

**\$2,000,000**  
**CITY OF KENNEDALE, TEXAS**  
**Combination Tax and Revenue**  
**Certificates of Obligation**  
**Series 2010**

Certificates Delivered: February 10, 2010

*Transcript of Proceedings*

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

## DISTRIBUTION LIST

**\$2,000,000**

**City of Kennedale, Texas**

**Combination Tax and Revenue Certificates of Obligation, Series 2010**

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**\$2,000,000**  
**CITY OF KENNEDALE, TEXAS**  
**COMBINATION TAX AND REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2010**

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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 10<sup>th</sup> DAY OF DECEMBER, 2010, 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	Kelly Turner, Councilmember, Place 4
David Green, Councilmember, Place 2	Jerry Miller, 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

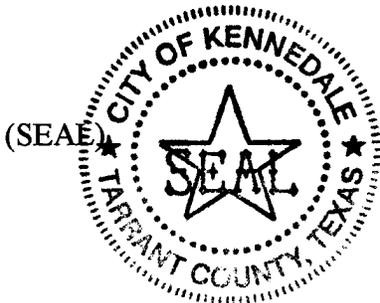
**RESOLUTION AUTHORIZING NOTICE OF INTENTION TO ISSUE  
CERTIFICATES OF OBLIGATION**

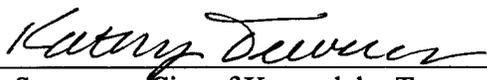
was duly introduced for the consideration of said City Council. It was then duly moved and seconded that said Resolution be adopted; and, after due discussion, said motion carrying with it the adoption of said Resolution, prevailed and carried by the following vote:

AYES: 5 NOES: 0 ABSTENTIONS:    

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 10<sup>th</sup> day of December, 2010.



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

**RESOLUTION NO. 302**

**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 (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects (collectively, 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 \$2,000,000 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 30th 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 10<sup>th</sup> DAY OF DECEMBER, 2009.**

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

*Bryan Lankhorst*  
\_\_\_\_\_  
Mayor, City of Kennedale, Texas



**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 \$2,000,000 for the purpose of paying, in whole or in part, contractual obligations incurred to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects. 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 14, 2010, 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 *Fort Worth Star Telegram*, 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 12, 2009

December 23, 2009

*[Signature]*  
Authorized Officer or Employee

SUBSCRIBED AND SWORN TO BEFORE ME on the *5<sup>th</sup>* day of *February* 2010



*Debra W. Morris*  
Notary Public

**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 \$2,000,000 for the purpose of paying, in whole or in part, contractual obligations incurred to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects. 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 14, 2010, at a Regular Meeting,

**Legal Notices**

at the City Hall,  
Kennedale, Texas.  
/s/ Bryan Lankhorst  
Mayor, City of  
Kennedale, Texas



SIGNED AND SEALED THE 14<sup>th</sup> DAY OF JANUARY, 2010.

(SEAL)

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



**ORDINANCE NO. 449**

**ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF "CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010"; 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 A PURCHASE CONTRACT, AN OFFICIAL STATEMENT, AND A PAYING AGENT/REGISTRAR AGREEMENT; AND PROVIDING FOR AN IMMEDIATE EFFECTIVE DATE**

SALE DATE: JANUARY 14, 2010

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**ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF "CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010"; 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 A PURCHASE CONTRACT, AN OFFICIAL STATEMENT, 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 (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects; and

**WHEREAS**, on December 10, 2009, 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 Thursday, January 14, 2010; and

**WHEREAS**, the Notice was duly published in the *Star Telegram*, which is a newspaper of general circulation in the City, in its issues of December 12, 2009 and December 23, 2009; 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 **\$2,000,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS INCURRED TO (1) CONSTRUCT IMPROVEMENTS AND EXTENSIONS TO THE CITY'S WATERWORKS, SEWER AND STORM SEWER SYSTEMS; (2) CONSTRUCT, IMPROVE AND REPAIR CITY STREETS, PARKING LOTS AND SIDEWALKS, TOGETHER WITH DRAINAGE IMPROVEMENTS, UTILITY LINE CONSTRUCTION, RELOCATION AND REPLACEMENT, UTILITIES IMPROVEMENTS, TRAFFIC AND STREET SIGNALIZATION, LANDSCAPING AND LIGHTING IMPROVEMENTS; (3) RELOCATE AND RESTORE HISTORIC SECTION HOUSE; (4) PROVIDE LOCAL MATCH FOR FEDERAL GRANT TO MAKE STREET, SIDEWALK, LANDSCAPING, INTERSECTION, AND LIGHTING IMPROVEMENTS; AND (5) PAY ALL OR A PORTION OF THE CITY'S CONTRACTUAL OBLIGATIONS FOR PROFESSIONAL SERVICES RENDERED BY ENGINEERS, ATTORNEYS, AND FINANCIAL ADVISORS IN CONNECTION WITH THE ABOVE PROJECTS.**

