Note 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 Notes duly issued under this Ordinance.

(e) Authority for Issuing Replacement Notes. In accordance with Chapter 1206, Texas Government Code, this Section of this Ordinance shall constitute authority for the issuance of any such replacement note without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such notes is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Notes in the form and manner and with the effect, as provided in Section 4(a) of this Ordinance for Notes issued in exchange for other Notes.

SECTION 11. CUSTODY, APPROVAL, AND REGISTRATION OF NOTES; BOND COUNSEL'S OPINION, INSURANCE, AND CUSIP NUMBERS. The Mayor of the City, on behalf of the City, is hereby authorized to have control of the Notes initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Notes 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 Notes 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 Notes, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the City's Bond Counsel and the assigned CUSIP numbers may, at the option of the City, be printed on the Notes 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 Notes. In addition, if municipal bond insurance is obtained, the Notes may bear an appropriate legend as provided by the insurer.

SECTION 12. COVENANTS REGARDING TAX-EXEMPTION OF INTEREST ON THE NOTES. (a) Covenants. The City covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Notes as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (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 City covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Notes or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the City, 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 Notes, in contravention of section 141(b)(2) of the Code;

(2) to take any action to assure that in the event that the "private business use" described in subsection (1) hereof exceeds 5 percent of the proceeds of the Notes 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;

(3) 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 Notes (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;

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

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

(6) to refrain from using any portion of the proceeds of the Notes, 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 Notes, other than investment property acquired with --

(A) proceeds of the Notes 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,

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

(C) 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 Notes;

(7) to otherwise restrict the use of the proceeds of the Notes or amounts treated as proceeds of the Notes, as may be necessary, so that the Notes 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

(8) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Notes) 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 Notes 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.

(b) Rebate Fund. In order to facilitate compliance with the above covenant (8), a "Rebate Fund" is hereby established by the City for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Proceeds. The City 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 Notes. It is the understanding of the City 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 Notes, the City 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 Notes 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 Notes, the City 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 Notes under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Director of Finance to execute any documents, certificates or

reports required by the Code and to make such elections, on behalf of the City, which may be permitted by the Code as are consistent with the purpose for the issuance of the Notes.

(d) Allocation Of, and Limitation On, Expenditures for the Project. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 1 of this Ordinance (the "Project") on its books and records in accordance with the requirements of the Internal Revenue Code. The City recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the City recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Notes, or (2) the date the Notes are retired. The City agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Notes. For purposes hereof, the issuer shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(e) Disposition of Project. The City covenants that the property constituting the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the City of cash or other compensation, unless the City obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Notes. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

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

SECTION 13. SALE OF NOTES. The Notes are hereby initially sold and shall be delivered to **PRESIDIO SHORT TERM TAX EXEMPT FUND, L.P.**, San Antonio, Texas (the "Purchaser"), for cash for the par value thereof and no accrued interest. It is hereby officially found, determined and declared that the terms of this sale are the most advantageous reasonably obtainable. The Notes initially shall be registered in the name of the **PRESIDIO SHORT TERM TAX EXEMPT FUND, L.P.**

SECTION 14. REMEDIES IN EVENT OF DEFAULT. In addition to all the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payment of the principal, premium, if any, or interest on the Notes, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Holders of any of the Notes shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

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

SECTION 15. NO RULE 15c2-12 UNDERTAKING; ANNUAL FINANCIAL STATEMENTS. The City has not made an undertaking in accordance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") in connection with the issuance of the Notes inasmuch as the Purchaser is not acting as an "underwriter in a primary offering of municipal securities" within the meaning of the Rule. The City is not, therefore, obligated pursuant to the Rule to provide any on-going disclosure relating to the City or the Notes; however, so long as the Purchaser or its assignee is the sole registered owner of the Notes, the City shall provide the Purchaser a copy of its audited annual financial statements within 30 days from the date that such statements become available to the City.

SECTION 16. FURTHER PROCEDURES. The Mayor, City Manager, City Secretary and the chief financial officer of the City and all other officers, employees, and agents of the City, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance and the Notes. In addition, prior to the initial delivery of the Notes, the Mayor, City Manager, City Secretary and chief financial officer of the City, and the City's Bond Counsel are hereby authorized and directed to approve any technical changes or correction to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance, (ii) obtain a rating from any of the national bond rating agencies, if any rating is obtained, or satisfy any requirements of the provider of a municipal bond insurance policy, if any, or (iii) obtain the approval of the Notes by the Attorney General of the State of Texas. In case any officer whose signature shall appear on any Note shall cease to be such officer before the delivery of such Note, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery. The City Manager of the City is further authorized to pay to the Attorney General of Texas prior to the delivery of the Notes, for the Attorney General's review of the transcript of proceedings related to the Notes, the amount required pursuant to Section 1202.004, Texas Government Code, as amended.

SECTION 17. ORDINANCE A CONTRACT; AMENDMENTS. This Ordinance shall constitute a contract with the Registered Owners of the Notes, binding on the City and its successors

LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD

NINTH FLOOR

DALLAS, TEXAS 75201-6587

TELEPHONE: 214 754-9200

FACSIMILE: 214 754-9250

700 N. ST. MARY'S STREET

1525 ONE RIVERWALK PLACE

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2984

600 CONGRESS AVENUE

1250 ONE AMERICAN CENTER

AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

December 19, 2006

Kathy Turner
City Secretary
City of Kennedale, Texas
405 Municipal Drive
Kennedale, Texas 76060

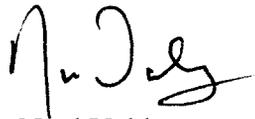
RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

Dear Ms. Turner:

Enclosed for your records is a copy of the Transcript of Proceedings relating to the captioned financing.

Thank you for your assistance with this matter. Please call me should you have any questions.

Cordially yours,



Noel Valdez

NV:si
enclosures

and assigns, and shall not be amended or repealed by the City as long as any Note remains outstanding except as permitted in this Section. The City may, without the consent of or notice to any Registered Owners, amend, change, or modify this Ordinance as may be required (i) by the provisions hereof, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission herein, or (iii) in connection with any other change which is not to the prejudice of the Registered Owners. The City may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Notes then outstanding affected thereby, amend, change, modify, or rescind any provisions of this Ordinance; provided that without the consent of all of the Registered Owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Notes, reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Note over any other Note, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Notes required for consent to any such amendment, change, modification, or rescission. Whenever the City shall desire to make any amendment or addition to or rescission of this Ordinance requiring consent of the Registered Owners, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to the Registered Owners at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by the Registered Owners of a majority in aggregate principal amount of the Notes then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Registered Owners, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided. No Registered Owner may thereafter object to the adoption of such amendment, addition, or rescission, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

SECTION 18. SECURITY INTEREST. Chapter 1208, Texas Government Code, applies to the issuance of the Notes and the pledge of the ad valorem taxes granted by the City under Section 6 of this Ordinance, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Notes are outstanding and unpaid such that the pledge of the ad valorem taxes granted by the City under Section 6 of this Ordinance is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Notes the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

SECTION 19. INTERESTED PARTIES. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City and the registered owners of the Notes, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City and the registered owners of the Notes.

SECTION 20. INCORPORATION OF RECITALS. The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

SECTION 21. SEVERABILITY. The provisions of this Ordinance are severable and if any provision or the applicability thereof to any person or circumstance is ever held by a court of competent jurisdiction to be invalid or unconstitutional for any reason, the remainder of this Ordinance and the application of such provisions to other persons or circumstances shall not be affected thereby.

SECTION 22. EFFECTIVE DATE. Pursuant to Section 1201.028, Texas Government Code, this Ordinance shall become effective immediately after its adoption.

[The remainder of this page intentionally left blank.]

**ADOPTED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE, TEXAS AT A
REGULAR MEETING HELD ON THE 14TH DAY OF SEPTEMBER, 2006.**

APPROVED:

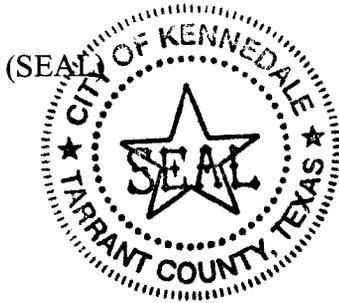
Bryan Laukhorst

Mayor, City of Kennedale, Texas

ATTEST:

Kenneth Turner

City Secretary, City of Kennedale, Texas



[SIGNATURE PAGE TO NOTE ORDINANCE]

EXHIBIT A

THE PAYING AGENT/REGISTRAR AGREEMENT IS OMITTED AT THIS POINT AS IT APPEARS IN EXECUTED FORM ELSEWHERE IN THIS TRANSCRIPT.

