

**\$2,900,000**  
**CITY OF KENNEDALE, TEXAS**  
**COMBINATION TAX AND REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2007**

Certificates Delivered: February 15, 2007

*Transcript of Proceedings*

LAW OFFICES  
**MCCALL, PARKHURST & HORTON L.L.P.**  
700 N. ST. MARY'S STREET, SUITE 1525  
SAN ANTONIO, TEXAS 78205

**\$2,900,000**  
**CITY OF KENNEDALE, TEXAS**  
**COMBINATION TAX AND REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2007**

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**CERTIFICATE FOR RESOLUTION**

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

§  
§  
§

I, the undersigned City Secretary of said City, hereby certify as follows:

1. The City Council of said City convened in REGULAR MEETING ON THE 14<sup>th</sup> DAY OF DECEMBER, 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, thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written

**RESOLUTION AUTHORIZING NOTICE OF INTENTION TO ISSUE  
CERTIFICATES OF OBLIGATION**

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

AYES: 5 NOES: 0 ABSTENTIONS: 0

2. That a true, full and correct copy of the aforesaid Resolution adopted at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; that said Resolution has been duly recorded in said City Council's minutes of said Meeting; that the above and foregoing paragraph is a true, full and correct excerpt from said City Council's minutes of said Meeting pertaining to the passage of said Resolution; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said City Council as indicated therein; that each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Resolution would be introduced and considered for 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.

SIGNED AND SEALED the 14<sup>th</sup> day of December, 2006.



Katley Turner  
City Secretary, City of Kennedale, Texas

**RESOLUTION AUTHORIZING NOTICE OF INTENTION TO ISSUE  
CERTIFICATES OF OBLIGATION**

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

*WHEREAS*, the City Council of the City of Kennedale, Texas (the "City") hereby determines that it is necessary and desirable to make improvements and extensions to the City's waterworks and sewer system (the "Project");

*WHEREAS*, the City Council of the City intends to finance the Project from proceeds derived from the sale of one or more series of Combination Tax and Revenue Certificates of Obligation issued by the City pursuant to Sections 271.041 - 271.063, Texas Local Government Code, as amended; and

*WHEREAS*, pursuant to Section 271.049, Texas Local Government Code, the City Council deems it advisable to give notice of intention to issue certificates of obligation in an amount not to exceed an aggregate of \$2,900,000 for the purpose of paying, in whole or in part, the Project, to pay all or a portion of the legal, fiscal and engineering fees in connection with the Project, and to pay the costs of issuance related to the certificates of obligation; and

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

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

**SECTION 1. APPROVAL OF NOTICE OF INTENTION.** Attached hereto is a form of the "Notice of Intention to Issue Combination Tax and Revenue Certificates of Obligation", the form and substance of which is hereby adopted and approved.

**SECTION 2. AUTHORIZATION TO PUBLISH NOTICE OF INTENTION.** The City Secretary shall cause said notice to be published in substantially the form attached hereto in a newspaper of general circulation in said City, on the same day in each of two consecutive weeks, the date of the first publication thereof to be before the 14th day before the date tentatively set for the passage of the ordinance authorizing the issuance of such certificates of obligation as shown in said notice. The City Manager and the City Secretary are each authorized to make changes to said Notice as necessary prior to its publication.

**SECTION 3. INCORPORATION OF RECITALS.** The City Council hereby finds that the statements set forth in the recitals of this Resolution are true and correct, and the City Council hereby incorporates such recitals as a part of this Resolution.

**SECTION 4. EFFECTIVE DATE.** This Resolution shall become effective immediately upon passage.

*[The remainder of this page intentionally left blank]*

**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE,  
TEXAS ON THE 14<sup>th</sup> DAY OF DECEMBER, 2006.**

*Katrina Jewell*  
City Secretary, City of Kennedale, Texas

*Bryan Lankhorst*  
Mayor, City of Kennedale, Texas



[SIGNATURE PAGE TO NOTICE OF INTENTION RESOLUTION]

**CITY OF KENNEDALE, TEXAS  
NOTICE OF INTENTION TO ISSUE  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION**

The City Council of the City of Kennedale, Texas (the "City") does hereby give notice of intention to issue one or more series of *City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation* in the maximum aggregate principal amount not to exceed \$2,900,000 for the purpose of paying, in whole or in part, contractual obligations to make improvements and extensions to the City's waterworks and sewer system. The City proposes to provide for the payment of such Certificates of Obligation from the levy and collection of ad valorem taxes in the City as provided by law and from a lien on and pledge of "Surplus Revenues", if any, received by the City from the ownership and operation of the City's waterworks and sanitary sewer system. The City Council proposes to authorize the issuance of such Certificates of Obligation at 7:00 p.m. on Thursday, January 11, 2007, at a Regular Meeting, at the City Hall, Kennedale, Texas.

          /s/ Bryan Lankhorst            
Mayor, City of Kennedale, Texas

AFFIDAVIT OF PUBLICATION

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

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

DECEMBER 21, 2006

DECEMBER 28, 2006

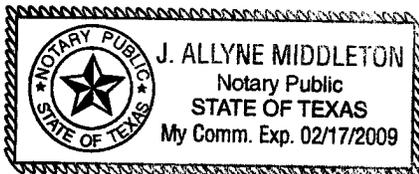
[Signature of Joe Murray]

Authorized Officer or Employee

SUBSCRIBED AND SWORN TO BEFORE ME on the Jan. 9, 2007.

[Signature of J. Allynne Middleton]

Notary Public

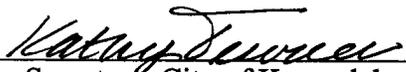


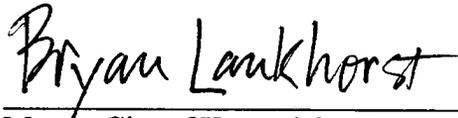
CITY OF KENNEDALE
NOTICE OF INTENTION TO ISSUE COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
The City Council of the City of Kennedale, Texas (the "City") does hereby give notice of intention to issue one or more series of City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation in the maximum aggregate principal amount not to exceed \$2,900,000 for the purpose of paying, in whole or in part, contractual obligations to make improvements and extensions to the City's waterworks and sewer system. The City proposes to provide for the payment of such Certificates of Obligation from the levy and collection of ad valorem taxes in the City as provided by law and from a lien on and pledge of "Surplus Revenues", if any, received by the City from the ownership and operation of the City's waterworks and sanitary sewer system. The City Council proposes to authorize the issuance of such Certificates of Obligation at 7:00 p.m. on Thursday, January 11, 2007, at a Regular Meeting at the City Hall, located at 405 Municipal Dr., Kennedale, TX.
/s/Bryan Landers, Mayor, City of Kennedale, Texas
STS - Dec 21, 28 - Kenn. Certs.



**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE, TEXAS AT A REGULAR MEETING CONVENED ON THE 11<sup>TH</sup> DAY OF JANUARY, 2007, AT WHICH MEETING A QUORUM WAS PRESENT.**

ATTEST:

  
\_\_\_\_\_  
City Secretary, City of Kennedale, Texas

  
\_\_\_\_\_  
Mayor, City of Kennedale, Texas

(CITY SEAL)



\*\* \*\* \* \*\* \*

[EXECUTION PAGE TO THE CERTIFICATE OF OBLIGATION ORDINANCE]

**ORDINANCE NO. 356**

**ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF "CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007"; SECURING THE PAYMENT THEREOF BY AUTHORIZING THE LEVY OF AN ANNUAL AD VALOREM TAX AND A PLEDGE OF SURPLUS REVENUES OF THE CITY'S WATERWORKS AND SANITARY SEWER SYSTEM; APPROVING AND AUTHORIZING THE EXECUTION OF ALL INSTRUMENTS AND PROCEDURES RELATED THERETO INCLUDING AN INVESTMENT LETTER AND A PAYING AGENT/REGISTRAR AGREEMENT; AND PROVIDING FOR AN IMMEDIATE EFFECTIVE DATE**

SALE DATE: JANUARY 11, 2007

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Exhibit A	PAYING AGENT/REGISTRAR AGREEMENT	
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**ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF "CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007"; SECURING THE PAYMENT THEREOF BY AUTHORIZING THE LEVY OF AN ANNUAL AD VALOREM TAX AND A PLEDGE OF SURPLUS REVENUES OF THE CITY'S WATERWORKS AND SANITARY SEWER SYSTEM; APPROVING AND AUTHORIZING THE EXECUTION OF ALL INSTRUMENTS AND PROCEDURES RELATED THERETO INCLUDING AN INVESTMENT LETTER AND A PAYING AGENT/REGISTRAR AGREEMENT; AND PROVIDING FOR AN IMMEDIATE EFFECTIVE DATE**

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

**WHEREAS**, the City Council of **CITY OF KENNEDALE, TEXAS** (the "City") hereby determines that it is necessary and desirable to make improvements and extensions to the City's waterworks and sewer system and pay for professional services rendered in connection therewith; and

**WHEREAS**, on December 14, 2006, the City Council adopted a resolution authorizing and directing the City Secretary to give notice of intention to issue certificates of obligation pursuant to the provisions of Subchapter C of Chapter 271, Texas Local Government Code, as amended, to finance the Project (the "Notice"); and

**WHEREAS**, the Notice stated that the City Council proposed to authorize the issuance of the certificates of obligation at a regular meeting on Wednesday, January 11, 2007; and

**WHEREAS**, the Notice was duly published in the *South Tarrant Star*, which is a newspaper of general circulation in the City, in its issues of December 21, 2007 and December 28, 2007; and

**WHEREAS**, the City received no petition signed by at least five percent of the qualified electors of the City protesting the issuance of such certificates of obligation; and

**WHEREAS**, it is considered to be in the best interest of the City that said interest bearing certificates of obligation be issued; and

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

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

**SECTION 1. AMOUNT AND PURPOSE OF THE CERTIFICATES.** The certificate or certificates of the City further described in Section 2 of this Ordinance and referred to herein as the "Certificates of Obligation" are hereby authorized to be issued and delivered in the aggregate principal amount of **\$2,900,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS TO MAKE IMPROVEMENTS AND EXTENSIONS TO THE**

***CITY'S WATERWORKS AND SEWER SYSTEM AND PAY FOR PROFESSIONAL SERVICES RENDERED IN CONNECTION THEREWITH AND PAYING FOR COSTS OF ISSUANCE.***

**SECTION 2. DESIGNATION, DATE, DENOMINATIONS, NUMBERS AND MATURITIES OF CERTIFICATES.** Each certificate issued pursuant to and for the purpose described in Section 1 of this Ordinance shall be designated: "***CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATE OF OBLIGATION, SERIES 2007***", and initially there shall be issued, sold and delivered hereunder one fully registered certificate, without interest coupons, dated February 1, 2007, in the aggregate principal amount of ***\$2,900,000***, numbered T-1 (the "Initial Certificate of Obligation"), with Certificates of Obligation issued in replacement thereof being in the denomination of \$5,000 or any integral multiple thereof and numbered consecutively from R-1 upward, all payable to the initial registered owner thereof (with the Initial Certificate of Obligation being payable to the initial purchaser designated in Section 14 hereof), or to the registered assignee or assignees of said certificates or any portion or portions thereof (in each case, the "Registered Owner"), and the Certificates of Obligation shall mature and be payable serially on February 15 in each of the years and in the principal amounts, respectively, as set forth in the following schedule:

<b>YEAR OF MATURITY</b>	<b>PRINCIPAL AMOUNT</b>	<b>YEAR OF MATURITY</b>	<b>PRINCIPAL AMOUNT</b>
2008	\$95,000	2018	\$145,000
2009	100,000	2019	150,000
2010	105,000	2020	155,000
2011	110,000	2021	165,000
2012	115,000	2022	170,000
2013	115,000	2023	175,000
2014	120,000	2024	185,000
2015	125,000	2025	190,000
2016	130,000	2026	200,000
2017	140,000	2027	210,000

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

**SECTION 3. INTEREST.** The Certificates of Obligation shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF CERTIFICATE OF OBLIGATION set forth in this Ordinance to their respective dates of maturity or prior redemption at a per annum rate of **4.10%**. Said interest shall be payable in the manner provided and on the dates stated in the FORM OF CERTIFICATE OF OBLIGATION set forth in this Ordinance.