**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 2010**", and initially there shall be issued, sold and delivered hereunder one fully registered certificate, without interest coupons, dated January 1, 2010, in the aggregate principal amount of \$2,000,000, 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 May 1 in each of the years and in the principal amounts, respectively, as set forth in the following schedule:

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

<b>YEAR OF MATURITY</b>	<b>PRINCIPAL AMOUNT</b>	<b>YEAR OF MATURITY</b>	<b>PRINCIPAL AMOUNT</b>
2011	\$75,000	2021	\$185,000
2012	75,000	***	***
2013	75,000	2023	205,000
***	***	***	***
2015	160,000	2025	225,000
***	***	***	***
2017	165,000	2027	245,000
***	***	***	***
2019	175,000	2030	415,000
***	***	***	***

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 the following rates per annum:

<b>YEAR OF MATURITY</b>	<b>INTEREST RATE (%)</b>	<b>YEAR OF MATURITY</b>	<b>INTEREST RATE (%)</b>
2011	2.000	2021	4.000
2012	2.000	***	***
2013	2.000	2023	5.000
***	***	***	***
2015	2.000	2025	5.000
***	***	***	***
2017	2.625	2027	5.000
***	***	***	***
2019	3.250	2030	5.000
***	***	***	***

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 **Wells Fargo Bank, N.A.**, Austin, 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) Book-Entry Only System for Certificates of Obligation. The Certificates of Obligation issued in exchange for the Certificates of Obligation initially issued to the purchaser specified in Section 14 herein shall be initially issued in the form of a separate single fully registered Certificate of Obligation for each of the maturities thereof. Upon initial issuance, the ownership of each such Certificate of Obligation shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("**DTC**"), and except as provided in subsection (i) hereof, all of the outstanding Certificates of Obligation shall be registered in the name of Cede & Co., as nominee of DTC.

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

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

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

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

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

(i) 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, payable in stated installments to the initial registered owner named in Section 14 of this Ordinance or its designee, executed by manual or facsimile signature of the Mayor or Mayor Pro-Tem and City Secretary 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 Initial Certificate 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 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
		January 1, 2010	

**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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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 *Wells Fargo Bank, N.A.*, Austin, 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 fifteenth 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 January 1, 2010, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of ***\$2,000,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS INCURRED TO (1) CONSTRUCT IMPROVEMENTS AND EXTENSIONS TO THE CITY'S WATERWORKS, SEWER AND STORM SEWER SYSTEMS; (2) CONSTRUCT, IMPROVE AND REPAIR CITY STREETS, PARKING LOTS AND SIDEWALKS, TOGETHER WITH DRAINAGE IMPROVEMENTS, UTILITY LINE CONSTRUCTION, RELOCATION AND REPLACEMENT, UTILITIES IMPROVEMENTS, TRAFFIC AND STREET SIGNALIZATION, LANDSCAPING AND LIGHTING IMPROVEMENTS; (3) RELOCATE AND RESTORE HISTORIC SECTION HOUSE; (4) PROVIDE LOCAL MATCH FOR FEDERAL GRANT TO MAKE STREET,***

**SIDEWALK, LANDSCAPING, INTERSECTION, AND LIGHTING IMPROVEMENTS; AND (5) PAY ALL OR A PORTION OF THE CITY'S CONTRACTUAL OBLIGATIONS FOR PROFESSIONAL SERVICES RENDERED BY ENGINEERS, ATTORNEYS, AND FINANCIAL ADVISORS IN CONNECTION WITH THE ABOVE PROJECTS.**

ON MAY 1, 2020, or on any date thereafter, the Certificates of Obligation of this Series maturing on and after May 1, 2021, 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 (provided that a portion of a Certificate of Obligation may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount of Certificates of Obligation called for redemption, plus accrued interest thereon to the date fixed for redemption. The City shall determine the maturity or maturities, and the principal amount of Certificates of Obligation within each maturity, to be redeemed. If less than all Certificates of Obligation of a maturity are to be redeemed, the particular Certificates of Obligation to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot.