**Presidio Short Term Tax Exempt Fund, L.P.
711 Navarro, Suite 750
San Antonio, Texas 78205**

INVESTOR ACKNOWLEDGMENT LETTER

September 14, 2006

The Honorable Mayor and
City Council of City of Kennedale, Texas
City of Kennedale
405 Municipal Drive
Kennedale, Texas 76060

McCall, Parkhurst & Horton L.L.P.
1525 One Riverwalk Place
700 N. St. Mary's St.
San Antonio, Texas

Southwest Securities, Inc.
4040 Broadway, Suite 220
San Antonio, Texas 78209

RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

Ladies and Gentlemen:

I, the undersigned, being an authorized officer of **PRESIDIO SHORT TERM TAX EXEMPT FUND, L.P.** (the "Bank"), being a financial institution, to-wit: a bank within the definition of section 3(a)(2) of the Securities Act of 1933, engaged in the business of investing in securities such as the **TAX NOTES, SERIES 2006** described below (the "Notes"), acknowledge that the **CITY OF KENNEDALE, TEXAS** (the "Issuer"), is issuing the Notes to make improvements or acquire equipment for various City departments or for other public works, to wit: purchase an ambulance, purchase a dump truck, purchase and equip a police vehicle, purchase computer software and hardware, and pay for professional services rendered in connection therewith. The Notes are to be issued under the authority of Chapter 1431, Texas Government Code, as amended.

The Bank hereby acknowledges receipt of the ordinance authorizing the issuance and sale of the Notes (the "Ordinance"). The Bank understands that the Notes will constitute a general obligation of the Issuer. The Bank further understands that the Notes are issued on the full faith and credit of the Issuer and that ad valorem taxes sufficient to provide for the payment of the

interest on and principal of the Notes, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the Issuer, and have been pledged for such payment, within the limit prescribed by law.

The Bank further understands that the Notes will be approved by the Attorney General of the State of Texas. The Notes will initially be made payable to the order of the Bank.

In connection with the Notes, the Bank agrees as follows:

- A. The Bank will purchase the Notes, which shall be delivered to the Bank on or about October 5, 2006. The interest rate on the Notes shall be 4.35%. The first interest payment date for the Notes shall be March 1, 2007, with interest payable on each September 1 and March 1 thereafter until maturity or prior redemption. Principal of the Notes will be payable in semi-annual maturities, or upon redemption at the option of the Issuer, under the terms and conditions described below. The purchase price for the Notes shall be the principal amount thereof. Interest on the Notes will accrue from the date of initial delivery. The Notes shall mature and be payable serially on March 1 in each of the years and in the principal amounts, as set forth in the following schedule:

MATURITY DATE	PRINCIPAL AMOUNT
03/01/07	\$35,000
03/01/08	40,000
03/01/09	40,000
03/01/10	45,000
03/01/11	45,000
03/01/12	45,000
03/01/13	50,000

- B. The Notes will be fully registered as to principal and interest, and the **WELLS FARGO BANK, N.A., AUSTIN, TEXAS** shall serve as the initial paying agent and registrar for the Notes. The Notes are transferable in integral multiples of \$1,000.
- C. In regard to its purchase of the Notes, the Bank acknowledges that no prospectus or other offering document has been prepared; however, the Issuer has furnished the Bank with all information necessary and requested by the Bank to permit the Bank to make an informed decision concerning its purchase of the Notes, and the Bank has made such inspections and investigations as it has deemed necessary to determine the investment quality of the Notes and to assess all risk factors associated with the purchase and ownership of the Notes. The Bank hereby acknowledges and represents that it has a business relationship with the Issuer and that it is familiar with the financial condition of the Issuer and the ability of the Issuer to timely pay the principal of and interest on the Notes. The Bank has been

furnished with such financial information relating to the Issuer as it has requested for the purposes of making its assessment of an investment in the Notes. The Bank has had a reasonable opportunity to request and review such other information as it needs from the Issuer in order to enable it to make its investment decision. The Bank is not relying on McCall, Parkhurst & Horton L.L.P., the Issuer's Bond Counsel, as to the completeness or accuracy of any financial information provided to the Bank by the Issuer in connection with its determination to make an investment in the Notes.

- D. The Notes purchased by the Bank are being purchased for the account of the Bank as evidence of a loan (and not on behalf of another), and the Bank has no present intention of reselling such Notes or dividing its interest therein, either currently or after the passage of a fixed or determinable period of time or upon the occurrence or nonoccurrence of any predetermined event or circumstance; provided, however that the Bank reserves the right to sell, pledge, transfer, convey, hypothecate, or dispose of the Notes at some future date to persons who are able to and do confirm in writing to the Bank and to you the representations contained in the first paragraph to this letter and paragraphs (C) and (D) to the same extent as if such paragraphs referred to such persons.
- E. Delivery of the Notes to the Bank (the "Closing") shall be made on or about October 5, 2006, it being understood that the delivery date may be extended by mutual consent of the Bank and the Issuer.
- F. The Bank acknowledges that the Notes will not be rated. In addition, the Bank acknowledges that the Notes will not be listed on any securities exchange. Further, no trading market now exists in the Notes, and none may exist in the future. Accordingly, the Bank understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to the maturity for the Notes may not be possible or may be at a price below that which the Bank is paying for the Notes.
- G. It is understood and agreed that the Bank is buying the Notes in a private placement by the Issuer to the Bank. The Notes are exempt from any federal securities registration requirements by virtue of Section 3(a)(2) of the Securities Act of 1933. The private placement of the Notes is exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"); consequently the Issuer has not undertaken to make any on-going disclosures for the benefit of the registered owner of the Notes in accordance with the Rule.
- H. The Issuer will designate the Notes as a "qualified tax-exempt obligation" within the meaning of section 265(b) of the Internal Revenue Code. In furtherance of that designation, in the Ordinance the Issuer will covenant to take such action which would assure or to refrain from such action which would adversely affect the treatment of the Notes as a "qualified tax-exempt obligation."

- I. As a condition to the purchase of the Notes, the Bank shall receive at the Closing an opinion of Bond Counsel in substantially the form attached hereto as Exhibit A. In addition, the Bank shall receive, at the Closing, an opinion of the Attorney General of the State of Texas to the effect that the Notes have been lawfully issued by the Issuer and are a valid and binding obligation of the Issuer under applicable laws of the State of Texas.

[The remainder of this page intentionally left blank.]

Respectfully submitted,

PRESIDIO SHORT TERM TAX EXEMPT FUND, L.P.

By SN3 Advice ^{IP}

Title GENERAL PARTNER

[SIGNATURE PAGE TO INVESTMENT LETTER]

ACCEPTANCE

ACCEPTED pursuant to the Ordinance adopted by the City Council of the City of Kennedale, Texas this the 14th day of September, 2006.



Mayor, City of Kennedale, Texas

[CITY'S ACCEPTANCE OF THE INVESTMENT LETTER]

Exhibit A

Form of Opinion of Bond Counsel
with respect to the

\$300,000
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

October __, 2006

City of Kennedale, Texas
405 Municipal Drive
Kennedale, Texas 76060

Presidio Short Term Tax Exempt Fund, L.P.
711 Navarro, Suite 750
San Antonio, Texas 78205

RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

AS BOND COUNSEL FOR CITY OF KENNEDALE, TEXAS, the issuer (the "Issuer") of the **TAX NOTES, SERIES 2006** (the "Notes") described above, we have examined into the legality and validity of the Notes, which bear interest from the date of initial delivery of the Notes, until maturity or redemption, at the rate and payable on the dates as stated in the text of the Notes, and mature and are subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Notes.

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 Notes, including executed Note Number T-1.

BASED ON SAID EXAMINATION, it is our opinion that the Notes have been authorized, issued and duly 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 Notes constitute a valid and legally binding obligation of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Notes, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the Issuer, and have been pledged for such payment, within the limit prescribed by law, all as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Notes 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 Notes are not "specified private activity bonds"

and that, accordingly, interest on the Notes 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 Notes. 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 Notes to become includable in gross income retroactively to the date of issuance of the Notes.

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 Notes.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Notes, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Notes as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Notes is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Notes for federal income tax purposes, 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, or the disclosure thereof in connection with the sale of the Notes, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Notes and have relied solely on Notes executed by officials of the Issuer as to certain matters upon which we have relied in rendering our opinion, including the current outstanding indebtedness of, and the assessed valuation of taxable property within, the Issuer.