**SECTION 4. CHARACTERISTICS OF THE CERTIFICATES.** (a) *Registration, Transfer, and Exchange; Authentication.* The City shall keep or cause to be kept at the designated corporate trust office of **Bank of America, N.A.**, (currently located in Fort Worth, Texas) (the "Paying Agent/Registrar") books or records for the registration of the transfer and exchange of the Certificates of Obligation (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 Certificate of Obligation to which payments with respect to the Certificates of Obligation 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 Certificates of Obligation 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 Certificate of Obligation or Certificates of Obligation shall be paid as provided in the FORM OF CERTIFICATE OF OBLIGATION set forth in this Ordinance. Registration of assignments, transfers and exchanges of Certificates of Obligation shall be made in the manner provided and with the effect stated in the FORM OF CERTIFICATE OF OBLIGATION set forth in this Ordinance. Each substitute Certificate of Obligation shall bear a letter and/or number to distinguish it from each other Certificate of Obligation.

Except as provided in (c) below, an authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Certificate of Obligation, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Certificate of Obligation shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Certificates of Obligation and Certificates of Obligation 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 Certificate of Obligation or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Certificates

of Obligation in the manner prescribed herein, and said Certificates of Obligation shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Subchapter D of Chapter 1201, Texas Government Code, the duty of transfer and exchange of Certificates of Obligation as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the transferred and exchanged Certificate of Obligation shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Certificates of Obligation which initially were issued and delivered pursuant to this Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts.

(b) *Payment of Certificates of Obligation 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 Certificates of Obligation, 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 Certificates of Obligation.

(c) *In General.* The Certificates of Obligation (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Certificates of Obligation to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar by the City at least 50 days prior to any such redemption date), (iii) may be transferred and assigned, (iv) may be exchanged for other Certificates of Obligation, (v) shall have the characteristics, (vi) shall be signed, sealed, executed and authenticated, (vii) the principal of and interest on the Certificates of Obligation 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 Certificates of Obligation, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF CERTIFICATE OF OBLIGATION set forth in this Ordinance. The Initial Certificate of Obligation is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Certificate of Obligation issued in exchange for the Initial Certificate of Obligation issued under this Ordinance the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF CERTIFICATE OF OBLIGATION. In lieu of the executed Paying Agent/Registrar's Authentication Certificate described above, the Initial Certificate of Obligation 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 CERTIFICATE OF OBLIGATION 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 Certificate of Obligation 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 Certificates of Obligation that at all times while the Certificates of Obligation 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 Certificates of Obligation 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 Certificates of Obligation, 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 Certificates of Obligation, 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) *Delivery of Initial Certificate of Obligation.* On the closing date, one Initial Certificate of Obligation representing the entire principal amount of the respective series of Certificates of Obligation and, payable in stated installments to the initial registered owner named in Section 14 of this Ordinance or its designee, executed by the manual or facsimile signature of the Mayor, countersigned by the manual or facsimile signature of the City Secretary of the City, registered and signed by the manual or facsimile signature of the City Treasurer 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 Certificates of Obligation, the Paying Agent/Registrar shall cancel the Initial Certificate of Obligation and deliver to the initial registered owner or its designee one registered definitive Certificate of Obligation for each year of maturity of the Certificates of Obligation, in the aggregate principal amount of all of the Certificates of Obligation for such maturity.

**SECTION 5. FORM OF CERTIFICATE OF OBLIGATION.** The form of the Certificates of Obligation, 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 Certificates of Obligation initially issued and delivered pursuant to this Ordinance), shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance:

*[The remainder of this page intentionally left blank]*

FORM OF CERTIFICATE OF OBLIGATION

R-

**PRINCIPAL  
AMOUNT**

\$ \_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**

**4.10%**

**DATE OF DELIVERY**

**February 15, 2007**

**MATURITY DATE**

\_\_\_\_\_

**REGISTERED OWNER:**

**PRINCIPAL AMOUNT:**

**DOLLARS**

*ON THE MATURITY DATE* specified above, *CITY OF KENNEDALE, TEXAS* (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

*THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE* are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail,

first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each owner of a Certificate of Obligation appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice. Any accrued interest due upon the redemption of this Certificate of Obligation prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Certificate of Obligation 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 Certificates of Obligation shall be payable in the regular manner described above). The City covenants with the Registered Owner of this Certificate of Obligation that on or before each principal payment date and interest payment date for this Certificate of Obligation it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Certificate of Obligation Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Certificates of Obligation, when due.

***IF THE DATE FOR ANY PAYMENT DUE*** on this Certificate of Obligation shall be a Saturday, Sunday, a legal holiday, or a 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, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

***THIS CERTIFICATE OF OBLIGATION IS ONE OF A SERIES OF CERTIFICATES OF OBLIGATION***, dated as of February 1, 2007, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of ***\$2,900,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS TO MAKE IMPROVEMENTS AND EXTENSIONS TO THE CITY'S WATERWORKS AND SEWER SYSTEM AND PAY FOR PROFESSIONAL SERVICES RENDERED IN CONNECTION THEREWITH AND PAYING FOR COSTS OF ISSUANCE..***

***ON ANY DATE***, the Certificates of Obligation of this series may be redeemed prior to their scheduled maturities, at the option of the City, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular principal installments or portions thereof, to be redeemed shall be selected and designated by the City, at a redemption price equal to the principal amount to be redeemed, plus the "Prepayment Fee", computed pursuant to Section 15 of the Certificate of Obligation Ordinance, if any, plus accrued interest to the date fixed for redemption.

***AT LEAST 10*** days prior to the date fixed for any optional redemption of the Certificate of Obligation or portions thereof prior to maturity a written notice of such redemption shall be sent by the City by United States mail, first-class postage prepaid, to the registered owner at its address as it appeared on the Registration Books on the day such notice of redemption is mailed; provided, however, that the failure of the registered owner to receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of this Certificate of Obligation. By the date fixed for any such redemption, due provision shall be made for the payment of the required redemption price for the Certificate of Obligation or portions thereof which are to be so redeemed. If such written notice of redemption is sent and if due provision for such payment is made, all as provided above, the Certificate of Obligation or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to its scheduled maturity, and shall not bear interest after the date fixed for redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the City out of the funds provided for such payment.

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

**IN THE EVENT ANY PAYING AGENT/REGISTRAR** for the Certificates of Obligation is changed by the City, resigns, or otherwise ceases to act as such, the City has covenanted in the Certificate of Obligation Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Certificates of Obligation.

**IT IS HEREBY CERTIFIED, RECITED, AND COVENANTED** that this Certificate of Obligation has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance and delivery of this Certificate of Obligation have been performed, existed, and been done in accordance with law; that this Certificate of Obligation 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 Certificate of Obligation, 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, and that this Certificate of Obligation is additionally secured by a lien on and pledge of Surplus Revenues received by the City from the ownership and operation of the City's waterworks and sanitary sewer system.

**THE CITY HAS RESERVED THE RIGHT TO AMEND** the Certificate of Obligation 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 Certificates of Obligation.

**BY BECOMING THE REGISTERED OWNER** of this Certificate of Obligation, the Registered Owner thereby acknowledges all of the terms and provisions of the Certificate of Obligation Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Certificate of Obligation 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 Certificate of Obligation and the Certificate of Obligation Ordinance constitute a contract between each Registered Owner hereof and the City.

**IN WITNESS WHEREOF**, the City has caused this Certificate of Obligation to be signed with the manual or facsimile signature of the Mayor of the City, 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 Certificate of Obligation.

Countersigned:

\_\_\_\_\_  
(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 Certificate of Obligation has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Certificate of Obligation 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

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

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

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

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

Dated

***Bank of America, N.A.***  
***Fort Worth, Texas***  
Paying Agent/Registrar

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

FORM OF ASSIGNMENT:

**ASSIGNMENT**

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

\_\_\_\_\_  
/\_\_\_\_\_  
(Assignee's Social Security or (Print or typewrite Assignee's name and  
Taxpayer Identification) address,  
including zip code)

and hereby irrevocably constitutes and appoints \_\_\_\_\_  
attorney to register the transfer of the Certificate of Obligation 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  
Certificate of Obligation in every particular,  
without alteration or enlargement or any  
change whatsoever.

**INITIAL CERTIFICATE OF OBLIGATION INSERTIONS**

The Initial Certificate of Obligation shall be in the respective form set forth above except that:

- (A) Immediately under the name of the Certificate of Obligation, the headings "INTEREST RATE" and "MATURITY DATE" shall be completed with the words "As shown below".
- (B) The first paragraph shall be deleted and the following shall be inserted:

***“ON THE RESPECTIVE MATURITY DATES*** specified below, ***CITY OF KENNEDALE, TEXAS*** (the “City”), being a political subdivision of the State of 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 Delivery, as set forth above, at the Interest Rate per annum specified above, payable on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the respective Maturity Dates specified below, or the date of redemption prior to maturity. The respective Maturity Dates and Principal Installments for this Certificate of Obligation are set forth in the following schedule:

MATURITY DATE (FEBRUARY 15)	PRINCIPAL INSTALLMENT

*[Insert information from Sections 2 and 3 above]*

(C) The Initial Certificate of Obligation shall be numbered "T-1."

**SECTION 6. INTEREST AND SINKING FUND; TAX LEVY.** A special "Interest and Sinking Fund" is hereby created and shall be established and maintained by the City at an official depository bank of the City. Said 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 the principal of said Certificates of Obligation. All ad valorem taxes levied and collected for and on account of said Certificates of Obligation shall be deposited, as collected, to the credit of said Interest and Sinking Fund. For each fiscal year while any of the Certificates of Obligation or interest thereon are outstanding and unpaid, the governing body of the City shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the Certificates of Obligation as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of the Certificates of Obligation as such principal matures (but never less than 2% of the original principal amount of each series of the Certificates of Obligation 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 Certificates of Obligation 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 Interest and Sinking Fund created by this Ordinance. Said ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates of Obligation, as such interest comes due and such principal matures, are hereby pledged for such payment, within the limit prescribed by law.