ADDITIONALLY, THE CERTIFICATES MATURING on May 1 in the years 2015, 2017, 2019, 2021, 2023, 2025, 2027 and 2030 (the "*Term Certificates*") are subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates and in the respective principal amounts shown below:

<u>TERM CERTIFICATES MATURING MAY 1, 2015</u>		<u>TERM CERTIFICATES MATURING MAY 1, 2017</u>	
<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>	<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2014	\$80,000	May 1, 2016	\$80,000
May 1, 2015 (maturity)	80,000	May 1, 2017 (maturity)	85,000

<u>TERM CERTIFICATES MATURING MAY 1, 2019</u>		<u>TERM CERTIFICATES MATURING MAY 1, 2021</u>	
<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>	<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2018	\$85,000	May 1, 2020	\$90,000
May 1, 2019 (maturity)	90,000	May 1, 2021 (maturity)	95,000

**TERM CERTIFICATES MATURING**  
**MAY 1, 2023**

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<b>MANDATORY</b>	<b>REDEMPTION</b>
<b><u>REDEMPTION DATE</u></b>	<b><u>AMOUNT</u></b>
May 1, 2022	\$100,000
May 1, 2023 <small>(maturity)</small>	105,000

**TERM CERTIFICATES MATURING**  
**MAY 1, 2025**

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<b>MANDATORY</b>	<b>REDEMPTION</b>
<b><u>REDEMPTION DATE</u></b>	<b><u>AMOUNT</u></b>
May 1, 2024	\$110,000
May 1, 2025 <small>(maturity)</small>	115,000

**TERM CERTIFICATES MATURING**  
**MAY 1, 2027**

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<b>MANDATORY</b>	<b>REDEMPTION</b>
<b><u>REDEMPTION DATE</u></b>	<b><u>AMOUNT</u></b>
May 1, 2026	\$120,000
May 1, 2027 <small>(maturity)</small>	125,000

**TERM CERTIFICATES MATURING**  
**MAY 1, 2030**

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<b>MANDATORY</b>	<b>REDEMPTION</b>
<b><u>REDEMPTION DATE</u></b>	<b><u>AMOUNT</u></b>
May 1, 2028	\$130,000
May 1, 2029	140,000
May 1, 2030 <small>(maturity)</small>	145,000

The principal amount of the Term Certificates required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the City, by the principal amount of any such Term Certificates which, prior to the date of the mailing of notice of such mandatory redemption, (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (iii) shall have been redeemed pursuant to the optional redemption provisions described in the preceding paragraph and not theretofore credited against a mandatory redemption requirement.

*AT LEAST 30* 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

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

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

FORM OF ASSIGNMENT:

**ASSIGNMENT**

**FOR VALUE RECEIVED**, the undersigned Registered Owner of this 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.

**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", and the heading "CUSIP NO." should be deleted.
- (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 January 1, 2010, at the Interest Rate per annum specified above, payable on May 1, 2010, and semiannually on each November 1 and May 1 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 (MAY 1)	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 2010) 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/Regis-

trar 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);

(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; and

(9) to assure that the proceeds of the Certificates of Obligation will be used solely for new money projects or to refund Refunded Bonds that were issued after December 31, 2003 and prior to January 1, 2009.