THE FOREGOING OPINIONS REPRESENT our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT entered into as of September 15, 2006 (this "Agreement"), by and between the **CITY OF KENNEDALE, TEXAS** (the "Issuer"), and **WELLS FARGO BANK, N.A.**, (the "Bank"), a national banking association duly organized and operating under the laws of the United States of America.

RECITALS

WHEREAS, the Issuer has duly authorized and provided for the issuance of its **CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006** (the "Securities") in the aggregate principal amount of **\$300,000**, 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 October 5, 2006; 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 "Ordinance" (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 Ordinance, a copy of which books and records shall be maintained at an office of the Bank located in the State of Texas or shall be available to be accessed from such office located in the State of Texas.

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 Mayor, the City Manager or chief financial officer 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.

“Ordinance” means the resolution, order, or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, certified by the City Secretary or any other officer of the Issuer and delivered to the Bank.

“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 Ordinance).

“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 Ordinance.

“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 Ordinance 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 or at the Bank’s offices located in San Antonio, Texas.

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 Ordinance.

**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 canceled 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. Securities.

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. Cancellation of Securities.

All Securities surrendered to the Bank, at the designated Bank Office, for payment, redemption, transfer or replacement, shall be promptly canceled by the Bank. The Bank will provide to the Issuer, at reasonable intervals determined by it, a certificate evidencing the destruction of canceled Securities.

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

The Issuer hereby instructs the Bank, subject to the applicable provisions of the Ordinance, 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 in the Ordinance 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, provided 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.

All funds at any time and from time to time provided to or held by the Bank hereunder shall be deemed, construed and considered for all purposes as being provided to or held by the Bank in trust and as a trustee for the benefit of the Security Holders. The Bank acknowledges, covenants and represents that it is acting herein in a fiduciary capacity in relation to such funds, and is not accepting, holding, administering, or applying such funds as a banking depository, but solely as trustee and fiduciary for and on behalf of the Security thereto, except as trustee pursuant to the terms of this Agreement. The Security Holders shall be entitled to the same preferred claim and first lien on the funds so provided as are enjoyed by the beneficiaries of trust funds generally. The funds provided to the Bank hereunder shall not be subject to warrants, drafts or checks drawn by the Issuer

and, except as expressly provided herein, shall not be subject to compromise, setoff, or other charge or diminution by the Bank.

The Bank shall be under no liability for interest on any money received by it hereunder.

Subject to the unclaimed property laws of the State of Texas and any provisions in the Ordinance to the contrary, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any Security and remaining unclaimed for four years after final maturity of the Security has become due and payable will be paid by the Bank to the Issuer, and the Holder of such Security shall thereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such moneys shall thereupon cease.

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 a county in the State of Texas where 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 located in a county in the State of Texas where the administrative offices of the Issuer is located 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," in effect from time to time, 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 Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between his Agreement and the Ordinance, the Ordinance 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.

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



By _____
Title Vice President

WELLS FARGO BANK, N.A.

By _____
Title ASSISTANT VICE PRESIDENT

Address: 400 W. 15th Street, 1st Floor
Austin, Texas 78701



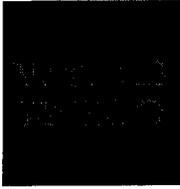
By _____
City Secretary

CITY OF KENNEDALE, TEXAS

By Bryan Lankhorst
Mayor

Address: 405 Municipal Drive
Kennedale, Texas 76060

EXHIBIT A



Gregory M. Hasty
Wells Fargo Bank
Corporate Trust Services
1445 Ross Avenue, 2nd Floor
Dallas, Texas 75202
Tel: (214) 740-1548
Fax: (214)777-4086

SCHEDULE OF FEES

\$300,000
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

To act as PAYING AGENT & REGISTRAR

Acceptance Fee: **\$0.00**

Initial Fees as they relate to Wells Fargo Bank acting in the capacity of Paying Agent/Registrar – includes creation and examination of the Paying Agent/Registrar Agreement; acceptance of the appointment; setting up of Paying Agent/Registrar records and accounting records; and coordination of closing.

Acceptance Fee payable at time of Paying Agent/Registrar Agreement execution.

Annual Administration Fee: (OPTION 1) **\$400.00**

Or

OPTION 2 Custodial Investment Account: **FEE- \$0.00**

Annual Fee will be waived if proceeds aggregating \$1,000,000 are continually invested in a qualified money market fund for which we receive a fee for services provided to that fund.

For Ordinary Paying Agent/Registrar administration services, for either of the options above. Includes daily routine account management; investment transactions; cash transaction processing in accordance with the agreement; and mailing of trust account statements to all applicable parties. Float credit received by the bank for receiving funds that remain uninvested are deemed part of the Paying Agent's compensation. The Annual Administration fees are payable in advance, with the first installment due at closing.

Out of Pocket Expenses:

We only charge for out of pocket expenses in response to specific tasks assigned by the client. Therefore, we cannot anticipate what specific out of pocket items will be needed or what corresponding expenses will be incurred. Possible expenses would be, but are not limited to, express mail and messenger charges, travel expenses to attend closing or other meetings. There are no charges for indirect out of pocket expenses.

This fee schedule is based upon the assumptions listed above which pertain to the responsibilities and risks involved in Wells Fargo undertaking the role of Paying Agent/Registrar. These assumptions are based on information provided to us as of the date of this fee schedule. Our fee schedule is subject to review and acceptance of the final documents. Should any of the assumptions, duties or responsibilities change, we reserve the right to affirm, modify or rescind our fee schedule.

Submitted by: Gregory M. Hasty-September 21, 2006
Vice President/Business Development
Wells Fargo Bank
(214) 740-1548
Pipeline ID #44800

R-1

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$35,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2007

DATE OF

SERIES

September 15, 2006

CUSIP NO.

489332FA9

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

THIRTY FIVE THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

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UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$40,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2008

DATE OF

SERIES

September 15, 2006

CUSIP NO.

489332FB7

SPECIMEN

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FORTY THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

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UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$40,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2009

SPECIMEN

DATE OF
SERIES

September 15, 2006

CUSIP NO.

489332FC5

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FORTY THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

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UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$45,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2010

DATE OF

SERIES

September 15, 2006

CUSIP NO.

489332FD3

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FORTY FIVE THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

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UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$45,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2011

DATE OF
SERIES

September 15, 2006

CUSIP NO.

489332FE1

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FORTY FIVE THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

R-6

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$45,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2012

DATE OF
SERIES

September 15, 2006

CUSIP NO.

489332FF8

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FORTY FIVE THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

R-7

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
CITY OF KENNEDALE, TEXAS
TAX NOTES, SERIES 2006

PRINCIPAL
AMOUNT

\$50,000

INTEREST RATE

4.35%

MATURITY DATE

March 1, 2013

DATE OF
SERIES

September 15, 2006

CUSIP NO.

489332FG6

REGISTERED OWNER:

CEDE & CO.

PRINCIPAL AMOUNT:

FIFTY THOUSAND DOLLARS

ON THE MATURITY DATE specified above, the **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas located in Tarrant County, Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), the Principal Amount specified above, and to pay interest thereon (calculated on the basis of a 360-day year of twelve 30-day months) from the date of initial delivery (as shown in the records of the Paying Agent/Registrar) at the Interest Rate per annum specified above, payable on March 1, 2007, and semiannually on each September 1 and March 1 thereafter to the Maturity Date specified above, or the date of redemption prior to maturity; except that if this Note 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 Note or Notes, if any, for which this Note is being exchanged is due but has not been paid, then this Note shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS NOTE are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Note shall be paid to the Registered Owner hereof upon presentation and surrender of this Note at maturity or upon the date fixed for its redemption prior to maturity at the designated corporate trust office of *Wells Fargo Bank, N.A., Austin, Texas*, which is the "Paying Agent/Registrar" for this Note. The payment of interest on this Note shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance adopted by the City authorizing the issuance of this Note and the series of which it is a part (the "Note Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid (or by such other method requested by the Registered Owner hereof and acceptable to the Paying Agent/Registrar), on each such interest payment date, to the Registered

Owner hereof, at its address as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. 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 (the "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 Registered Owner 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. Any accrued interest due upon the redemption of this Note prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Note for redemption and payment to the Paying Agent/Registrar at the Designated Trust Office (unless the redemption date is a regularly scheduled interest payment date, in which case accrued interest on such redeemed Notes shall be payable in the regular manner described above). The City covenants with the Registered Owner of this Note that on or before each principal payment date, interest payment date, and accrued interest payment date for this Note it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Note Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Notes, when due.