**SECTION 7. SURPLUS REVENUES.** Pursuant to Section 271.052, Texas Local Government Code, as amended, and Section 1502.052, Texas Government Code, as amended, the Certificates of Obligation additionally shall be payable from and secured by surplus revenues derived by the City from the ownership and operation of the City's waterworks and sanitary sewer system (the "Utilities System") remaining after (a) payment of all amounts constituting operation and maintenance expenses of said Utilities System, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter authorizing (i) all bonds and (ii) all other obligations not on a parity with the Certificates of Obligation, which are payable from and secured by any Utilities System revenues, and (c) payment of all amounts payable from any Utilities System revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law (the "Surplus Revenues"). If for any reason the City fails to deposit ad valorem taxes levied pursuant to Section 6 hereof to the credit of the Interest and Sinking Fund relating to the Certificates of Obligation in an amount sufficient to

pay, when due, the principal of and interest on the Certificates of Obligations, then Surplus Revenues may be deposited to the credit of such Interest and Sinking Fund and used to pay such principal and/or interest. The City reserves, and shall have, the right to issue bonds and other obligations not on a parity with the Certificates of Obligation, and to enter into contracts, in accordance with applicable laws, to be payable from and secured by any Utilities System revenues.

**SECTION 8. CONSTRUCTION FUND.** There is hereby created and established on the financial records of the City or in the depository of the City, a fund to be called the "City of Kennedale, Texas Certificates of Obligation (Series 2007) Construction Fund" (herein called the "Construction Fund"). All proceeds from the sale and delivery of the Certificates of Obligation (other than accrued interest and any premium on the Certificates of Obligation, if any, that is not used by the City to pay costs of issuance in accordance with the provisions of Section 1201.042(d), Texas Government Code, as amended, which amounts 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 costs of issuance and all costs incurred in carrying out the purpose for which the Certificates of Obligation are issued, including, but not limited to, costs for construction, engineering, architecture, financing, financial consultants and legal services related to the project being financed with proceeds of the Certificates of Obligation and the issuance of the Certificates of Obligation. All funds remaining on deposit in the Construction Fund upon completion of construction of the project being financed with the proceeds from the Certificates of Obligation, if any, shall be transferred to the Interest and Sinking Fund.

**SECTION 9. 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 by applicable law, including but not limited to the Public Funds Investment Act (Chapter 2256, Texas Government Code), and 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 each Interest and Sinking Fund shall have a final maturity no later than the next principal or interest payment date on which such funds will be needed, 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 Certificates of Obligation 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 Certificates of Obligation. It is further provided, however, that any interest earnings on certificate proceeds which are required to be rebated to the United States of America pursuant to Section 13 hereof in order to prevent the Certificates of Obligation from being arbitrage certificates shall be so rebated and not considered as interest earnings for the purposes of this Section.

**Section 10. DEFEASANCE OF CERTIFICATES.** (a) *Defeased Certificates of Obligation.* Any Certificate of Obligation and the interest thereon shall be deemed to be paid, retired and no longer Outstanding (a "Defeased Certificate of Obligation"), except to the extent provided in subsection (d) of this Section, when payment of the principal of such Certificate of Obligation, 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, are referred to collectively in this Section as the "Defeasance Agent"), in accordance with the requirements of Chapter 1207, Texas Government Code, as amended, or other applicable law (which may include the use of an escrow agreement or other similar instrument - the "Future Escrow Agreement"): (1) lawful money of the United States of America sufficient to make such payment or (2) "Defeasance Securities" (as defined below) 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 Certificates of Obligation shall have become due and payable. At such time as a Certificate of Obligation shall be deemed to be a Defeased Certificate of Obligation hereunder, as aforesaid, such Certificate of Obligation 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. Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem Defeased Certificates of Obligation that is made in conjunction with the payment arrangements specified in subsection (a)(i) or (ii) of this Section shall not be irrevocable, provided that: (1) in the proceedings providing for such payment arrangements, the City expressly reserves the right to call the Defeased Certificates of Obligation for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Certificates of Obligation immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

(b) *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 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.

(c) *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 Certificates of Obligation 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 account or Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Certificates of Obligation 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 subsections (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 Certificates of Obligation, 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.

(d) Paying Agent/Registrar Services. Until all Defeased Certificates of Obligation shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Certificates of Obligation 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 Certificates of Obligation for Defeasance. In the event that the City elects to defease less than all of the principal amount of Certificates of Obligation of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Certificates of Obligation by such random method as it deems fair and appropriate.

**SECTION 11. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED CERTIFICATES.** (a) Replacement Certificates of Obligation. In the event any outstanding Certificate of Obligation is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new certificate of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Certificate of Obligation, in replacement for such Certificate of Obligation in the manner hereinafter provided.

(b) Application for Replacement Certificates of Obligation. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Certificates of Obligation shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Certificate of Obligation, the registered owner applying for a replacement certificate 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 Certificate of Obligation, 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 Certificate of Obligation. In every case of damage or mutilation of a Certificate of Obligation, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Certificate of Obligation so damaged or mutilated.

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

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

or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Certificates of Obligation duly issued under this Ordinance.

(e) *Authority for Issuing Replacement Certificates of Obligation.* In accordance with Chapter 1201, Texas Government Code, as amended, this Section of this Ordinance shall constitute authority for the issuance of any such replacement certificate without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such certificates is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Certificates of Obligation in the form and manner and with the effect, as provided in Section 4(a) of this Ordinance for Certificates of Obligation issued in conversion and exchange for other Certificates of Obligation.

**Section 12. CUSTODY, APPROVAL, AND REGISTRATION OF CERTIFICATES; BOND COUNSEL'S OPINION; CUSIP NUMBERS; AND OTHER MATTERS.** The Mayor of the City is hereby authorized to have control of the Certificates of Obligation initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Certificates of Obligation pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Certificates of Obligation said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Certificates of Obligation, 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 (with an appropriate certificate pertaining thereto executed by facsimile signature of the City Secretary of the City) and the assigned CUSIP numbers (if obtained) may, at the option of the City, be printed on the Certificates of Obligation issued and delivered under this Ordinance, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Certificates of Obligation.

**SECTION 13. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE CERTIFICATES.** (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 Certificates of Obligation 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 Certificates of Obligation or the projects financed or refinanced 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 or refinanced 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 Certificates of Obligation, 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 Certificates of Obligation or the projects financed or refinanced 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 Certificates of Obligation (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 Certificates of Obligation 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 Certificates of Obligation 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 Certificates of Obligation, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Certificates of Obligation, other than investment property acquired with --

(A) proceeds of the Certificates of Obligation invested for a reasonable temporary period of 3 years or less or, in the case of a refunding certificate, for a period of 30 days or less until such proceeds are needed for the purpose for which the certificates 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 Certificates of Obligation;

(7) to otherwise restrict the use of the proceeds of the Certificates of Obligation or amounts treated as proceeds of the Certificates of Obligation, as may be necessary, so that the Certificates of Obligation 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 Certificates of Obligation) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Certificates of Obligation 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 certificateholders. 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 certificates, transferred proceeds (if any) and proceeds of the refunded certificates expended prior to the date of issuance of the Certificates of Obligation. 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 Certificates of Obligation, 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 Certificates of Obligation under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Certificates of Obligation, 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 Certificates of Obligation under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Finance Director 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 Certificates of Obligation.

(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 Certificates of Obligation, or (2) the date the Certificates of Obligation 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 Certificates of Obligation. 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.

(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 Certificates of Obligation. 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 Certificates of Obligation 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 Certificates of Obligation are issued, the City (including any subordinate entities) has not designated nor will designate bonds or other obligations, which when aggregated with the Certificates of Obligation, 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 Certificates of Obligation 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 Certificates of Obligation will not be considered "private activity bonds" within the meaning of section 141 of the Code.

**Section 14. SALE AND DELIVERY OF CERTIFICATES.** The Certificates of Obligation are hereby initially sold and shall be delivered to *Bank of America, N.A.* (the "Purchaser") for cash for the par value thereof. The Certificates of Obligation shall initially be registered in the name of the Purchaser. It is hereby officially found, determined, and declared that the terms of this sale are the most advantageous reasonably obtainable.

**Section 15. PREPAYMENT FEE.** Upon prepayment of all or part of the principal amount of the Certificates of Obligation before the final maturity, the City will pay the Purchaser an additional fee, the "Prepayment Fee." The Prepayment Fee shall be equal to the greater of (i) zero, or (ii) the Mark-to-Market adjustment.

For the purposes of this Section 15, the following definitions shall apply:

(a) **Mark-to-Market Adjustment:** The amount, calculated on any prepayment date, which is derived by subtracting: (i) the principal amount of the Certificates of Obligation to be prepaid as of such prepayment date, from (ii) the Mark-to-Market Value of the Certificates of Obligation to be prepaid on such prepayment date.

(b) **Mark-to-Market Value:** The amount, calculated on any prepayment date, which is derived by summing the present values of each prospective payment of principal and interest which without such full or partial prepayment, could otherwise have been received by the Purchaser over the remaining contractual life of the Certificates of Obligation if the Purchaser had instead invested the proceeds of the Certificates of Obligation on the issuance date at the Initial Blended Money Market Funds Rate. The individual discount rate used to evaluate each prospective payment of interest and/or principal shall be the Current Blended Money Market Funds Rate for the maturity matching that of each specific payment of principal and/or interest.

(c) **Initial Blended Money Market Funds Rate:** That borrowing rate, calculated on the issuance date and including costs incurred by the Purchaser or FDIC insurance, reserve requirements, and other such explicit or implicit cost levied upon the Purchaser by any regulatory

agency, which would be attainable by the Purchaser if it borrowed funds with an interest payment frequency and principal repayment schedule matching that of the Certificates of Obligation. Such funds would be borrowed in one or more wholesale funding markets available to the Purchaser, including negotiable certificates of deposits, federal funds and others. The City acknowledges that the Purchaser may not actually purchase the Certificates of Obligation with any such specific matched set or mix of instruments, and that the Initial Blended Money Market Funds Rate is the Purchaser's reasonable estimate only.

(d) **Current Blended Money Market Funds Rate:** That rate, calculated on the prepayment date and including cost incurred by the Purchaser for FDIC insurance, reserve requirements, and other such explicit or implicit cost levied upon the Purchaser by any regulatory agency, which would be attainable by the Purchaser if it borrowed funds in a maturity matching a specific prospective Certificate of Obligation payment date. Such funds would be borrowed in one or more wholesale funding markets available to the Purchaser, including negotiable certificates of deposit, federal funds, or others. A separate Current Blended Money Market Funds Rate will be calculated for each prospective interest and/or principal payment date. City acknowledges that the Current Blended Money Market Funds Rate is the Purchaser's reasonable estimate only, and that the Purchaser is under no obligation actually to purchase or match funds for any transaction.

**Section 16. AUTHORITY FOR OFFICERS TO EXECUTE DOCUMENTS.** The Mayor, City Manager, City Secretary, and all other officers 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, the Certificates of Obligation, the sale of the Certificates of Obligation, and the Paying Agent/Registrar Agreement. In case any officer whose signature shall appear on any Certificate of Obligation shall cease to be such officer before the delivery of such Certificate of Obligation, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

**SECTION 17. ORDINANCE A CONTRACT; AMENDMENTS.** This Ordinance shall constitute a contract with the Registered Owners of the Certificates of Obligation, binding on the City and its successors and assigns, and shall not be amended or repealed by the City as long as any Certificate of Obligation 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 Certificates of Obligation then outstanding affected thereby, amend, change, modify, or rescind any other 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 Certificates of Obligation, or reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Certificate of Obligation over any other Certificate of Obligation, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Certificates of Obligation 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 Certificates of Obligation 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. 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 Certificates of Obligation, (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 Certificates of Obligation 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 19. SECURITY INTEREST.** Chapter 1208, Texas Government Code, applies to the issuance of the Certificates of Obligation and the pledge of the ad valorem taxes granted by the City under Section 6 and 7 of this Ordinance, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Certificates of Obligation 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 Certificates of Obligation 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 20. 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 Certificates of Obligation, 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 Certificates of Obligation.