(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 bonds" 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, which when aggregated with the Certificates of Obligation, will result in more than \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011) of "qualified tax-exempt bonds" 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 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011); 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 THE CERTIFICATES OF OBLIGATION.**

The Certificates of Obligation are hereby initially sold and shall be delivered to **SAMCO CAPITAL MARKETS, INC.** (the "**Underwriter**"), at a price of **\$2,068,788.04** (which amount is equal to par, plus a net original issue premium of **\$85,418.65**, and less Underwriter's discount of **\$16,630.61**), plus accrued interest on the Certificates of Obligation from January 1, 2010, to the date of initial delivery thereof, all pursuant to the terms and provisions of a Purchase Contract in substantially the form attached hereto as *Exhibit B* which the Mayor or Mayor Pro-Tem of the City is hereby authorized to execute and deliver, and which the City Secretary is hereby authorized to attest. The City will deliver to the Underwriter an Initial Certificate of Obligation in the aggregate principal amount of **\$2,000,000** payable in principal installments on the dates and in the principal amounts shown in Section 2 hereof, and bearing interest at the rates for each respective maturity as shown in Section 3 hereof. The Initial Certificate of Obligation shall be registered in the name of **SAMCO CAPITAL MARKETS, INC.**

**SECTION 15. APPROVAL OF OFFICIAL STATEMENT.** The City hereby approves the form and content of the Official Statement relating to the Certificates of Obligation and any addenda, supplement, or amendment thereto, and approves the distribution of the Official Statement in the reoffering of the Certificates of Obligation by the Underwriter in final form, with such changes therein or additions thereto as the officer executing the same may deem advisable, such determination to be conclusively evidenced by his execution thereof. The distribution and use of the Preliminary Official Statement for the Certificates of Obligation, dated January 7, 2010, prior to the date hereof is hereby ratified and confirmed. The City Council finds and determines that the Preliminary Official Statement and the Official Statement were and are "deemed final" as of each of their respective dates within the meaning, and for the purpose, of Rule 15c2-12 promulgated under authority granted by the Federal Securities and Exchange Act of 1934.

**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 failure to perform which materially, adversely affects the rights of the Holders of the Certificates of Obligation, including but not limited to their prospect or ability to be repaid in accordance with this Ordinance and the continuation thereof for a period of 60 days after notice of such default is given by any Holder to the City, 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. CONTINUING DISCLOSURE UNDERTAKING.**

(a) *Definitions.* As used in this Section, the following terms have the meanings ascribed to such terms below:

"**EMMA**" means the Electronic Municipal Market Access system being established by the MSRB.

"**MSRB**" means the Municipal Securities Rulemaking Board.

"**Rule**" means SEC Rule 15c2-12, as amended from time to time.

"**SEC**" means the United States Securities and Exchange Commission.

(b) *Annual Reports.* The City shall provide annually to the MSRB through EMMA within six months after the end of each fiscal year ending in or after 2010, financial information and operating data with respect to the City of the general type included in the final Official Statement

authorized by this Ordinance being the information described in *Exhibit C* hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in *Exhibit C* hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide (1) unaudited financial statements for such fiscal year within such six month period, and (2) audited financial statements for the applicable fiscal year to the MSRB through EMMA when and if the audit report on such statements become available.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the date of the new fiscal year end prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this paragraph (b).

The financial information and operating data to be provided pursuant to this paragraph (b) may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the SEC.

(c) Material Event Notices. The City shall notify the MSRB through EMMA in a timely manner, of any of the following events with respect to the Certificates of Obligation, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Certificates of Obligation;
- G. Modifications to rights of holders of the Certificates of Obligation;
- H. Redemption calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Certificates of Obligation; and
- K. Rating changes.

The City shall notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with paragraph (b) of this Section by the time required by such paragraph.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates of Obligation within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Section 11 of this Ordinance that causes Certificates of Obligation no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Certificates of Obligation, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates of Obligation at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY CERTIFICATE OF OBLIGATION OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Certificates of Obligation in the primary offering of the Certificates of Obligation in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Certificates of Obligation consent to such amendment or

(b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Certificates of Obligation. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates of Obligation in the primary offering of the Certificates of Obligation. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

**SECTION 22. INSURANCE.** The City approves the insurance of the Certificates of Obligation by **ASSURED GUARANTY CORP.** and the payment of such premium and covenants to comply with all terms of the insurance commitment attached hereto as Exhibit D, which terms are hereby adopted.

**Section 23. 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 24. 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.

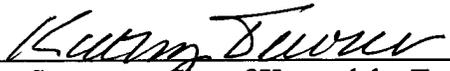
**SECTION 25. CHOICE OF LAW.** This Ordinance shall be governed by and construed in accordance with the laws of the State of Texas.