IF THE DATE FOR THE PAYMENT of the principal of or interest on this Note shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, 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, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS NOTE IS ONE OF A SERIES OF NOTES, dated September 15, 2006, authorized and issued in accordance with the Constitution and laws of the State of Texas, including Chapter 1431, Texas Government Code, as amended, in the principal amount of \$300,000 ***TO FINANCE THE COSTS OF PAYING CONTRACTUAL OBLIGATIONS INCURRED TO PURCHASE AN AMBULANCE, PURCHASE A DUMP TRUCK, PURCHASE AND EQUIP A POLICE VEHICLE, PURCHASE COMPUTER SOFTWARE AND HARDWARE AND PAY COSTS OF ISSUANCE.***

ALL NOTES OF THIS SERIES are issuable solely as fully registered Notes, without interest coupons, in the denomination of any integral multiple of \$1,000. As provided in the Note Ordinance, this Note, or any unredeemed portion hereof, may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred and exchanged for a like aggregate principal amount of fully registered Notes, 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 \$1,000 as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Note to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Note Ordinance. Among other requirements for such assignment and transfer, this Note must

be presented and surrendered to the Paying Agent/Registrar at the Designated Trust Office, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Note or any portion or portions hereof in any integral multiple of \$1,000 to the assignee or assignees in whose name or names this Note or any such portion or portions hereof is or are to be registered. The form of Assignment printed or endorsed on this Note 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 Note 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 transferring and exchanging any Note or portion thereof shall be paid by the City, but any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer or exchange as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer 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 Note or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Note called for redemption in part.

IN THE EVENT any Paying Agent/Registrar for the Notes is changed by the City, resigns, or otherwise ceases to act as such, the City has covenanted in the Note 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 Notes.

IT IS HEREBY CERTIFIED, RECITED, AND COVENANTED that this Note 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 Note have been performed, existed, and been done in accordance with law; that this Note is a general obligation of the City, issued on the full faith and credit thereof; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Note, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment within the limits provided by law.

THE CITY ALSO HAS RESERVED THE RIGHT to amend the Note Ordinance as provided therein, and under some (but not all) circumstances amendments thereto must be approved by the registered owners of a majority in aggregate principal amount of the outstanding Notes.

BY BECOMING THE REGISTERED OWNER of this Note, the Registered Owner thereby acknowledges all of the terms and provisions of the Note Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Note Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the City, and agrees that the terms and provisions of this Note and the Note Ordinance constitute a contract between each Registered Owner hereof and the City.

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

Kathy Turner
City Secretary, City of Kennedale, Texas

Shyan Laukhorst
Mayor, City of Kennedale, Texas



COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

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

Witness my signature and seal this

(COMPTROLLER'S SEAL)

Comptroller of Public Accounts
of the State of Texas

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE
(To be executed if this Note 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 Note has been issued under the provisions of the Note Ordinance described in the text of this Note; and that this Note has been issued in exchange for a note or notes, or a portion of a note or notes 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: _____

Wells Fargo Bank, N.A.,
Austin, Texas
Paying Agent/Registrar

By _____
Authorized Representative

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned Registered Owner of this Note, or duly authorized representative or attorney thereof, hereby assigns this Note to

(Assignee's Social Security or
Taxpayer Identification Number)

(Print or typewrite Assignee's name and address,
including zip code)

and hereby irrevocably constitutes and appoints _____
attorney to register the transfer of the within Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

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

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

GENERAL CERTIFICATE

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

§
§
§

We, the undersigned officers of the **CITY OF KENNEDALE, TEXAS** (the "City"), hereby certify as follows:

1. This certificate is executed for and on behalf of the City with reference to the issuance of the proposed **CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006**, dated September 15, 2006, in the principal amount of \$300,000 (the "Notes").

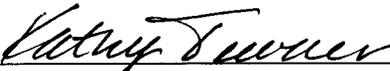
2. The City is a duly incorporated Home Rule City, having more than 5,000 inhabitants, operating and existing under the Constitution and laws of the State of Texas, and a duly adopted Home Rule Charter of the City, which Charter has not been changed or amended since the passage of the ordinance authorizing the issuance of the most recently dated, issued and outstanding obligations of the City.

3. No litigation of any nature has ever been filed pertaining to, affecting, questioning, or contesting: (a) the ordinance which authorized the Notes; (b) the issuance, execution, delivery, payment, security or validity of the Notes, (c) the authority of the City Council and the officers of the City to issue, execute and deliver the Notes, (d) the validity of the corporate existence or charter of the City, or (e) the current tax rolls of the City; and no litigation is pending pertaining, affecting, questioning, or contesting the current boundaries of the City.

4. Attached to this certificate and marked Exhibit A is a true, full and correct schedule and statement of the proposed Notes, and of all presently outstanding tax indebtedness of the City, and attached hereto as Exhibit B is a combined debt service schedule for all outstanding tax bond indebtedness of the City.

5. The currently effective ad valorem tax appraisal roll of the City (the "Tax Roll") is the Tax Roll prepared and approved during the calendar year 2006, being the most recently approved Tax Roll of the City; the taxable property in the City has been appraised, assessed, and valued as required and provided by the Texas Constitution and Property Tax Code (collectively, "Texas law"); the Tax Roll for said year has been submitted to the City Council of the City as required by Texas law, and has been approved and recorded by the City Council; and according to the Tax Roll for said year the net aggregate taxable value of taxable property in the City (after deducting the amount of all applicable exemptions required or authorized under Texas law), upon which the annual ad valorem tax of the City has been or will be imposed and levied, is \$365,947,888.

SIGNED AND SEALED this the 14th day of September, 2006.



City Secretary, City of Kennedale, Texas



Mayor, City of Kennedale, Texas



[SIGNATURE PAGE TO GENERAL CERTIFICATE]

EXHIBIT A

THE PROPOSED OBLIGATIONS:

Tax Notes, Series 2006, dated September 15, 2006, to be outstanding in the principal amount of \$300,000 bearing interest and maturing as set forth in the Ordinance authorizing said Notes.

ALL PRESENTLY OUTSTANDING TAX INDEBTEDNESS:

Combination Tax and Revenue Certificates of Obligation, Series 2005, dated February 1, 2005, maturing on February 15 in the years 2008 through 2014, inclusive, and in the years 2016, 2018, 2021, 2024 and 2026, currently outstanding in the aggregate principal amount of \$790,000, as follows:

4.250%	30M-08; 30M-09; 30M-10; 30M-11; 35M-12; 35M-13; 35M-14;
3.650%	80M-16;
3.900%	80M-17;
4.100%	135M-21;
4.300%	155M-24;
4.400%	115M-26

Combination Tax and Revenue Certificates of Obligation, Series 1998, dated November 1, 1998, maturing on February 15 in the years 2007 through 2019, inclusive, and in the years 2021 and 2024, currently outstanding in the aggregate principal amount of \$4,510,000, as follows:

4.3750%	185M-07; 190M-08; 200M-09; 210M-10; 225M-11; 230M-12;
4.400%	240M-13;
4.450%	250M-14;
4.500%	260M-15;
4.550%	275M-16; 290M-17;
4.600%	305M-18;
4.700%	320M-19;
4.750%	685M-21;
4.800%	645M-24

EXHIBIT B

COMBINED DEBT SERVICE SCHEDULE

AGGREGATE DEBT SERVICE

City of Kennedale, Texas
Tax Notes, Series 2006

Period Ending	Tax Notes, Series 2006	agg debt	Aggregate Debt Service
09/30/2007	46,056.25	419,725.63	465,781.88
09/30/2008	50,657.50	445,885.01	496,542.51
09/30/2009	48,917.50	446,078.76	494,996.26
09/30/2010	52,068.75	445,835.01	497,903.76
09/30/2011	50,111.25	450,044.38	500,155.63
09/30/2012	48,153.75	448,710.00	496,863.75
09/30/2013	51,087.50	446,911.25	497,998.75
09/30/2014		444,581.25	444,581.25
09/30/2015		446,695.00	446,695.00
09/30/2016		448,128.75	448,128.75
09/30/2017		448,765.00	448,765.00
09/30/2018		448,592.50	448,592.50
09/30/2019		452,355.00	452,355.00
09/30/2020		450,033.75	450,033.75
09/30/2021		446,920.00	446,920.00
09/30/2022		291,690.00	291,690.00
09/30/2023		289,460.00	289,460.00
09/30/2024		291,642.50	291,642.50
09/30/2025		58,850.00	58,850.00
09/30/2026		61,320.00	61,320.00
	347,052.50	7,682,223.79	8,029,276.29

SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE

We, the undersigned Mayor and City Secretary, respectively, of the **CITY OF KENNEDALE, TEXAS** (the "City"), hereby certify as follows:

(a) This certificate is executed and delivered with reference to the "*City of Kennedale, Texas Tax Notes, Series 2006*" dated September 15, 2006, in the aggregate principal amount of **\$300,000**, authorized by an ordinance passed by the City Council of the City on September 14, 2006 (the "Notes").