**Section 21. NO RULE 15c2-12 UNDERTAKING.** The City has not made an undertaking in accordance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). The City is not, therefore, obligated pursuant to the Rule to provide any on-going disclosure relating to the City or the Certificates of Obligation.

**Section 22. 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 23. SEVERABILITY.** If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

**SECTION 24. CHOICE OF LAW.** This Ordinance shall be governed by and construed in accordance with the laws of the State of Texas.

**SECTION 25. EFFECTIVE DATE.** This Ordinance shall become effective immediately after its adoption.

*[The remainder of this page intentionally left blank.]*

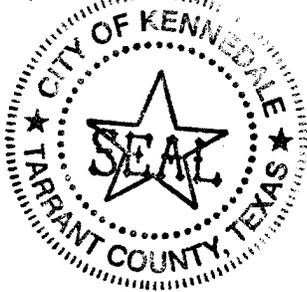
**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE, TEXAS AT A REGULAR MEETING CONVENED ON THE 11<sup>TH</sup> DAY OF JANUARY, 2007, AT WHICH MEETING A QUORUM WAS PRESENT.**

ATTEST:

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

*Bryan Lankhorst*  
Mayor, City of Kennedale, Texas

(CITY SEAL)



\*\* \*\* \* \* \*

[EXECUTION PAGE TO THE CERTIFICATE OF OBLIGATION ORDINANCE]

EXHIBIT A

**FORM OF PAYING AGENT/REGISTRAR AGREEMENT**

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

COMMERCIAL BANKING

Bank of America, N.A.  
901 Main Street, 67th floor  
Dallas, Texas 75202-3714

**INVESTOR ACKNOWLEDGMENT LETTER**

January 11, 2007

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.  
700 N. St. Mary's St., Suite 1525  
San Antonio, Texas 78205

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

**RE: \$2,900,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND  
REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007**

Ladies and Gentlemen:

The undersigned (the "Purchaser"), as purchaser of **\$2,900,000** in principal amount of the captioned obligations (the "Certificates of Obligation"), hereby acknowledges and confirms that it has been furnished such financial, statistical and other information with respect to the **CITY OF KENNEDALE, TEXAS** (the "Issuer") and the Certificates of Obligation, including a certified copy of the Ordinance of the City Council of the Issuer which authorized the issuance of the Certificates of Obligation (the "Ordinance"), as the Purchaser deems necessary to enable it to make an informed investment decision with respect to the purchase of the Certificates of Obligation. The Purchaser further acknowledges that:

1. The Certificates of Obligation are general obligations of the Issuer, issued on the full faith and credit thereof; and ad valorem taxes sufficient to provide for the payment of interest on and principal of the Certificates of Obligation, as such interest comes due, and such principal

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Fax: 817.390.6452

Bank of America, TX1-497-02-04  
500 W. 7th Street, Fort Worth, TX 76102-4700

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matures, have been levied and ordered to be levied against all taxable property in the Issuer, and have been pledged for such payment, all as provided in the Ordinance.

2. The Purchaser, as a financial institution, has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations of a nature similar to the Certificates of Obligation to be able to evaluate the risks and merits of the investment represented by the purchase of the Certificates of Obligation.

3. The Purchaser is acquiring the Certificates of Obligation for its own account as evidence of a loan or for the account of institutions which meet the representations set forth herein, and not with a view to, or for sale in connection with, any distribution of the Certificates of Obligation or any part thereof. The Purchaser has not offered to sell, solicited offers to buy, or agreed to sell the Certificates of Obligation or any part thereof, and the Purchaser has no present intention of reselling or otherwise disposing of the Certificates of Obligation.

4. As a sophisticated investor, the Purchaser has made its own credit inquiry and analysis with respect to the Issuer and the Certificates of Obligation, and has made an independent credit decision based upon such inquiry and analysis. The Issuer has furnished to the Purchaser all the information which the Purchaser as a reasonable investor has requested of the Issuer, and the Purchaser has had the opportunity to ask questions of and receive answers from knowledgeable individuals concerning the Issuer and the Certificates of Obligation. The Purchaser is able and willing to bear the economic risk of the purchase and ownership of the Certificates of Obligation.

5. *Southwest Securities, Inc.* (the Issuer's financial advisor) and *McCall, Parkhurst & Horton L.L.P.* (the Issuer's bond counsel) have not undertaken steps to ascertain the accuracy or completeness of information furnished to the Purchaser with respect to the Issuer, and the Purchaser has not looked to either of those firms or entities for, nor have either of them made, any representations to the Purchaser with respect to that information.

6. The Purchaser understands that the Certificates of Obligation have not been rated by any rating agency or registered with any federal or state securities agency or commission.

7. It is understood and agreed that the Purchaser is buying the Certificates of Obligation in a private placement by the Issuer to the Purchaser. The Certificates of Obligation 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 Certificates of Obligation 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 Certificates of Obligation in accordance with the Rule.

8. The Issuer will provide the Purchaser with its audited annual financial statements within 270 days after each fiscal year end and any other financial information regarding the Issuer that the Purchaser may reasonably request from time to time.

*[The remainder of this page intentionally left blank.]*

*Investment Letter re: City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 2007  
January 11, 2007  
Page 3*

Very truly yours,

**THE PURCHASER:**  
Bank of America, N.A.  
901 Main Street, 67th floor  
Dallas, Texas 75202-3714

By:   
Title: SIR VICE PRESIDENT

## **PAYING AGENT/REGISTRAR AGREEMENT**

**THIS AGREEMENT** entered into as of February 1, 2007 (this "Agreement"), by and between the **CITY OF KENNEDALE, TEXAS** (the "Issuer"), and **BANK OF AMERICA, N.A.** (the "Bank"), a national banking association duly organized and operating under the laws of the United States of America.

**WHEREAS**, the Issuer has duly authorized and provided for the issuance of its "*City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007*" (the "Securities"), 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 February 15, 2007; 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 the 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 the 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, if applicable, 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 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 or City Secretary of the Issuer or 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 ordinance, order or resolution of the governing body of the Issuer pursuant to which the Securities are issued, certified by the 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.** (a) 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.

(b) 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.

(c) To the extent required by the Internal Revenue Code of 1986 and the regulations promulgated thereunder, the Bank shall report to the Holders and the Internal Revenue Service (i) the amount of “reportable payments”, if any, subject to backup withholding during each year and the amount of tax withheld, if any, with respect to payments of the Securities and (ii) the amount of interest or amount treated as interest on the Securities and required to be included in gross income of the Holder thereof.

**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. The Bank represents and warrants that its office in Austin and/or Houston, Texas will at all times have immediate access to the Security Register by electronic or other means and will be capable of producing a hard copy at its Austin and/or Houston, Texas office for use by the Issuer.

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 business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

**SECTION 4.02. 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.

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

**SECTION 4.05. RETURN OF CANCELLED SECURITIES.** The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

**SECTION 4.06. MUTILATED, DESTROYED, LOST, OR STOLEN SECURITIES.** The Issuer hereby instructs the Bank, subject to the applicable provisions of the 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 over issuance.

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. MONEY HELD BY BANK.** The Bank shall deposit any moneys received from the Issuer into an 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 and to the extent practicable under the laws of the United States of America 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.

Funds held by the Bank hereunder need not be segregated from any other funds provided appropriate accounts are maintained in the name and for the benefit of the Issuer.

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

Subject to the provisions of Title 6 of the Texas Property Code, any money deposited with the Bank for the payment of the principal, premium, if any, or interest on any Security and remaining unclaimed for three (3) years following the stated maturity, the Bank shall, except as otherwise directed by the Issuer, upon Issuer order, return to the Issuer. 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 money 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 the County in the State of Texas where either the Bank maintains an office or the administrative offices of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to in Section 6.03 of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction located in the State of Texas to determine the rights of any Person claiming any interest herein.

**SECTION 5.08. DEPOSITORY TRUST COMPANY SERVICES.** It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements," effective 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 on the date of final payment of the principal of and interest on the Securities to the Holders thereof or may be earlier terminated by either party upon 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.

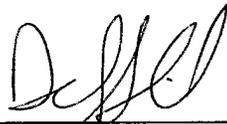
The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

**SECTION 6.11. GOVERNING LAW.** This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

*[The remainder of this page intentionally left blank]*

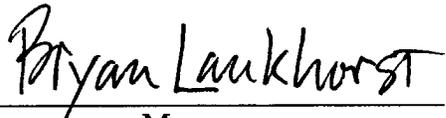
**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the day and year first above written.

**BANK OF AMERICA, N.A.**

By   
Title Sr Vice President

Address: 500 West 7th St. Unit 36  
Fort Worth, TX 76102

**CITY OF KENNEDALE, TEXAS**

By   
Mayor

Address: 405 Municipal Drive  
Kennedale, Texas 76060

SCHEDULE A

Paying Agent/Registrar Fee Schedule

\$-0- ANNUAL ADMINISTRATION FEE

**PRINCIPAL  
AMOUNT**  
\$95,000

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007  
**SPECIAL**

**MATURITY DATE**  
February 15, 2008

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*Ninety Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

PRINCIPAL  
AMOUNT  
\$100,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

INTEREST RATE  
4.10%

DATE OF DELIVERY  
February 15, 2007

MATURITY DATE  
February 15, 2009

REGISTERED OWNER:

*Bank of America, N.A.*

PRINCIPAL AMOUNT:

*One Hundred Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

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**PRINCIPAL  
AMOUNT  
\$105,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2010

**REGISTERED OWNER:**

**SPECIMEN**  
*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of **Bank of America, N.A.**, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$110,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**  
February 15, 2011

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Ten Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

PRINCIPAL  
AMOUNT  
\$115,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2012

**REGISTERED OWNER:**

**SPECIMEN**  
*Bank of America, N.A.*

**PRINCIPAL AMOUNT:***One Hundred Fifteen Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

PRINCIPAL  
AMOUNT  
\$115,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

INTEREST RATE  
4.10%

DATE OF DELIVERY  
February 15, 2007

MATURITY DATE  
February 15, 2013

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Fifteen Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

PRINCIPAL  
AMOUNT  
\$120,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

INTEREST RATE

4.10%

DATE OF DELIVERY

February 15, 2007

MATURITY DATE

February 15, 2014

**REGISTERED OWNER:**

*SPECIMEN*  
*Bank of America, N.A.*

**PRINCIPAL AMOUNT:***One Hundred Twenty Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$125,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2015

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Twenty Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT**  
\$130,000

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2016

**REGISTERED OWNER:**

**Bank of America, N.A.**

**PRINCIPAL AMOUNT:**

*One Hundred Thirty Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of **Bank of America, N.A.**, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2017

**REGISTERED OWNER:***Bank of America, N.A.***PRINCIPAL AMOUNT:***One Hundred Forty Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

PRINCIPAL  
AMOUNT  
\$145,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

INTEREST RATE  
4.10%

DATE OF DELIVERY  
February 15, 2007

MATURITY DATE  
February 15, 2018

REGISTERED OWNER:

*Bank of America, N.A.*

PRINCIPAL AMOUNT:

*One Hundred Forty Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2019

**REGISTERED OWNER:**

**Bank of America, N.A.**
**PRINCIPAL AMOUNT:*****One Hundred Fifty Thousand Dollars***

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of **Bank of America, N.A.**, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$155,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2020

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Fifty Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$165,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2021

**REGISTERED OWNER:**

  
*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Sixty Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$170,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2022

**REGISTERED OWNER:**

**SPECIMEN**  
*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*One Hundred Seventy Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007

INTEREST RATE

4.10%

DATE OF DELIVERY

February 15, 2007

MATURITY DATE

February 15, 2023

## REGISTERED OWNER:

*Bank of America, N.A.*

## PRINCIPAL AMOUNT:

*One Hundred Seventy Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2024

**REGISTERED OWNER:***Bank of America, N.A.***PRINCIPAL AMOUNT:***One Hundred Eighty Five Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT**  
\$190,000

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2025

**REGISTERED OWNER:***Bank of America, N.A.***PRINCIPAL AMOUNT:***One Hundred Ninety Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$200,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**

4.10%

**DATE OF DELIVERY**

February 15, 2007

**MATURITY DATE**

February 15, 2026

**REGISTERED OWNER:**

*Bank of America, N.A.*

**PRINCIPAL AMOUNT:**

*Two Hundred Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of *Bank of America, N.A.*, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

**PRINCIPAL  
AMOUNT  
\$210,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2007**

**INTEREST RATE**  
4.10%

**DATE OF DELIVERY**  
February 15, 2007

**MATURITY DATE**  
February 15, 2027

**REGISTERED OWNER:**

**SPECIAL  
Bank of America, N.A.**

**PRINCIPAL AMOUNT:**

*Two Hundred Ten Thousand Dollars*

**ON THE MATURITY DATE** specified above, **CITY OF KENNEDALE, TEXAS** (the "City"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Principal Amount set forth above, and to pay interest thereon from the Date of Delivery, as set forth above, at the Interest Rate per annum specified above, on August 15, 2007, and semiannually on each February 15 and August 15 thereafter to the Maturity Date specified above or date of redemption prior to maturity; except that if this Certificate of Obligation is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Certificate of Obligation or Certificates of Obligation, if any, for which this Certificate of Obligation is being exchanged or converted from is due but has not been paid, then this Certificate of Obligation shall bear interest from the date to which such interest has been paid in full.

**THE PRINCIPAL OF AND INTEREST ON THIS CERTIFICATE** are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Certificate of Obligation shall be paid to the Registered Owner hereof upon presentation and surrender of this Certificate of Obligation at maturity or redemption prior to maturity, at the designated corporate trust office of **Bank of America, N.A.**, (currently located in Fort Worth, Texas) which is the "Paying Agent/Registrar" for this Certificate of Obligation. The payment of interest on this Certificate of Obligation shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the order authorizing the issuance of the Certificates of Obligation (the "Certificate of Obligation Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the last business day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by,

and at the risk and expense of, the Registered Owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each owner of a Certificate of Obligation appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice. Any accrued interest due upon the redemption of this Certificate of Obligation prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Certificate of Obligation 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 Certificates of Obligation shall be payable in the regular manner described above). The City covenants with the Registered Owner of this Certificate of Obligation that on or before each principal payment date and interest payment date for this Certificate of Obligation it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Certificate of Obligation Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Certificates of Obligation, when due.

***IF THE DATE FOR ANY PAYMENT DUE*** on this Certificate of Obligation shall be a Saturday, Sunday, a legal holiday, or a 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, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

***THIS CERTIFICATE OF OBLIGATION IS ONE OF A SERIES OF CERTIFICATES OF OBLIGATION***, dated as of February 1, 2007, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of ***\$2,900,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS TO MAKE IMPROVEMENTS AND EXTENSIONS TO THE CITY'S WATERWORKS AND SEWER SYSTEM AND PAY FOR PROFESSIONAL SERVICES RENDERED IN CONNECTION THEREWITH AND PAYING FOR COSTS OF ISSUANCE.***

***ON ANY DATE***, the Certificates of Obligation of this series may be redeemed prior to their scheduled maturities, at the option of the City, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular principal installments or portions thereof, to be redeemed shall be selected and designated by the City, at a redemption price equal to the principal amount to be redeemed, plus the "Prepayment Fee", computed pursuant to Section 15 of the Certificate of Obligation Ordinance, if any, plus accrued interest to the date fixed for redemption.

***AT LEAST 10*** days prior to the date fixed for any optional redemption of the Certificate of Obligation or portions thereof prior to maturity a written notice of such redemption shall be sent by the City by United States mail, first-class postage prepaid, to the registered owner at its address as it appeared on the Registration Books on the day such notice of redemption is mailed; provided, however, that the failure of the registered owner to receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the

redemption of this Certificate of Obligation. By the date fixed for any such redemption, due provision shall be made for the payment of the required redemption price for the Certificate of Obligation or portions thereof which are to be so redeemed. If such written notice of redemption is sent and if due provision for such payment is made, all as provided above, the Certificate of Obligation or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to its scheduled maturity, and shall not bear interest after the date fixed for redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the City out of the funds provided for such payment.

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

***IN THE EVENT ANY PAYING AGENT/REGISTRAR*** for the Certificates of Obligation is changed by the City, resigns, or otherwise ceases to act as such, the City has covenanted in the Certificate of Obligation Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Certificates of Obligation.

**IT IS HEREBY CERTIFIED, RECITED, AND COVENANTED** that this Certificate of Obligation has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance and delivery of this Certificate of Obligation have been performed, existed, and been done in accordance with law; that this Certificate of Obligation 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 Certificate of Obligation, 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, and that this Certificate of Obligation is additionally secured by a lien on and pledge of Surplus Revenues received by the City from the ownership and operation of the City's waterworks and sanitary sewer system.

**THE CITY HAS RESERVED THE RIGHT TO AMEND** the Certificate of Obligation 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 Certificates of Obligation.

**BY BECOMING THE REGISTERED OWNER** of this Certificate of Obligation, the Registered Owner thereby acknowledges all of the terms and provisions of the Certificate of Obligation Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Certificate of Obligation 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 Certificate of Obligation and the Certificate of Obligation Ordinance constitute a contract between each Registered Owner hereof and the City.

**IN WITNESS WHEREOF**, the City has caused this Certificate of Obligation to be signed with the manual or facsimile signature of the Mayor of the City, 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 Certificate of Obligation.

Countersigned:

  
\_\_\_\_\_  
City Secretary, City of Kennedale, Texas

  
\_\_\_\_\_  
Mayor, City of Kennedale, Texas



**COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. \_\_\_\_\_**

I hereby certify that this Certificate of Obligation has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Certificate of Obligation 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 Certificate of Obligation is not accompanied by an executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

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

Dated

*Bank of America, N.A.*  
*Fort Worth, Texas*  
Paying Agent/Registrar

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

**ASSIGNMENT**

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

\_\_\_\_\_ /

(Assignee's Social Security or  
Taxpayer Identification)

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

and hereby irrevocably constitutes and appoints \_\_\_\_\_  
attorney to register the transfer of the Certificate of Obligation 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  
Certificate of Obligation in every particular,  
without alteration or enlargement or any  
change whatsoever.

## 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 Combination Tax and Revenue Certificates of Obligation, Series 2007 (the "Certificates"). The Certificates are being issued pursuant to an ordinance of the Issuer (the "Ordinance") adopted on the date of sale of the Certificates. The Ordinance is incorporated herein by reference.

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

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

1.5. The undersigned is not aware of any facts or circumstances that would cause him to question the accuracy of the representations made by Bank of America, N.A. (the "Purchaser") in Section 5 of this Certificate.

### 2. The Purpose of the Certificates of Obligation and Useful Lives of Projects.

2.1. The Certificates are being issued pursuant to the Ordinance (a) to provide for the payment of costs of issuing the Certificates, and (b) to make improvements and extensions to the Issuer's waterworks and sewer system (the "Projects").

2.2. The Issuer expects that the aggregate useful lives of the Projects exceed 24 years from the later of the date the Projects are placed in service or the date on which the Certificates are issued.

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

### 3. Expenditure of Certificate Proceeds and Use of Projects.

3.1. The Issuer will incur, within six months after the date of issue of the Certificates, 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 Certificates 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 Certificates.

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 Certificates are retired.

3.5. The Issuer will not invest the proceeds prior to such expenditure in any guaranteed investment contract or other nonpurpose 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 Certificates, 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. The Issuer does not expect to enter into long-term sales of output from the Projects, except on the basis of generally-applicable and uniformly applied rates. The Issuer may apply different rates for different classes of customers, including volume purchasers, which are reasonable and customary.

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 Certificates. 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 Certificates.

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 Certificates, with a portion of the Interest and Sinking Fund constituting a bona fide debt service fund for the Certificates, and money deposited into the Interest and Sinking Fund for the Certificates will not be invested at a yield higher than the yield on the Certificates, except during the thirteen month period beginning on the date of each such deposit of money, and the amounts received from the investment of money in the Interest and Sinking Fund will not be invested at a yield higher than the yield on the Certificates, except during the one year period beginning on the date of receipt of such amounts; provided, however, and except that, if any money so deposited, and any amounts received from the investment thereof, are accumulated in the Interest and Sinking Fund and remain on hand in the Interest and Sinking Fund

after thirteen months from the date of deposit of any such money or one year after the receipt of any such amounts from the investment thereof, such money and amounts, to the extent of an aggregate not exceeding the lesser of five percent of the proceeds of the Certificates or \$100,000 will not be subject to investment yield restrictions, and shall constitute a separate portion of the Interest and Sinking Fund.

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

5. Yield.

All of the Certificates have been the subject of a bona fide initial offering to the 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 Certificates, certain other moneys that are invested in various funds which are pledged for various purposes. These other funds are not available to accomplish the purposes described in Section 2 of this Certificate.

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

7. Other Obligations.

There are no other obligations of the Issuer, other than the Issuer's General Obligation Refunding Bonds, Series 2007, that (a) are sold at substantially the same time as the Certificates, i.e., within 15 days of the date of sale of the Certificates, (b) are sold pursuant to a common plan of financing with the Certificates, and (c) will be payable from the same source of funds as the Certificates.

8. 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 Certificates 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 Certificates 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 CERTIFICATES UNDER SECTION 103 OF THE CODE ARE RETAINED FOR THE PERIOD BEGINNING ON THE ISSUE DATE OF THE CERTIFICATES AND ENDING THREE YEARS AFTER THE DATE THE CERTIFICATES 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 transactions. 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 Certificates in excess of the yield on the Certificates required to be rebated to the United States will be timely paid to the United States. The Issuer acknowledges receipt of the memorandum attached hereto as Exhibit "A" which discusses regulations promulgated pursuant to section 148(f) of the Code. This memorandum does not constitute an opinion of Bond Counsel as to the proper federal tax or accounting treatment of any specific transaction.

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DATED: FEB 15 2007

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.

BANK OF AMERICA, N.A.

By: Deffell  
SERVICE PRESIDENT

Exhibit "A"

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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 bonds<sup>1</sup> 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.