**SECTION 26. EFFECTIVE DATE.** This Ordinance shall become effective immediately after its adoption.

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

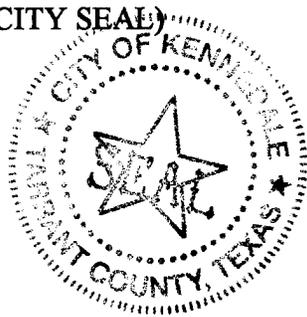
**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF KENNEDALE, TEXAS AT A REGULAR MEETING CONVENED ON THE 14<sup>TH</sup> DAY OF JANUARY, 2010, AT WHICH MEETING A QUORUM WAS PRESENT.**

ATTEST:

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

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

(CITY SEAL)



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

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.

**EXHIBIT B**

**PURCHASE CONTRACT**

THE PURCHASE CONTRACT IS OMITTED AT THIS POINT  
AS IT APPEARS IN EXECUTED FORM ELSEWHERE IN THIS TRANSCRIPT.

## EXHIBIT C

### DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 21 of this Ordinance.

#### **Annual Financial Statements and Operating Data**

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or under the headings of the Official Statement referred to) below:

1. The annual audited financial statements of the City or the unaudited financial statements of the City in the event audited financial statements are not completed within six months after the end of any fiscal year.
2. All quantitative financial information and operating data with respect to the City of the general type included in the Official Statement under Table 1 and in Appendix A to the Official Statement under Tables 1 through 10.

#### **Accounting Principles**

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in paragraph 1 above.

**EXHIBIT D**

**INSURANCE COMMITMENT**



Commitment to Issue Financial Guaranty Insurance Policy

**Issuer:** City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas)

**Obligor:** City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas)

**Commitment Date:** January 19, 2010

**Expiration Date:** March 13, 2010

**Obligations:** Not to exceed \$2,000,000 City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas) Combination Tax and Revenue Certificates of Obligation, Series 2010

**Insurance Premium:** On the date of issuance of the Obligations, the Issuer will pay, or cause to be paid, to AGC a non-refundable premium in an amount equal to 68 basis points times the total principal and interest on the Obligations.

On the terms and subject to the conditions set forth herein, and upon compliance with the procedures set forth in the letter delivered herewith (this commitment, and such letter hereinafter, collectively, the "Commitment"), Assured Guaranty Corp., a Maryland insurance corporation ("AGC"), hereby commits to issue a financial guaranty insurance policy (the "Policy") relating to the Obligations referenced above, which Policy shall be substantially in the form included in the AGC Closing Package referred to in the accompanying letter (the "AGC Closing Package").

Unless accepted by the Obligor, this Commitment shall expire, and be of no further force and effect, at 5:00 p.m., Eastern Time, on the Expiration Date, unless extended in writing by AGC in its sole discretion. Any request by the Obligor for any such extension must be made to AGC prior to 5:00 p.m., Eastern Time, on the Expiration Date. "Business Day", for all purposes hereof, shall mean any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee or Paying Agent (as defined in the Policy) or AGC are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in New York City or in the States of Maryland or New York.

Upon the acknowledgment and acceptance by the Obligor, this Commitment shall constitute a binding agreement between the parties hereto, with respect to the subject matter hereof, enforceable against each such party in accordance with its terms; *provided, however*, that this Commitment shall expire, and be of no further force and effect, to the extent that AGC shall not have issued the Policy as contemplated hereby on or prior to the Expiration Date. Upon the execution and acceptance of this Commitment by the parties hereto and in consideration of the issuance of this Commitment by AGC, the Obligor hereby agrees that it will not enter into any discussions or negotiations with, or seek any commitment from, any financial guarantor or credit enhancer other than AGC, for the issuance of a financial guaranty insurance policy or other credit enhancement facility, with respect to the Obligations, *provided further, that*, the Obligor may determine prior to the Expiration Date not to issue Obligations that are guaranteed with a financial guaranty insurance policy or credit enhancement by any financial guarantor or credit enhancer, in which case the Obligor agrees to notify AGC immediately after making such determination. ***An executed copy of this Commitment shall be returned to AGC no later than the mailing date of the preliminary Official Statement (as hereinafter defined), or (ii) the final pricing date for the Obligations.***

**Non-Reliance on AGC.** The Obligor has made its own independent investigation and decision as to whether to insure the payment when due of the principal of and interest on the Obligations and whether the Policy is appropriate or proper for it based upon its own judgment and upon advice from such legal and financial advisers as it has deemed necessary. The Obligor acknowledges that AGC has not made, and therefore the Obligor is not relying on, any recommendation from AGC that the Obligor insure the Obligations or obtain the Policy; it being understood and agreed that communications from AGC (whether written or oral) referring to, containing information about or negotiating the terms and conditions of the Policy, any related insurance document or the documentation governing the Obligations do not constitute a recommendation to insure the Obligations or obtain the Policy.