(b) Each of us signed the Notes by manually executing or causing facsimiles of our manual signatures to be printed or lithographed on each of the Notes, and 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 the Notes.

(c) The Notes are substantially in the form, and each of them has been duly executed and signed in the manner, prescribed in the ordinance authorizing the issuance thereof.

(d) At the time we so executed and signed the Notes 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 and sign the same.

(e) No litigation of any nature has been filed or is now pending or, to our knowledge, threatened, to restrain or enjoin the issuance or delivery of any of the Notes, 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 Notes, and that so far as we know and believe no such litigation is threatened.

(f) Neither the corporate existence nor boundaries of the City is being contested; no litigation has been filed or is now pending or, to our knowledge, threatened, which would affect the authority of the officers of the City to issue, execute, sign, and deliver any of the Notes; and no authority or proceedings for the issuance of any of the Notes have been repealed, revoked, or rescinded.

(g) We have caused the official seal of the City to be impressed, or printed, or lithographed on each of the Notes; and said seal on each of the Notes has been duly adopted as, and is hereby declared to be, the official seal of the City.

EXECUTED and delivered this OCT - 5 2006.

MANUAL SIGNATURES

OFFICIAL TITLES

Bryan Lankhorst

Bryan Lankhorst, Mayor

Kathy Turner

Kathy Turner, City Secretary

Before me, on this day personally appeared the foregoing individuals, known to me to be the officers whose true and genuine signatures were subscribed to the foregoing instrument in my presence.

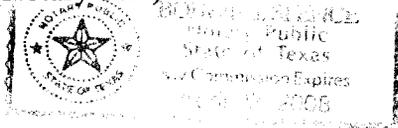
Given under my hand and seal of office this 9-15 2006.

Bobbie Spence
Notary Public

Typed Name Bobbie Spence

(My Commission Expires April 03, 2008)

(Notary Seal)



FEDERAL TAX 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 Tax Notes, Series 2006 (the "Notes"). The Notes are being issued pursuant to an ordinance of the Issuer (the "Ordinance") adopted on the date of sale of the Notes. 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 Notes.

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 Presidio Short Term Tax Exempt Fund, L.P., San Antonio, Texas (the "Purchaser") in Section 5 of this Certificate.

2. The Purpose of the Notes and Useful Lives of Projects.

2.1. The Notes are being issued pursuant to the Ordinance (a) to provide for the payment of costs of issuing the Notes and (b) to purchase an ambulance, a dump truck, computer software and hardware and to purchase and equip a police vehicle (the "Projects").

2.2. The Issuer expects that the aggregate useful lives of the Projects exceed 5 years from the later of the date the Projects are placed in service or the date on which the Notes are issued.

2.3. All earnings, such as interest and dividends, received from the investment of the proceeds of the Notes during the period of acquisition and construction of the Projects and not used to pay interest on the Notes, will be used to pay the costs of the Projects, 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"). The proceeds of the Notes, together with any investment earnings thereon, are expected not to exceed the amount necessary for the governmental purpose of the Notes. The Issuer expects that no disposition proceeds will arise in connection with the Projects or the Notes.

3. Expenditure of Notes Proceeds and Use of Projects.

3.1. The Issuer will incur, within six months after the date of issue of the Notes, a binding obligation to commence the Projects, either by entering into contracts for the construction of the Projects or by entering into contracts for architectural or engineering services for such Projects, or contracts for the development, purchase of construction materials, or purchase of equipment, for the Projects, 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 Projects.

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

3.3. All original proceeds derived from the sale of the Notes to be applied to the Projects 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 Projects no later than a date which is three years after the date of issue of the Notes.

3.4. The Ordinance provides that allocations of proceeds to expenditures for the Projects are expected not to be later than 18 months after the later of the date of the expenditure or the date that the Projects are placed in service, but, in any event, not longer than 60 days after the earlier of five years of the date hereof or the date the Notes are retired.

3.5. The Issuer will not invest the proceeds prior to such expenditure in any guaranteed investment contract or other non-purpose investment with a substantially guaranteed yield for a period equal to or greater than four years.

3.6. Other than members of the general public, the Issuer expects that throughout the lesser of the term of the Notes, or the useful lives of the Projects, the only user of the Projects will be the Issuer or the Issuer's employees and agents. The Issuer will be the manager of the Projects.

3.7. Except as stated below, the Issuer expects not to sell or otherwise dispose of property constituting the Projects prior to the earlier of the end of such property's useful life or the final maturity of the Notes. The Ordinance provides that the Issuer will not sell or otherwise dispose of the Projects unless the Issuer receives an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Notes.

3.8. For purposes of Section 3.7 hereof, the Issuer has not included the portion of the Projects comprised of personal property that is disposed in the ordinary course at a price that is expected to be less than 25 percent of the original purchase price. The Issuer, upon any disposition of such property, will transfer the receipts from the disposition of such property to the general operating fund and expend such receipts within six months for other governmental programs.

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 Notes, with a portion of the Interest and Sinking Fund constituting a bona fide debt service fund for the Notes, and money deposited into the Interest and Sinking Fund for the Notes will not be invested at a yield higher than the yield on the Notes, 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 Notes, 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 five percent of the proceeds of the Notes 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 Notes and debt service on the Notes 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 Notes 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 five percent of the proceeds of the Notes or \$100,000.

5. Yield.

All of the Notes have been the subject of a bona fide initial offering to the Purchaser who is acquiring as a member of the public and not for the present purposes of resale at a purchase price of 100 percent of the stated principal amount thereof.

6. Invested Sinking Fund Proceeds, Replacement Proceeds.

6.1. The Issuer has, in addition to the moneys received from the sale of the Notes, 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 Notes, or (b) which are reserved or pledged as collateral for payment of debt service on the Notes 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 Notes, within the meaning of section 148 of the Code.

7. Other Obligations.

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

8. Federal Tax Audit Responsibilities.

The Issuer acknowledges that in the event of an examination by the Internal Revenue Service (the "Service") to determine compliance of the Notes with the provisions of the Code as they relate to tax-exempt obligations, the Issuer will respond, and will direct its agents and assigns to respond, in a commercially reasonable manner to any inquiries from the Service in connection with such an examination. The Issuer understands and agrees that the examination may be subject to public disclosure under applicable Texas law.

9. Record Retention.

The Issuer has covenanted in the Ordinance that it will comply with the requirements of the Code relating to the exclusion of the interest on the Notes under section 103 of the Code. The Service has determined that certain materials, records and information should be retained by the issuers of tax-exempt obligations for the purpose of enabling the Service to confirm the exclusion

of the interest on such obligations under section 103 of the Code. **ACCORDINGLY, THE ISSUER SHALL TAKE STEPS TO ENSURE THAT ALL MATERIALS, RECORDS AND INFORMATION NECESSARY TO CONFIRM THE EXCLUSION OF THE INTEREST ON THE NOTES UNDER SECTION 103 OF THE CODE ARE RETAINED FOR THE PERIOD BEGINNING ON THE ISSUE DATE OF THE NOTES AND ENDING THREE YEARS AFTER THE DATE THE NOTES ARE RETIRED.** The Issuer acknowledges receipt of the letter attached hereto as Exhibit "B" which, in part, discusses specific guidance by the Service with respect to the retention of records relating to tax-exempt bond transaction. The Issuer also acknowledges that the letter does not constitute an opinion of Bond Counsel as to the proper record retention policy applicable to any specific transaction.

10. 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 Notes in excess of the yield on the Notes 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: OCT - 5 2006

CITY OF KENNEDALE, TEXAS

By: Bryan Lankhorst
Mayor

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Section 5 of this Federal Tax Certificate are accurate.