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<sup>1</sup> 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 bonds<sup>2</sup> in an aggregate

---

<sup>2</sup> 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  
**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  
DALLAS, TEXAS 75201-8587  
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

January 11, 2007

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

Re: City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 2007

Dear Mr. White:

As you know, the City of Kennedale, Texas (the "Issuer") will issue the captioned certificates in order to provide for the acquisition and construction of the project. As a result of that issuance, the federal income tax laws impose certain restrictions on the investment and expenditure of amounts to be used for the project or to be deposited to the interest and sinking fund for the captioned certificates. The purpose of this letter is to set forth, in somewhat less technical language, those provisions of the tax law which require 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 certificates. 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 certificates.

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 certificates. Importantly, for purposes of administrative convenience, the certificates, however, have been structured in such a way as to avoid, for the most part, this restriction on investment yield. 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.

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 certificates or (2) the date the certificates 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 certificates. Any taxes or revenues deposited to the interest and sinking fund which are to be used for the payment of current debt service on the captioned certificates, or any other outstanding certificates, 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 certificates or \$100,000.

Accordingly, you should review the current balance in the interest and sinking fund in order to determine if such balance exceeds the aggregate amounts discussed above. Additionally, in the future it is important that you be aware of these restrictions as additional amounts are deposited to the interest and sinking fund. The amounts in this fund which are subject to yield restriction would only be the amounts which are in excess of the sum of (1) the current debt service account and (2) the "minor portion" account. Moreover, to the extent that additional certificates 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 certificates and ending three years after the date the captioned certificates 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 certificates, 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 certificates, the Issuer should keep schedules evidencing the expenditure of certificate 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 certificate 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 certificates), 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 certificates. 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

LAW OFFICES

MCALL, PARKHURST & HORTON L.L.P.

600 CONGRESS AVENUE

SUITE 1800

AUSTIN, TEXAS 78701-3248

TELEPHONE: 512 478-3805

FACSIMILE: 512 472-0871

717 NORTH HARWOOD

SUITE 900

DALLAS, TEXAS 75201-6587

TELEPHONE: 214 754-9200

FACSIMILE: 214 754-9250

700 N. ST. MARY'S STREET

SUITE 1525

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE: 210 225-2800

FACSIMILE: 210 225-2984

May 14, 2007

CERTIFIED MAIL RRR: 7004 2510 0007 2429 4489

Internal Revenue Service Center  
Ogden, Utah 84201

Re: Information Reporting - Tax-Exempt Bonds  
City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 2007

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 February 15, 2007.

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

Sincerely,

McCALL, PARKHURST & HORTON L.L.P.



Harold T. Flanagan

HTF: 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 <b>KENNEDALE, TEXAS (CITY OF)</b>	2 Issuer's employer identification number <b>75 : 6003070</b>
3 Number and street (or P.O. box if mail is not delivered to street address) <b>405 MUNICIPAL DRIVE</b>	Room/suite
5 City, town, or post office, state, and ZIP code <b>KENNEDALE, TEXAS 76060</b>	4 Report number <b>3 02</b>
7 Name of issue <b>COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007</b>	6 Date of issue <b>02-15-07</b>
9 Name and title of officer or legal representative whom the IRS may call for more information <b>MARK WHITE, INTERIM CITY MANAGER</b>	8 CUSIP number <b>NONE</b>
10 Telephone number of officer or legal representative <b>( 817 ) 478-5418</b>	

**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 checked="" type="checkbox"/> Utilities	17 <b>2,900,000</b>
18 <input type="checkbox"/> Other. Describe ►	18
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 <b>02-15-2027</b>	<b>\$ 2,900,000</b>	<b>\$ 2,900,000</b>	<b>11.848 years</b>	<b>4.0280 %</b>

**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	2,900,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	37,000
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	37,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	2,863,000

**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**

Signature of issuer's authorized representative: Clifford Blackwell Date: 02-15-07

Type or print name and title: Clifford Blackwell  
Director of Finance

**GENERAL CERTIFICATE**

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

§  
§  
§

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

1. This certificate is given for the benefit of the Attorney General of the State of Texas and all parties interested in the "*City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007*" in the aggregate principal amount of \$2,900,000 (the "Certificates"), dated as of February 1, 2007, and authorized by an ordinance passed by the City Council of the City on January 11, 2007.

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 or contesting: (a) the issuance, delivery, payment, security or validity of the proposed Certificates; (b) the authority of the officers of the City to issue, execute and deliver the Certificates; or (c) the validity of the corporate existence, or the current Tax Roll (as defined below), and no litigation is pending pertaining to, affecting or contesting the boundaries of the City.

4. All meetings of the City Council of the City at which action was taken in preparation for or in connection with the issuance of the proposed Certificates occurred at the usual designated meeting place, being the City Hall.

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; that 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"); that 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.

6. Attached hereto as Exhibit A is a true, full and correct schedule and statement of the aforesaid proposed Certificates, and of all presently outstanding tax bond 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.

7. The City is not in default as to any covenant, condition, or obligation in connection with any of the outstanding obligations (as described in Exhibit A) of the City or the ordinances authorizing same.

8. Revenues of the City's Water and Sewer System have not been encumbered other than in connection with the other series of outstanding Combination Tax and Revenue Certificates of Obligation described in Exhibit A attached hereto.

9. Attached hereto as Exhibit C is a true, full and correct schedule and statement of the income and expenses of the City's Water and Sewer System for the past five fiscal years of the City.

10. We hereby certify that the City's current water and sewer rates are as reflected in the City ordinance attached hereto as Exhibit D.

11. The following persons are the duly elected members of the City Council of the City as of the date hereof:

Bryan Lankhorst, Mayor  
John Clark, Councilmember, Place 1  
David Green, Councilmember, Place 2

Brian Johnson, Councilmember, Place 3  
Ronnie Nowell, Councilmember, Place 4  
George Barrett, Councilmember, Place 5

12. The following persons are the duly appointed Interim City Manager, City Secretary and Finance Director of the City as of the date hereof:

Interim City Manager  
City Secretary  
Finance Director

Mark White  
Kathy Turner  
Clifford Blackwell

*[The remainder of this page intentionally left blank]*

SIGNED AND SEALED this 11<sup>th</sup> day of January, 2007.

*Bryan Lankhorst*

\_\_\_\_\_  
Mayor  
City of Kennedale Texas

*Valerie Turner*  
\_\_\_\_\_  
City Secretary  
City of Kennedale Texas



**EXHIBIT A**

**THE PROPOSED CERTIFICATES AND GENERAL OBLIGATION REFUNDING BONDS:**

Combination Tax and Revenue Certificates of Obligation, Series 2007, dated February 1, 2007, to be outstanding in the aggregate principal amount of \$2,900,000, bearing interest and maturing as set forth in the Ordinance authorizing such Certificates of Obligation.

General Obligation Refunding Bonds, Series 2007, dated February 1, 2007, to be outstanding in the aggregate principal amount of \$4,365,000, bearing interest and maturing as set forth in the Ordinance authorizing such Bonds.

**ALL PRESENTLY OUTSTANDING TAX INDEBTEDNESS (AFTER GIVING EFFECT TO REFUNDING BEING ACCOMPLISHED BY THE GENERAL OBLIGATION REFUNDING BONDS):**

Combination Tax and Revenue Certificates of Obligation, Series 1998, dated November 1, 1998, presently outstanding in the principal amount of \$185,000.

Combination Tax and Revenue Certificates of Obligation, Series 2005, dated February 1, 2005, presently outstanding in the principal amount of \$790,000.

Tax Notes, Series 2006, dated September 15, 2006, presently outstanding in the principal amount of \$300,000.

**EXHIBIT B**

**COMBINED DEBT SERVICE SCHEDULE**

**City of Kennedale, Texas  
Total Debt Service  
February 15, 2007**

Fiscal Year Ending 9/30	Existing Debt Service	Less: Refunded Bonds	Plus Refunding Bonds	Plus: CO's	New Total Debt Service
2007	\$465,782	\$98,908	\$86,645	\$59,450	\$512,969
2008	\$496,543	\$383,660	\$369,321	\$211,953	\$694,156
2009	\$494,996	\$385,129	\$371,182	\$212,955	\$694,005
2010	\$497,904	\$386,160	\$372,647	\$213,753	\$698,143
2011	\$500,156	\$391,644	\$378,615	\$214,345	\$701,471
2012	\$496,864	\$386,691	\$374,186	\$214,733	\$699,091
2013	\$497,999	\$386,380	\$374,460	\$210,018	\$696,096
2014	\$444,581	\$385,538	\$374,336	\$210,200	\$643,580
2015	\$446,695	\$384,125	\$368,915	\$210,178	\$641,662
2016	\$448,129	\$387,019	\$373,097	\$209,950	\$644,157
2017	\$448,765	\$389,165	\$376,683	\$214,415	\$650,698
2018	\$448,593	\$390,553	\$374,773	\$213,573	\$646,385
2019	\$452,355	\$391,018	\$377,367	\$212,525	\$651,229
2020	\$450,034	\$390,541	\$374,464	\$211,273	\$645,229
2021	\$446,920	\$389,273	\$376,065	\$214,713	\$648,425
2022	\$291,690	\$231,040	\$215,346	\$212,845	\$488,841
2023	\$289,460	\$230,960	\$217,406	\$210,773	\$486,679
2024	\$291,643	\$230,400	\$214,169	\$213,393	\$488,804
2025	\$58,850			\$210,705	\$269,555
2026	\$61,320			\$212,710	\$274,030
2027				\$214,305	\$214,305
<b>Totals</b>	<b>\$8,029,276</b>	<b>\$6,218,203</b>	<b>\$5,969,674</b>	<b>\$4,308,760</b>	<b>\$12,089,508</b>

**EXHIBIT C**

**Statement of Revenues and Expenses for the City's  
Water and Sewer System  
Fiscal Year Ended September 30**

City of Kennedale, Texas  
Water and Wastewater System Statement of Income and Expenses

	2005	2004	2003	2002	2001
Revenues	\$2,533,131	\$2,126,907	\$1,825,317	\$2,111,237	\$1,799,515
Expenses	\$1,759,069	\$1,747,971	\$1,417,310	\$1,537,393	\$1,224,894
	<u>\$774,062</u>	<u>\$378,936</u>	<u>\$408,007</u>	<u>\$573,844</u>	<u>\$574,621</u>

**EXHIBIT D**

**WATER AND SEWER RATES**

ORDINANCE NO. 312

**AN ORDINANCE OF THE CITY OF KENNEDALE, TEXAS, REVISING THE RATE FOR WATER SERVICE AND SANITARY SEWER SERVICE; PROVIDING A DISCOUNT FOR QUALIFYING SENIOR CITIZENS AND DISABLED PERSONS; PROVIDING A PENALTY FOR VIOLATIONS HEREOF; PROVIDING AN EFFECTIVE DATE FOR THE RATES CONTAINED HEREIN; PROVIDING THAT THIS ORDINANCE SHALL BE CUMULATIVE OF ALL ORDINANCES; PROVIDING A SEVERABILITY CLAUSE; PROVIDING FOR PUBLICATION IN THE OFFICIAL NEWSPAPER; AND PROVIDING AN EFFECTIVE DATE.**

**WHEREAS**, the City of Kennedale, Texas is a home rule city acting under its charter adopted by the electorate pursuant to Article XI, Section 5 of the Texas Constitution and Chapter 9 of the Local Government Code; and

**WHEREAS**, the City of Kennedale has adopted ordinances establishing rates for water service and sanitary sewer service within and outside the city limits of Kennedale in compliance with Sections 23-52 and 23-79 of the Code of Ordinances of the City of Kennedale; and

**WHEREAS**, the City Council has determined that it is in the best interests of the City of Kennedale to adopt a revised rate schedule in accordance with the provisions of Section 23-52 and 23-79 of the Code of Ordinances of the City of Kennedale.