The Obligor further acknowledges that AGC has not made any representation, warranty or undertaking, and has not given any assurance or guarantee, in each case, expressed or implied, concerning its future financial strength or the rating of AGC's financial strength by the rating agencies. The Obligor acknowledges that the ratings of AGC reflect only the views of the rating agencies and an explanation of the significance of such ratings may be obtained only from the rating agencies. The Obligor understands that such ratings may not continue for any given time period and instead may change over time, including without limitation being placed under review for possible downgrade, revised downward, withdrawn entirely by the relevant rating agency if, in the judgment of such rating agency, circumstances so warrant, or withdrawn entirely by AGC in its sole discretion. The Obligor acknowledges and agrees that AGC undertakes no responsibility to bring to its attention, and shall have no liability for, the placement of a rating under review for possible downgrade or the downward revision or withdrawal of any rating obtained, and that any such review for possible downgrade, downward revision or withdrawal may have an adverse effect on the Obligations. The Obligor acknowledges that AGC pays rating agencies to rate AGC's financial strength, but that such payment is not in exchange for any specific rating or for a rating within any particular range. Notwithstanding anything to the contrary set forth herein, the provisions of this paragraph and of the preceding paragraph shall survive any termination or expiration of this Commitment.

Capitalized terms not defined herein shall have the meanings ascribed to such terms as set forth in the AGC Closing Package.

The issuance of the Policy by AGC is subject to the satisfaction or waiver by AGC of the following conditions, and the Obligor hereby further agrees as follows:

**Guaranteed Obligations.** The Policy will guarantee the timely payment of scheduled principal and interest on the Obligations.

**Offering Documents and Other Legal Documentation.** AGC shall be provided with:

- a. Executed copies of all financing documents (including documentation evidencing the Issuer's or Obligor's, as applicable, ability and intent to comply with the Internal Revenue Code of 1986, as amended, and certified copies of the ordinance/resolutions/indenture relating to the approval and issuance of the Obligations), any official statements (or any other disclosure documents) with respect to the Obligations (any and all such disclosure, collectively, the "Official Statement") and all legal opinions delivered in connection with the issuance and sale of the Obligations. Such legal opinions shall include all opinions as are customary for financings of the type contemplated, including without limitation the approving opinion of bond counsel rendered by a nationally approved bond counsel firm ("Bond Counsel"). Such opinions shall be addressed to AGC or, if not so addressed, letters shall be provided to AGC expressly providing that AGC is entitled to rely on such opinions as if such opinion, were addressed to AGC.
- b. In the event that the Obligations are issued in connection with a refunding, AGC shall receive and approve the following: (i) the escrow agreement, if applicable; (ii) an opinion addressed to AGC regarding the validity and enforceability of the escrow agreement, if applicable; (iii) a verification by a nationally-recognized certified public accounting firm acceptable to AGC, if applicable; and (iv) a defeasance opinion of Bond Counsel addressed to AGC.
- c. A copy of any insurance policy, surety bond, guaranty, indemnification, or any other policy, contract or agreement, which provides for the payment of all or any portion of the Obligations, or in any way secures, insures or enhances the cash flow available to pay the Obligations.
- d. Confirmation that an amount equal to the insurance premium to be paid to AGC upon issuance of the Policy has been deposited to the account of AGC.