PRESIDIO SHORT TERM TAX EXEMPT
FUND, L.P., SAN ANTONIO, TEXAS

By: JN3 Shuch

Exhibit "A"

LAW OFFICES

McCALL, PARKHURST & HORTON L.L.P.

600 CONGRESS AVENUE
1250 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248
TELEPHONE: (512) 478-3805
FACSIMILE: (512) 472-0871

717 NORTH HARWOOD
NINTH FLOOR
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TELEPHONE: (214) 754-9200
FACSIMILE: (214) 754-9250

700 N. ST. MARY'S STREET
1525 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: (210) 225-2800
FACSIMILE: (210) 225-2964

January 1, 2006

ARBITRAGE REBATE REGULATIONS[©]

The arbitrage rebate requirements set forth in section 148(f) of the Internal Revenue Code of 1986 (the "Code") generally provide that in order for interest on any issue of bonds¹ 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.

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. This memorandum was prepared by McCall, Parkhurst & Horton L.L.P. and provides a general discussion of these 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. Any tax advice contained in this memorandum is of a general nature and is not intended to be used, and should not be used, by any person to avoid penalties under the Code.

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.

¹ 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, although they do permit an issuer to elect to apply the 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. 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 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). The statutory exception to rebate applicable for construction issues generally applies if such issue is delivered after December 19, 1989.

The 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 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 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 regulations, it is impossible to discuss in this memorandum all circumstances for which specific elections are provided. If an issuer prefers to use these final version of rebate regulations in lieu of the computational method stated under prior law (e.g., due to prior redemption) or the 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. Please refer to other materials provided by McCall, Parkhurst & Horton L.L.P. relating to federal tax rules regarding record retention.

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 from investments (i.e., earnings), 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>
01/1/1994	(\$49,000,000)	(\$69,119,339)
02/1/1994	3,000,000	4,207,602
04/1/1994	5,000,000	6,932,715
06/1/1994	14,000,000	19,190,277
09/1/1994	20,000,000	26,947,162
01/1/1995	(1,000)	(1,317)
07/1/1995	10,000,000	12,722,793
01/1/1996	(1,000)	(1,229)
		<u>\$878,664"</u>
Rebate amount (01/01/1999)		

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 issue price of the bond. 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) comprising 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 may occur 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.

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 expenditure of the gross proceeds for the 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, the term "gross proceeds" includes 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 a 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 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 eliminate or ameliorate the Issuer's 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 an exception to the arbitrage limitations for the investment of bond proceeds in tax-exempt obligations. As such, investment of proceeds in tax exempt bonds eliminates the Issuer's rebate obligation. A caveat; this exception does not apply to gross proceeds derived allocable to a bond, which is not subject to the alternative minimum tax under section 57(a)(5) of the Code, if invested in tax-exempt bonds subject to the alternative minimum tax, i.e., "private activity bonds." Such "AMT-subject" investment is treated as a taxable investment and must comply with the arbitrage rules, including rebate. Earnings from these tax-exempt investments are subject to arbitrage restrictions, including 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 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 or at a higher 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 regulations provide 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 contain 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 rebatable 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 rebatable 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 bonds² in an aggregate

² 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.

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.* 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. In the case of bonds issued for public school capital expenditures, the \$5 million cap may be increased to as much as \$15 million. For purposes of measuring whether bonds in the calendar year exceed these dollar limits, current refunding bonds can be disregarded if they meet certain structural requirements. Please contact McCall, Parkhurst & Horton L.L.P. for further information.

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.

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 either Harold T. Flanagan or Faust N. Bowerman at (214) 754-9200.

Exhibit "B"

LAW OFFICES

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September 14, 2006

Mr. Mark White
Interim City Manager
City of Kennedale
405 Municipal Drive
Kennedale, Texas 76060

Re: City of Kennedale, Texas
Tax Notes, Series 2006

Dear Mr. White:

As you know, the City of Kennedale, Texas (the "Issuer") will issue the captioned Notes 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 and expenditure of amounts to be used for the project or to be deposited to the interest and sinking fund for the captioned notes. The purpose of this letter is to set forth, in somewhat less technical language, those provisions of the tax law which require the timely use of bond proceeds and that investment of these amounts be at a yield which is not higher than the yield on the captioned notes. For this purpose, please refer to line 21(e) of the Form 8038-G included in the transcript of proceedings for the yield on the captioned notes.

Generally, the federal tax laws provide that, unless excepted, amounts to be used for the project or to be deposited to the interest and sinking fund must be invested in obligations the combined yield on which does not exceed the yield on the notes. Importantly, for purposes of administrative convenience, the notes, however, have been structured in such a way as to avoid, for the most part, this restriction on investment yield. They also contain certain covenants relating to expenditures of proceeds designed to alert you to unintentional failures to comply with the laws affecting expenditures of proceeds and dispositions of property. **IMPORTANTLY, THE PROCEEDS OF THE NOTES MAY NOT BE USED TO FINANCE EMPLOYEE COMPENSATION, INCLUDING SALARIES OR RETIREMENT PAYMENTS, OR TO PAY SERVICE CONTRACT EXPENSES WITHOUT SUBJECTING THE NOTES TO ADDITIONAL FEDERAL INCOME TAX REQUIREMENTS.**

First, the sale and investment proceeds to be used for the project may be invested for up to three years without regard to yield. (Such amounts, however, may be subject to rebate.) Thereafter, they must be invested at or below the bond yield. Importantly, expenditure of these proceeds must be accounted

in your books and records. Allocations of these expenditures must occur within 18 months of the later of the date paid or the date the project is completed. The foregoing notwithstanding, the allocation should not occur later than 60 days after the earlier of (1) of five years after the delivery date of the notes or (2) the date the notes are retired unless you obtain an opinion of bond counsel.

Second, 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 notes. 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 notes, or any other outstanding notes, 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.

Third, 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 five percent of the principal amount of the notes 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 notes are issued by the Issuer, whether for new money projects or for refunding, these amounts will change in their proportion.

The Ordinance contains covenants that require the Issuer to comply with the requirements of the federal tax laws relating to the tax-exempt obligations. The Internal Revenue Service (the "Service") has determined that certain materials, records and information should be retained by the issuers of tax-exempt obligations for the purpose of enabling the Service to confirm the exclusion of the interest on such obligations under the Internal Revenue Code. **Accordingly, the Issuer should retain such materials, records and information for the period beginning on the issue date of the captioned notes and ending three years after the date the captioned notes are retired. Please note this federal tax law standard may vary from state law standards.** The material, records and information required to be retained will generally be contained in the transcript of proceedings for the captioned notes, however, the Issuer should collect and retain additional materials, records and information to ensure the continued compliance with federal tax law requirements. For example, beyond the transcript of proceedings for the notes, the Issuer should keep schedules evidencing the expenditure of note proceeds, documents relating to the use of bond-financed property by governmental and any private parties (e.g., leases and management contracts, if any) and schedules pertaining to the investment of note proceeds. In the event that you have questions relating to record retention, please contact us.

Finally, you should notice that the ordinance contains a covenant that limits the ability of the Issuer to sell or otherwise dispose of bond-financed property for compensation. Beginning for obligations issued after May 15, 1997 (including certain refunding notes), or in cases in which an issuer elects to apply new private activity bond regulations, such sale or disposition causes the creation of a class of proceeds referred to as "disposition proceeds." Disposition proceeds, like sale proceeds and investment earnings, are tax-restricted funds. Failure to appropriately account, invest or expend such disposition proceeds would adversely affect the tax-exempt status of the notes. In the event that you anticipate selling property, even in the ordinary course, please contact us.

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 Federal Tax 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.

cc: Mr. Noel Valdez

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FACSIMILE: 210 225-2984

November 7, 2006

CERTIFIED MAIL RRR: 7004 2510 0007 2429 3956

Internal Revenue Service Center
Ogden, Utah 84201

Re: Information Reporting - Tax-Exempt Bonds
City of Kennedale, Texas
Tax Notes, Series 2006

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 October 5, 2006.

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,

MCALL, PARKHURST & HORTON L.L.P.



Harold T. Flanagan

HTF: ved
Enclosures
cc: Mr. Noel Valdez

LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

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TELEPHONE: 210 225-2800
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November 7, 2006

CERTIFIED MAIL RRR: 7004 2510 0007 2429 3956

Internal Revenue Service Center
Ogden, Utah 84201

Re: Information Reporting - Tax-Exempt Bonds
City of Kennedale, Texas
Tax Notes, Series 2006

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Sincerely,

MCCALL, PARKHURST & HORTON L.L.P.