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

**SECTION 1.  
WATER RATES**

In accordance with the provisions of Section 23-52 of the Code of Ordinances of the City of Kennedale, the following rate schedule is hereby adopted for monthly residential and commercial water usage. The total monthly charge shall be based on a base rate plus a volume charge.

**A. For service within the city limits:**

1. Base Rate:

METER SIZE	BASE RATE RESIDENTIAL/ COMMERCIAL	SENIOR/ DISABLED RATE	MULTIPLE RESIDENTIAL UNITS ON SINGLE METER
3/4"	\$8.76	\$4.38	\$8.76/per unit
1"	\$14.62	\$7.31	\$8.76/per unit
1.5"	\$29.15	\$14.58	\$8.76/per unit
2"	\$46.66	\$23.33	\$8.76/per unit
3"	\$102.17	\$51.09	\$8.76/per unit
4"	\$183.86	\$91.93	\$8.76/per unit

2. Volume Charge:

VOLUME	RESIDENTIAL/ COMMERCIAL	SENIOR/ DISABLED RATE
First 5000 gallons*	\$2.16 per 1000 gallons	\$1.13 per 1000 gallons
Over 5000 gallons	\$4.07 per 1000 gallons	\$3.55 per 1000 gallons

\*For multiple residential units on a single water meter, the volume charge shall be calculated on a per unit basis by dividing the total volume of water used by the number of residential units.

**B. For service outside the city limits:**

1. Base Rate:

METER SIZE	BASE RATE RESIDENTIAL/ COMMERCIAL	MULTIPLE RESIDENTIAL UNITS ON SINGLE METER
3/4"	\$17.52	\$17.52/per unit
1"	\$29.24	\$17.52/per unit
1.5"	\$58.30	\$17.52/per unit
2"	\$93.32	\$17.52/per unit
3"	\$204.34	\$17.52/per unit
4"	\$367.72	\$17.52/per unit

2. Volume Charge:

VOLUME	RESIDENTIAL/ COMMERCIAL
First 5000 gallons*	\$2.16 per 1000 gallons
Over 5000 gallons	\$4.07 per 1000 gallons

\*For multiple residential units on a single water meter, the volume charge shall be calculated on a per unit basis by dividing the total volume of water used by the number of residential units.

**SECTION 2.  
SEWER RATES**

In accordance with the provisions of Section 23-79 of the Code of Ordinances of the City of Kennedale, the following rate schedule is hereby adopted for monthly residential and commercial sewer charges:

**A. For residential sewer service within the city:**

	RESIDENTIAL	COMMERCIAL	SENIOR/DISABLED RATE
Minimum	\$13.02	\$21.70	\$6.51
Volume per 1000 gallons of water used	\$3.52	\$3.85	\$2.48

**B. For sewer service outside the city limits, double the charge for service within the city for the appropriate category of user.**

**SECTION 3.  
DISCOUNT**

Qualifying senior citizens and disabled individuals are eligible to receive a discount on the residential water rates and sewer charges as set forth in this ordinance.

A. A qualifying senior citizen is defined as an individual 65 years of age and older, verified by a photo identification and/or birth certificate, who applies for the discount and meets the following criteria:

1. Must reside on property located within the corporate city limits of the City of Kennedale and present proof of residency, photo identification, and a current electric bill; and
2. Must provide proof of annual household income, inclusive of all household residents, by submitting a Federal income tax return and/or benefit letter from the Social Security Administration. The annual household income must not exceed \$32,000.00; and
3. Must sign an affidavit verifying the accuracy of all information provided to the City to obtain the discount and agree to reimburse the City if any of the submitted information is found to be false.

B. A qualifying disabled individual is defined as anyone whose disability is subject to verification by Tarrant County Appraisal District and/or Social Security Administration or Veterans Administration, who applies for the discount and meets the following criteria:

1. Must reside on property located within the corporate city limits of the City of Kennedale and present proof of residency, photo identification, and a current electric bill; and
2. Must sign an affidavit verifying the accuracy of all information provided to the City to obtain the discount and agree to reimburse the City if any of the submitted information is found to be false.

C. Qualifying senior citizens or disabled individuals may only apply the discount on water rates and sewer charges to one residence in the City of Kennedale. All recipients of the discount must apply and complete an affidavit for the discount. Should a qualifying spouse become deceased, the surviving spouse will continue to receive the discount until the end of the fiscal year, which spans from October to the following September.

D. If any of the submitted information in an application for a discount on the residential water rates and sewer charges established by this ordinance is found to be false, the individual who received the discount shall be required to reimburse the City for the amount of discount wrongfully received.

**SECTION 4.  
PENALTY**

Providing and/or verifying false information presented to the City for purposes of obtaining a discount pursuant to this ordinance is hereby declared a misdemeanor. A person convicted of verifying and/or providing false information to obtain a discount on water rates and sewer charges shall be punished by a fine not exceeding two hundred dollars (\$200.00).

**SECTION 5.  
RATE EFFECTIVE DATE**

The rates established in this ordinance shall become effective the next billing cycle following the adoption of this ordinance (which is to begin the date after the meters are read for the current billing cycle).

**SECTION 6.  
CUMULATIVE CLAUSE**

This ordinance shall be cumulative of all provisions of ordinances of the City of Kennedale, Texas, except where the provisions of this ordinance are in direct conflict with the provisions of such ordinances, in which event the conflicting provisions of such ordinances are hereby repealed. Ordinance Nos. 277 and 282 are hereby repealed.

**SECTION 7.  
SEVERABILITY CLAUSE**

It is hereby declared to be the intention of the City Council that the phrases, clauses, sentences, paragraphs and sections of this ordinance are severable, and if any phrase, clause, sentence, paragraph or section of this ordinance shall be declared unconstitutional by the valid judgment or decree of any court of competent jurisdiction, such unconstitutionality shall not affect any of the remaining phrases, clauses, sentences, paragraphs and sections of this ordinance, since the same would have been enacted by

the City Council without the incorporation in this ordinance of any such unconstitutional phrase, clause, sentence, paragraph or section.

**SECTION 8.  
EFFECTIVE DATE**

This ordinance shall be in full force and effect from and after its passage and it is so ordained.

**PASSED AND APPROVED ON THIS 13<sup>TH</sup> DAY OF SEPTEMBER, 2005.**



*Jim Nowood*  
MAYOR

ATTEST:

*Kathy Turner*  
CITY SECRETARY

EFFECTIVE: *09/13/2005*

APPROVED AS TO FORM AND LEGALITY:

*[Signature]*  
CITY ATTORNEY

## **SIGNATURE IDENTIFICATION AND NO-LITIGATION CERTIFICATE**

We, the undersigned *Mayor* and *City Secretary*, respectively, of 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 Combination Tax and Revenue Certificates of Obligation, Series 2007*", dated February 1, 2007, in the aggregate principal amount of \$2,900,000, authorized by an ordinance passed by the City Council of the City on January 11, 2007 (the "Certificates").

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

(c) The Certificates 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 Certificates we were, and at the time of executing this certificate we are, the duly chosen, qualified, and acting officers indicated therein, and authorized to execute 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 Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the proceedings or authority concerning the issuance of the Certificates, and that so far as we know and believe no such litigation is threatened.

(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 Certificates; and no authority or proceedings for the issuance of any of the Certificates 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 Certificates; and said seal on each of the Certificates has been duly adopted as, and is hereby declared to be, the official seal of the City.

FEB 15 2007

EXECUTED and delivered this \_\_\_\_\_.

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.

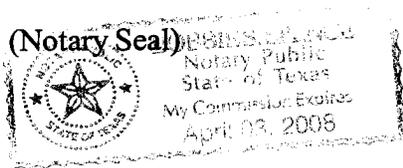
Given under my hand and seal of office this 1-16-2007.

Bobbie Spence

Notary Public

Typed Name Bobbie Spence

(My Commission Expires 4-3-2008)



January 11, 2007

The Attorney General of Texas  
Public Finance Division  
300 W. 15 Street, 9<sup>th</sup> Floor  
Austin, Texas 78701

**RE: \$2,900,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2007**

Ladies and Gentlemen:

It is requested that you examine the above issues of obligations and the proceedings authorizing their issuance.

We enclose herewith one signed but undated copy of the Signature Identification and No-Litigation Certificate. Upon approval of the obligations, you are authorized to insert the date of approval in said Signature Certificate. If any litigation should develop before you have approved the obligations, we will notify you at once both by telephone and telecopy. With this assurance you can rely upon the absence of any such litigation at the time you approve the obligations unless we advise you otherwise.

After you have examined the obligations, kindly deliver them to the Office of the Comptroller of Public Accounts of the State of Texas. The Comptroller has received instructions as to disposition of such obligations following their registration.

Sincerely yours,

CITY OF KENNEDALE, TEXAS

A handwritten signature in black ink that reads "Bryan Lankhorst". The signature is written in a cursive style and is positioned above a horizontal line.

Mayor

cc: Comptroller of Public Accounts

January 11, 2007

Texas State Comptroller of Public Accounts  
Cash and Securities Management Division  
Thomas Jefferson Rusk Building  
208 East 10th Street, 6th Floor, Room 636  
Austin, Texas 78701-2407  
Attn: Melissa Mora

**RE: \$2,900,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2007**

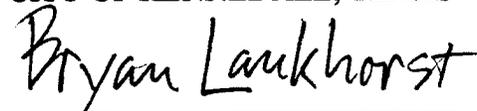
Ladies and Gentlemen:

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

Handwritten signature of Bryan Laukhorst in black ink, written over a horizontal line.

Mayor

cc: Attorney General of Texas



**CLOSING MEMORANDUM**

**\$2,900,000  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2007 (THE "CERTIFICATES")**

Date: February 8, 2007  
To: Attached Distribution List  
From: Mark M. McLiney  
Southwest Securities  
(210) 226-8677

1. The above-referenced Certificates are scheduled to close on Thursday, February 15, 2007 at 10:00 A.M., Central Time. A debt service schedule is attached as Exhibit "A".
2. **Bank of America, N.A.** (the "**Purchaser**") will purchase the Certificates for \$2,900,000.00. There will be no accrued interest.
3. Disbursement of Funds:

A. **Bank of America, N.A.**, serving as **Paying Agent**, shall wire \$2,863,000 to the City of Kennedale, Texas (the "**City**") for deposit to the Construction Fund created by the Ordinance authorizing the Certificates at **State Street Bank and Trust Company, Boston, MA**, (the City's "**Depository Bank**"), ABA #011000028, BNF: Attn: TexPool# 67573774, RFB: Location ID# 78238, OBI: 449-2208000006, Participant Name: City of Kennedale, Texas.

B. The **Paying Agent** shall wire \$37,000 to Southwest Securities for the fees and expenses associated with the Legal Authorization and Issuance of the Certificates to JPMorgan Chase Bank, Houston, Texas, ABA #021000021, for credit to Southwest Securities, Account #08805076955, for final credit to City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007, (94-9030-119147), Attention: Angela Irvine, (214) 859-6353.