**AGC Disclosure Must be Approved.** A "Statement of Insurance", in the form contained in the AGC Closing Package, shall be printed on, or attached to, the Obligations. The Obligations, the preliminary Official Statement (as applicable) and the Official Statement shall contain no reference to (i) AGC, (ii) the Policy, or (iii) the financial guaranty insurance evidenced thereby, except as expressly approved by AGC. **BOND PROOFS SHALL BE APPROVED BY AGC PRIOR TO PRINTING.**

**No Material Adverse Change.** On the date hereof and on the closing date pertaining to the issuance of the Obligations (the "Closing Date"), there shall have been no material adverse change in or affecting the Issuer and/or the Obligor, as applicable, or the Obligations (including, without limitation, the security for the Obligations or the proposed debt service schedule of the Obligations), the Official Statement, the financing documents to be executed and delivered with respect to the Obligations (the "Financing Documents"), the legal opinions to be executed and delivered in connection with the issuance and sale of the Obligations, or any other information submitted to AGC with respect to the referenced transaction, or the Obligations, from that previously delivered or otherwise communicated to AGC.

**No Event Affecting Purchase of Obligations.** No event shall have occurred which would permit any otherwise committed purchaser of the Obligations to elect not to purchase the Obligations on the date scheduled for the issuance and delivery thereof.

**No Untrue Statement or Omission.** The Official Statement, the Financing Documents and all information submitted to AGC with respect to the Obligations, including information relating to the Issuer and/or the Obligor, as applicable, shall not contain any untrue or misleading statement of material fact, nor omit to state a material fact necessary in order to make the information contained therein not misleading. AGC shall receive a certificate of an authorized officer of the Issuer and/or the Obligor, as applicable, confirming the same.

**Final Documents.** AGC shall have received the substantially final forms of all Financing Documents (including, without limitation, legal opinions, schedules and exhibits), incorporating AGC's comments in a manner acceptable to AGC, on or prior to the fifth (5th) Business Day prior to the proposed Closing Date and such Financing Documents shall contain for the benefit of AGC as bond insurer, such rights as are customary for financings of the type contemplated.

**Offering Documents; Closing Transcript.** AGC shall be provided with at least three (3) copies of each of the preliminary Official Statement and the final Official Statement as soon as they are printed and available (and in any event prior to the Closing Date). As a condition of delivery of the Policy, duplicate originals of the primary Financing Documents and legal opinions shall be immediately delivered by hand, sent via overnight mail or by e-mail for delivery no later than the Closing Date. **Within thirty (30) days after the Closing Date, AGC will be provided with three (3) complete sets of executed documents, preferably on CD-ROM or, if CD-ROM's are not available, an unbound copy of the transcript.**

**Inspection Rights; Financial Statements.** The Obligor must allow AGC or its agent access to all non-confidential records. The Obligor must provide to AGC such records and notices as reasonably may be requested by AGC, including without limitation the following: financial reports, operational statistics and strategic plans, if any, and any other records or notices to be provided to the Trustee or the Paying Agent pursuant to the terms of the ordinance, resolution, trust indenture or other financing documentation or relating to the Obligations.

**Non-Reliance Certification.** As a condition to delivery of the Policy, the Obligor shall be required to deliver a non-reliance certificate to AGC substantially in the form set forth in the AGC Closing Package.

**Rating Agency Fees.** Each rating agency rating the Obligations assesses fees with respect to such rating, which fees are payable by the Issuer directly to each such rating agency. Questions with respect to such fees should be addressed by the Issuer directly to the applicable rating agency.

**Legal Fees.** AGC will be responsible for its own attorneys' fees and expenses incurred in connection with the issuance of the Policy.

**Execution and Delivery of Commitment.** This Commitment may be executed in counterpart by the parties hereto.

Very truly yours,  
ASSURED GUARANTY CORP.

By: \_\_\_\_\_  
Richard Cassata  
Managing Director

The undersigned Obligor hereby accepts the commitment of Assured Guaranty Corp. to issue its Policy with respect to the captioned Obligations, on the terms and subject to the conditions set forth in the Commitment with respect thereto issued by Assured Guaranty Corp. on the Commitment Date set forth above.

Acknowledged, accepted and agreed to

as of 1-14-10 by:

CITY OF KENNEDALE, TEXAS (A POLITICAL  
SUBDIVISION OF THE STATE OF TEXAS  
LOCATED IN TARRANT COUNTY, TEXAS)

By: Bob Hart  
Name:  
Title:

**NEW ISSUE - BOOK-ENTRY-ONLY**

**Rating: Standard & Poor's: "AAA" (negative outlook)  
Assured Guaranty Corp. Insured  
(See: "BOND INSURANCE" and "OTHER PERTINENT INFORMATION – Ratings")**

**OFFICIAL STATEMENT  
Dated January 14, 2010**

*In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to the matters described under "TAX MATTERS" herein.*

THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

**\$2,000,000  
CITY OF KENNEDALE, TEXAS  
(A political subdivision of the State of Texas located in Tarrant County, Texas)  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010**

**Dated Date: January 1, 2010**

**Due: May 1, as shown on inside cover**

The \$2,000,000 City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Certificates") are being issued pursuant to the Certificate of Obligation Act of 1971, Sections 271.041 through 271.065, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Kennedale, Texas (the "City" or "Issuer"). See "THE CERTIFICATES - Authority for Issuance" herein.