Harold T. Flanagan

HTF: ved
Enclosures
cc: Mr. Noel Valdez

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)

► See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority If Amended Return, check here

1 Issuer's name KENNEDALE, TEXAS (CITY OF)	2 Issuer's employer identification number 75 6003070
3 Number and street (or P.O. box if mail is not delivered to street address) 405 MUNICIPAL DRIVE	Room/suite 4 Report number 3 01
5 City, town, or post office, state, and ZIP code KENNEDALE, TEXAS 76060	6 Date of issue 10-5-06
7 Name of issue TAX NOTES, SERIES 2006	8 CUSIP number 489332 FG6
9 Name and title of officer or legal representative whom the IRS may call for more information CLIFFORD BLACKWELL, DIRECTOR OF FINANCE	10 Telephone number of officer or legal representative (817) 478-5418

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 <input type="checkbox"/> Education	11
12 <input type="checkbox"/> Health and hospital	12
13 <input type="checkbox"/> Transportation	13
14 <input type="checkbox"/> Public safety	14
15 <input type="checkbox"/> Environment (including sewage bonds)	15
16 <input type="checkbox"/> Housing	16
17 <input type="checkbox"/> Utilities	17
18 <input checked="" type="checkbox"/> Other. Describe ► VARIOUS MUNICIPAL EQUIPMENT	18 300,000
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>	

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21 3-1-2013	\$ 300,000	\$ 300,000	3.605 years	4.3510 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	-0-
23 Issue price of entire issue (enter amount from line 21, column (b))	23	300,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	10,000
25 Proceeds used for credit enhancement	25	-0-
26 Proceeds allocated to reasonably required reserve or replacement fund	26	-0-
27 Proceeds used to currently refund prior issues	27	-0-
28 Proceeds used to advance refund prior issues	28	-0-
29 Total (add lines 24 through 28)	29	10,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	290,000

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.) NOT APPLICABLE

31 Enter the remaining weighted average maturity of the bonds to be currently refunded ► _____ years

32 Enter the remaining weighted average maturity of the bonds to be advance refunded ► _____ years

33 Enter the last date on which the refunded bonds will be called ► _____

34 Enter the date(s) the refunded bonds were issued ► _____

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) **35** -0-

36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions) **36a** -0-

b Enter the final maturity date of the guaranteed investment contract ► _____

37 Pooled financings: **a** Proceeds of this issue that are to be used to make loans to other governmental units **37a** -0-

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box and enter the name of the issuer ► _____ and the date of the issue ► _____ N/A

38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box

39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box

40 If the issuer has identified a hedge, check box

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here

Clifford Blackwell
 Signature of issuer's authorized representative

10-5-06
 Date

Clifford Blackwell
 Director of Finance
 Type or print name and title



September 14, 2006

Attorney General of the State of Texas
Public Finance Division
300 W. 15 Street, 9th Floor
Austin, Texas 78701

RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

Ladies and Gentlemen:

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

Enclosed herewith is a signed but undated copy of the SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE for said Notes. You are hereby authorized and directed to date said CERTIFICATE concurrently with the date of approval of the Notes. If any litigation or contest should develop pertaining to the Notes 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 Notes, unless you are notified otherwise as aforesaid.

Sincerely yours,

CITY OF KENNEDALE, TEXAS

By Bryan Lankhorst
Mayor

September 14, 2006

Texas State Comptroller of Public Accounts
Cash and Securities Management Division
Thomas Jefferson Rusk Building
208 East 10th Street, 4th Floor, Room 448
Austin, Texas 78701-2407
Attn: Melissa Mora

RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

Ladies and Gentlemen:

The Attorney General will deliver to you the above described issues of obligations. At such time as you have registered such obligations, this will be your authority to deliver them to an authorized representative of McCall, Parkhurst & Horton L.L.P., who will deliver said obligations to the bank of delivery for delivery to the purchasers thereof.

At the time you have registered the obligations, please release to an authorized representative of McCall, Parkhurst & Horton L.L.P., five copies of the Attorney General's opinion and the Comptroller's Signature Certificate covering said issue of obligations.

Sincerely yours,

CITY OF KENNEDALE, TEXAS

By Bryan Lankhorst
Mayor

cc: Attorney General of Texas



SOUTHWEST SECURITIES

Member of SVS Group

CLOSING MEMORANDUM

\$300,000
City of Kennedale, Texas
Tax Notes, Series 2006

Date: September 29, 2006

To: Attached Distribution List

From: Mark M. McLiney
Southwest Securities
(210) 226-8677

1. The closing time and date for the above-referenced issue (the "Notes") is Thursday, October 5, 2006, at 10:00 A.M., Central Time. A final debt service schedule is attached as Exhibit "A".
2. **Presidio Short Term Tax Exempt Fund, L.P., San Antonio, Texas** (the "Purchaser") shall wire \$300,000 to **Wells Fargo Bank, N.A., Austin, Texas** (the "Paying Agent/Registrar"), ABA #121000248, Account Number 0001038377, Corporate Trust Clearing, for credit to City of Kennedale, Texas Tax Notes, Series 2006, Attn: Mr. Jose A. Gaytan, (512) 344-7306, Account Number 99990909. There will be no accrued interest on the Notes.
3. Disbursement by **Wells Fargo Bank, N.A., Austin, Texas**:
 - A. \$ 400.00 shall be retained by Wells Fargo Bank, N.A., Austin, Texas for first year's Paying Agent/Registrar fees and expenses.
 - B. 290,000.00 shall be wired to the City of Kennedale, Texas (the "City") for deposit to the Construction Fund to **State Street Bank and Trust Company, Boston, MA**, ABA #011000028, BNF= Attn: TexPool #67573774, RFB= Location ID #78238, OBI= 449-2208000001, Participant Name: City of Kennedale, Texas.
 - C. 9,600.00 shall be wired to Southwest Securities for the fees and expenses associated with the legal authorization and issuance of the Notes to JPMorgan Chase Bank, N.A., Houston, Texas, ABA #021000021, for credit to Southwest Securities, Account #08805076955, for further credit to City of Kennedale, Texas Tax Notes, Series 2006 (#94-9030-119096), Attn: Ms. Angela Irvine, (214) 859-6353.

Closing Memorandum
City of Kennedale, Texas
September 29, 2006
Page 2

4. The Reconciliation of Receipts and Disbursements by the Paying Agent/Registrar is as follows:

Receipts:

Purchase Price of Notes	<u>\$ 300,000.00</u>
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Disbursements:

Paying Agent/Registrar Fees and Expenses	\$ 400.00
City's Construction Fund	290,000.00
Cost of Issuance	<u>9,600.00</u>
TOTAL DISBURSEMENTS	<u>\$ 300,000.00</u>

If there are any questions, please feel free to call me at (210) 226-8677.

DISTRIBUTION LIST

**\$300,000
City of Kennedale, Texas
Tax Notes, Series 2006**

Issuer

Mr. Clifford Blackwell
Director of Finance
City of Kennedale
405 Municipal Drive
Kennedale, Texas 76060

Phone: (817) 478-5418, x109
Facsimile: (817) 561-7308
cblackwell@cityofkennedale.com

Purchaser

Mr. Samuel N. Boldrick III
The Trust Company, N.A.
711 Navarro, Suite 750
San Antonio, Texas 78205

Phone: (210) 352-2410
Facsimile: (210) 472-2661
sboldrick@thetrustcompany.com

Paying Agent/Registrar

Mr. Jose A. Gaytan
Wells Fargo Bank, N.A.
MAC T5656-013
400 West 15th Street, 1st Floor (78701)
Post Office Box 2019
Austin, Texas 78768

Phone: (512) 344-7306
Facsimile: (512) 344-8621
Jose.A.Gaytan@wellsfargo.com

Financial Advisor

Mr. Mark M. McLIney
Southwest Securities
4040 Broadway, Suite 220
San Antonio, Texas 78209

Phone: 210) 226-8677
Facsimile: (210) 226-8299
mmcliney@swst.com

Bond Counsel

Mr. Noel Valdez
McCall, Parkhurst & Horton L.L.P.
1525 One Riverwalk Place
San Antonio, Texas 78206

Phone: (210) 225-2800
Facsimile: (210) 225-2984
nvaldez@mphlegal.com

Depository Bank

Operations
TexPool
1111 Bagby, Suite 2350
Houston, Texas 70002

Phone: (866) 891-7665
Facsimile: (866) 839-3291
www.Texpool.com



**SOUTHWEST
SECURITIES**
Member of SWS Group

September 29, 2006

Mr. Clifford Blackwell
Director of Finance
City of Kennedale
405 Municipal Drive
Kennedale, Texas 76060