City of Kennedale, Texas  
Closing Memorandum  
February 8, 2007  
Page 2

4. Reconciliation of Funds is as follows:

Disbursement of Funds:	
State Street Bank and Trust Company, City's Depository Bank	\$2,863,000.00
Southwest Securities, Financial Advisor	<u>    \$37,000.00</u>
 Total Disbursement of Funds	 <u>\$2,900,000.00</u>

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

**\$2,900,000**  
**CITY OF KENNEDALE, TEXAS**  
**COMBINATION TAX AND REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2007**

**DISTRIBUTION LIST**

**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](mailto:cblackwell@cityofkennedale.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](mailto:mmcliney@swst.com)

**Purchaser/Paying Agent**

Mr. Karl Kuykendall  
Bank of America, N.A.  
514 Austin Avenue  
Waco, Texas 76701

Telephone: (254) 750-6126  
Facsimile: (254) 750-6143  
[Karl.kuykendall@bankofamerica.com](mailto:Karl.kuykendall@bankofamerica.com)

Mr. Ryan B. Cunningham  
Southwest Securities  
4040 Broadway, Suite 220  
San Antonio, Texas 78209

Phone: (210) 226-8677  
Facsimile: (210) 226-8299  
[rcunningham@swst.com](mailto:rcunningham@swst.com)

Ms. Glenda Beasley, AVP  
Bank of America, N.A.  
Commercial Bank-Central Region  
500 West 7<sup>th</sup> Street, Unit 36  
Fort Worth, Texas 76102

Telephone: (817) 390-6414  
Facsimile: (866) 493-8130

[Glenda.beasley@bankofamerica.com](mailto:Glenda.beasley@bankofamerica.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](mailto: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](http://www.Texpool.com)



**SOUTHWEST  
SECURITIES**  
*Member of SWS Group*

February 8, 2007

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

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**STATEMENT**

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For services rendered in connection with the legal authorization and issuance  
of **\$2,900,000 City of Kennedale, Texas Combination Tax and Revenue  
Certificates of Obligation, Series 2007**

**\$37,000.00**

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MMMc/rbc

BOND DEBT SERVICE

City of Kennedale, Texas  
\$2,900,000 Certificates of Obligation, Series 2007  
Exhibit 'A'

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
02/15/2007					
08/15/2007			59,450.00	59,450.00	
09/30/2007					59,450.00
02/15/2008	95,000	4.100%	59,450.00	154,450.00	
08/15/2008			57,502.50	57,502.50	
09/30/2008					211,952.50
02/15/2009	100,000	4.100%	57,502.50	157,502.50	
08/15/2009			55,452.50	55,452.50	
09/30/2009					212,955.00
02/15/2010	105,000	4.100%	55,452.50	160,452.50	
08/15/2010			53,300.00	53,300.00	
09/30/2010					213,752.50
02/15/2011	110,000	4.100%	53,300.00	163,300.00	
08/15/2011			51,045.00	51,045.00	
09/30/2011					214,345.00
02/15/2012	115,000	4.100%	51,045.00	166,045.00	
08/15/2012			48,687.50	48,687.50	
09/30/2012					214,732.50
02/15/2013	115,000	4.100%	48,687.50	163,687.50	
08/15/2013			46,330.00	46,330.00	
09/30/2013					210,017.50
02/15/2014	120,000	4.100%	46,330.00	166,330.00	
08/15/2014			43,870.00	43,870.00	
09/30/2014					210,200.00
02/15/2015	125,000	4.100%	43,870.00	168,870.00	
08/15/2015			41,307.50	41,307.50	
09/30/2015					210,177.50
02/15/2016	130,000	4.100%	41,307.50	171,307.50	
08/15/2016			38,642.50	38,642.50	
09/30/2016					209,950.00
02/15/2017	140,000	4.100%	38,642.50	178,642.50	
08/15/2017			35,772.50	35,772.50	
09/30/2017					214,415.00
02/15/2018	145,000	4.100%	35,772.50	180,772.50	
08/15/2018			32,800.00	32,800.00	
09/30/2018					213,572.50
02/15/2019	150,000	4.100%	32,800.00	182,800.00	
08/15/2019			29,725.00	29,725.00	
09/30/2019					212,525.00
02/15/2020	155,000	4.100%	29,725.00	184,725.00	
08/15/2020			26,547.50	26,547.50	
09/30/2020					211,272.50
02/15/2021	165,000	4.100%	26,547.50	191,547.50	
08/15/2021			23,165.00	23,165.00	
09/30/2021					214,712.50
02/15/2022	170,000	4.100%	23,165.00	193,165.00	
08/15/2022			19,680.00	19,680.00	
09/30/2022					212,845.00
02/15/2023	175,000	4.100%	19,680.00	194,680.00	
08/15/2023			16,092.50	16,092.50	
09/30/2023					210,772.50
02/15/2024	185,000	4.100%	16,092.50	201,092.50	
08/15/2024			12,300.00	12,300.00	
09/30/2024					213,392.50
02/15/2025	190,000	4.100%	12,300.00	202,300.00	
08/15/2025			8,405.00	8,405.00	
09/30/2025					210,705.00
02/15/2026	200,000	4.100%	8,405.00	208,405.00	

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**BOND DEBT SERVICE**

City of Kennedale, Texas  
\$2,900,000 Certificates of Obligation, Series 2007  
Exhibit 'A'

<b>Period Ending</b>	<b>Principal</b>	<b>Coupon</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
08/15/2026			4,305.00	4,305.00	
09/30/2026					212,710.00
02/15/2027	210,000	4.100%	4,305.00	214,305.00	
09/30/2027					214,305.00
	<b>2,900,000</b>		<b>1,408,760.00</b>	<b>4,308,760.00</b>	<b>4,308,760.00</b>

**RECEIPT FOR PROCEEDS**

The undersigned hereby certifies as follows:

(a) This certificate is executed and delivered with reference to the "*City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007*", dated February 1, 2007, in the aggregate principal amount of **\$2,900,000** (the "Certificates"), authorized by an ordinance passed by the City Council of **CITY OF KENNEDALE, TEXAS** (the "City") on January 11, 2007.

(b) The undersigned is the duly chosen and qualified Director of Finance.

(c) The Certificates have been duly delivered to the initial purchasers thereof, namely

**BANK OF AMERICA, N.A.**

(d) The Certificates have been paid for in full by said purchasers concurrently with the delivery of this Receipt, and the City has received, and hereby acknowledges receipt of, the agreed purchase price for the Certificates, being **\$2,900,000**.

EXECUTED and delivered this       FEB 15 2007      .

**CITY OF KENNEDALE, TEXAS**



Mr. Cliff Blackwell  
Director of Finance

EN



**ATTORNEY GENERAL OF TEXAS**  
**GREG ABBOTT**

February 8, 2007

THIS IS TO CERTIFY that the City of Kennedale, Texas (the "Issuer"), has submitted to me City of Kennedale, Texas, Combination Tax and Revenue Certificate of Obligation, Series 2007 (the "Certificate"), in the principal amount of \$2,900,000, for approval. The Certificate is dated February 1, 2007, numbered T-1, and was authorized by Ordinance No. 356 of the Issuer passed on January 11, 2007 (the "Ordinance").

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

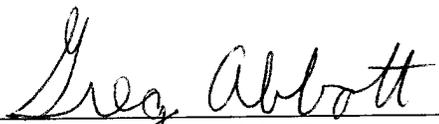
As to questions of fact material to my opinion, I have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigation.

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

Based on my examination, I am of the opinion, as of the date hereof and under existing law, as follows (capitalized terms, except as herein defined, have the meanings given to them in the Ordinance):

- (1) The Certificate has been issued in accordance with law and is a valid and binding obligation of the Issuer.
- (2) The Certificate is payable from the proceeds of an annual ad valorem tax levied, against all taxable property in the Issuer, within the limits prescribed by law, and is additionally payable and secured by Surplus Revenues of the Issuer's Utilities System.

Therefore, the Certificate is approved.

  
\_\_\_\_\_  
Attorney General of the State of Texas

No. 45954  
Book No. 2007-A  
JCH

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

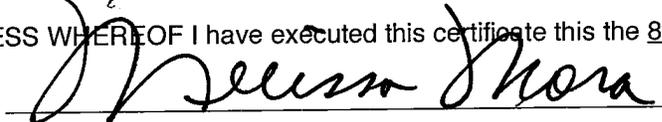
I, Melissa Mora,  Bond Clerk  Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 8th day of February, 2007, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

City of Kennedale, Texas, Combination Tax and Revenue Certificate of Obligation, Series 2007,

numbered T-1, dated February 1, 2007, and that in signing the certificate of registration I used the following signature:



IN WITNESS WHEREOF I have executed this certificate this the 8th day of February, 2007.



I, Susan Combs, 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/certificates described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 72454.

GIVEN under my hand and seal of office at Austin, Texas, this the 8th day of February, 2007.



SUSAN COMBS  
Comptroller of Public Accounts  
of the State of Texas

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, SUSAN COMBS, Comptroller of Public Accounts of the State of Texas, do hereby certify that the attachment is a true and correct copy of the opinion of the Attorney General approving the:

City of Kennedale, Texas, Combination Tax and Revenue Certificate of Obligation, Series 2007

numbered T-1, of the denomination of \$ 2,900,000, dated February 1, 2007, as authorized by issuer, interest 4.1 percent, under and by authority of which said bonds/certificates were registered electronically in the office of the Comptroller, on the 8th day of February, 2007, under Registration Number 72454.

Given under my hand and seal of office, at Austin, Texas, the 8th day of February, 2007.



SUSAN COMBS  
Comptroller of Public Accounts  
of the State of Texas

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

February 15, 2007

**CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2007  
DATED AS OF FEBRUARY 1, 2007  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,900,000**

*AS BOND COUNSEL FOR THE CITY OF KENNEDALE, TEXAS* (the "*City*") in connection with the issuance of the certificates of obligation described above (the "*Certificates*"), we have examined into the legality and validity of the Certificates, which bear interest from the date of initial delivery of the Certificates until maturity, at the rate and payable on the dates as stated in the text of the Certificates, and which mature and are subject to optional redemption, all in accordance with the terms and conditions stated in the text of the Certificates.

*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 City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the ordinance authorizing the issuance of the Certificates (the "*Ordinance*"), (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

*BASED ON SAID EXAMINATION, IT IS OUR OPINION* that the Certificates have been authorized, issued and delivered in accordance with law; that the Certificates constitute valid and legally binding general obligations of the City in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the City has the legal authority to issue the Certificates and to repay the Certificates; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates, 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 prescribed by law; and that "*Surplus Revenues*" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's waterworks and sanitary sewer system have been pledged to further secure the payment of the Certificates in the manner set forth in the Ordinance.

*IT IS FURTHER OUR OPINION*, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion.

We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on and assumed compliance by the City with, certain representations and covenants regarding the use and investment of the proceeds of the Certificates. We call your attention to the fact that failure by the City to comply with such representations and covenants may cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Certificates, 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 SOLE ENGAGEMENT** in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. 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. 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 City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and we have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City.

**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 a 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 Certificates. If an audit is commenced, in accordance with its current

published procedures the Service is likely to treat the City as the taxpayer. We observe that the City 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 Certificates as includable in gross income for federal income tax purposes.

Respectfully,

*McCall, Pankratz & Hutten L.L.P.*