STATEMENT

For services rendered and expenses incurred in connection with the legal authorization and issuance of **\$300,000.00 City of Kennedale, Texas Tax Notes, Series 2006**

\$ 9,600.00

MMMc/rgl

BOND DEBT SERVICE

City of Kennedale, Texas
Tax Notes, Series 2006

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
10/05/2006					
03/01/2007	35,000	4.350%	5,292.50	40,292.50	
09/01/2007			5,763.75	5,763.75	
09/30/2007					46,056.25
03/01/2008	40,000	4.350%	5,763.75	45,763.75	
09/01/2008			4,893.75	4,893.75	
09/30/2008					50,657.50
03/01/2009	40,000	4.350%	4,893.75	44,893.75	
09/01/2009			4,023.75	4,023.75	
09/30/2009					48,917.50
03/01/2010	45,000	4.350%	4,023.75	49,023.75	
09/01/2010			3,045.00	3,045.00	
09/30/2010					52,068.75
03/01/2011	45,000	4.350%	3,045.00	48,045.00	
09/01/2011			2,066.25	2,066.25	
09/30/2011					50,111.25
03/01/2012	45,000	4.350%	2,066.25	47,066.25	
09/01/2012			1,087.50	1,087.50	
09/30/2012					48,153.75
03/01/2013	50,000	4.350%	1,087.50	51,087.50	
09/30/2013					51,087.50
	300,000		47,052.50	347,052.50	347,052.50

RECEIPT FOR PROCEEDS

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

The undersigned hereby certifies as follows:

(a) This certificate is executed and delivered with reference to ***CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006***, dated September 15, 2006, in the principal amount of \$300,000 (the "Notes").

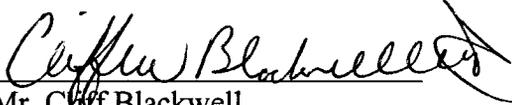
(b) The undersigned is duly authorized to execute this receipt for proceeds of the Notes.

(c) All of the Notes have been duly delivered to the purchaser thereof, namely:

PRESIDIO SHORT TERM TAX EXEMPT FUND, L.P.

(d) All of the Notes have been paid for in full by said purchaser concurrently with the delivery of this certificate, and the issuer of the Notes has received, and hereby acknowledges receipt of, the agreed purchase price for the Notes.

EXECUTED and delivered this **OCT - 5 2006**


Mr. Cliff Blackwell
Director of Finance



TEG

ATTORNEY GENERAL OF TEXAS
GREG ABBOTT

October 2, 2006

THIS IS TO CERTIFY that the City of Kennedale, Texas (the "Issuer"), has submitted to me City of Kennedale, Texas Tax Note, Series 2006 (the "Note") in the principal amount of \$300,000 for approval. The Note is dated September 15, 2006, numbered T-1, and was authorized by Ordinance No. 346 of the Issuer passed on September 14, 2006.

I have examined the law and such certified proceedings and other papers as I deem necessary to render this opinion.

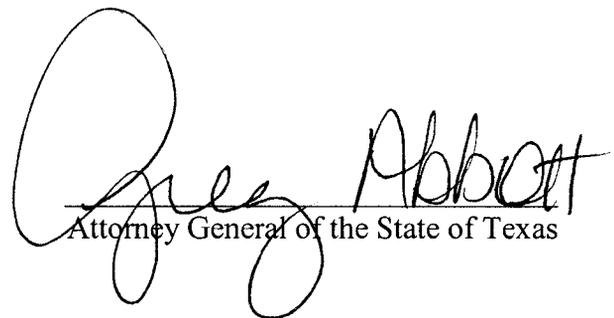
As to questions of fact material to my opinion, I have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigation.

I express no opinion relating to any official statement or any other offering material relating to the Note.

Based on my examination, I am of the opinion, as of the date hereof and under existing law, as follows:

- (1) The Note has been issued in accordance with law and is a valid and binding obligation of the Issuer.
- (2) The Note is payable from the proceeds of an ad valorem tax levied, within the limits prescribed by law, against all taxable property in the Issuer.

Therefore, the Note is approved.



Attorney General of the State of Texas

No. 45483
Book No. 2006D
MAA

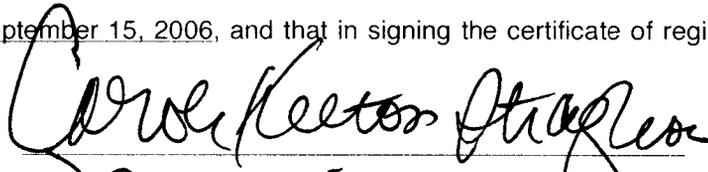
OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

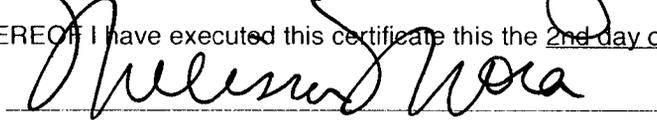
I, Melissa Mora, Bond Clerk Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 2nd day of October, 2006, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

City of Kennedale, Texas Tax Note, Series 2006,

numbered T-1, dated September 15, 2006, and that in signing the certificate of registration I used the following signature:

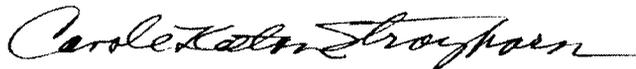


IN WITNESS WHEREOF I have executed this certificate this the 2nd day of October, 2006.



I, Carole Keeton Strayhorn, 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 Chapter 403, Subchapter H, Government Code, 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 described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 71953.

GIVEN under my hand and seal of office at Austin, Texas, this the 2nd day of October, 2006.



CAROLE KEETON STRAYHORN
Comptroller of Public Accounts
of the State of Texas

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, Carole Keeton Strayhorn, 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 Tax Note, Series 2006

numbered T-1, of the denomination of \$ 300,000, dated September 15, 2006, as authorized by issuer, interest 4.35 percent, under and by authority of which said note was registered in the office of the Comptroller, on the 2nd day of October, 2006, under Registration Number 71953.

Given under my hand and seal of office, at Austin, Texas, the 2nd day of October, 2006.



CAROLE KEETON STRAYHORN
Comptroller of Public Accounts
of the State of Texas

LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
NINTHFLOOR
DALLAS, TEXAS 75201-6587

TELEPHONE: 214 754-9200

FACSIMILE: 214 754-9250

700 N. ST. MARY'S STREET
1525 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2984

600 CONGRESS AVENUE
1250 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

October 5, 2006

City of Kennedale, Texas
405 Municipal Drive
Kennedale, Texas 76060

Presidio Short Term Tax Exempt Fund, L.P.
711 Navarro, Suite 750
San Antonio, Texas 78205

RE: \$300,000 CITY OF KENNEDALE, TEXAS TAX NOTES, SERIES 2006

AS BOND COUNSEL FOR THE CITY OF KENNEDALE, TEXAS, the issuer (the "Issuer") of the **TAX NOTES, SERIES 2006** (the "Notes") described above, we have examined into the legality and validity of the Notes, which bear interest from the date of initial delivery of the Notes until maturity, at the rate and payable on the dates as stated in the text of the Notes, and which mature, all in accordance with the terms and conditions stated in the text of the Notes.

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 Notes, including executed Note Number T-1.

BASED ON SAID EXAMINATION, it is our opinion that the Notes have been authorized, issued and duly 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 or by general principles of equity which permit the exercise of judicial discretion, the Notes constitute a valid and legally binding obligation of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Notes, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the Issuer, and have been pledged for such payment, within the limit prescribed by law, all as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Notes 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 Notes are not "specified private activity bonds" and that, accordingly, interest

on the Notes 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 Notes. 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 Notes to become includable in gross income retroactively to the date of issuance of the Notes.

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 Notes.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Notes, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Notes as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Notes is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Notes for federal income tax purposes, 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, or the disclosure thereof in connection with the sale of the Notes, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Notes and have relied solely on Notes executed by officials of the Issuer as to certain matters upon which we have relied in rendering our opinion, including the current outstanding indebtedness of, and the assessed valuation of taxable property within, the Issuer.

City of Kennedale, Texas Tax Notes, Series 2006
October 5, 2006
Page 3

THE FOREGOING OPINIONS REPRESENT our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

McCall, Pankhurst & Hester L.L.P.