The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system, all as provided in the Ordinance. See "THE CERTIFICATES – Security for Payment".

Interest on the Certificates will accrue from the dated date as shown above and will be payable on May 1 and November 1 of each year, commencing May 1, 2010, until stated maturity or earlier redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by Wells Fargo Bank, N.A., Austin, Texas, as Paying Agent/Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Certificates will be used to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects. See "THE CERTIFICATES – Use of Certificate Proceeds."

The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Corp. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.



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SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

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*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Bond Counsel, San Antonio, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" herein. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas. It is expected that the Certificates will be available for initial delivery through DTC on or about February 10, 2010.*

**SAMCO CAPITAL MARKETS, INC.**

**MATURITY SCHEDULE  
(Due May 1)**

**CUSIP No. Prefix 489332<sup>(1)</sup>**

**\$225,000 Serial Certificates**

Stated Maturity 5/1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix <sup>(1)</sup>
2011	75,000	2.000	1.000	FZ4
2012	75,000	2.000	1.250	GA8
2013	75,000	2.000	1.500	GB6

**\$1,775,000 Term Certificates**

**CUSIP No. Suffix<sup>(1)</sup>**

\$160,000 2.000% Term Certificates due May 1, 2015 and priced to yield 2.000%	GD2
\$165,000 2.625% Term Certificates due May 1, 2017 and priced to yield 2.750%	GF7
\$175,000 3.250% Term Certificates due May 1, 2019 and priced to yield 3.310%	GH3
\$185,000 4.000% Term Certificates due May 1, 2021 and priced to yield 3.580% <sup>(2)</sup>	GK6
\$205,000 5.000% Term Certificates due May 1, 2023 and priced to yield 3.790% <sup>(2)</sup>	GM2
\$225,000 5.000% Term Certificates due May 1, 2025 and priced to yield 4.000% <sup>(2)</sup>	GP5
\$245,000 5.000% Term Certificates due May 1, 2027 and priced to yield 4.120% <sup>(2)</sup>	GR1
\$415,000 5.000% Term Certificates due May 1, 2030 and priced to yield 4.400% <sup>(2)</sup>	GU4

**Interest will accrue from the Dated Date**

The Issuer reserves the right to redeem the Certificates maturing on or after May 1, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2020, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. See "THE CERTIFICATES - Redemption Provisions of the Certificates – Optional Redemption" herein. The Term Certificates are subject to mandatory sinking fund redemption prior to stated maturity. See "THE CERTIFICATES – Redemption Provisions of the Certificates – Mandatory Redemption" herein.

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on May 1, 2020, the first optional call date for the Certificates, at a redemption price of par, plus accrued interest to the redemption date.

**CITY OF KENNEDALE, TEXAS**  
**405 Municipal Drive**  
**Kennedale, Texas 76060**  
**(817) 985-2100 – Phone**

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (May)	Occupation
Bryan Lankhorst Mayor	4	2012	Real Estate
John Clark Mayor Pro-Tem, Place 1	12	2011	Attorney
David Green Councilmember, Place 2	6	2012	Fireman/Paramedic
Brian Johnson Councilmember, Place 3	5	2011	Professor
Kelly Turner Councilmember, Place 4	2	2012	Fireman/Paramedic
Jerry Miller Councilmember, Place 5	3	2011	Retired

**ADMINISTRATION**

Name	Position	Length of Service (Years)
Bob Hart	City Manager	4
Sakura Moten-Dedrick	Director of Finance	1
Kathy Turner	City Secretary	26
Wayne Olson	City Attorney	12

**CONSULTANTS AND ADVISORS**

**Bond Counsel**..... McCall, Parkhurst & Horton L.L.P.  
San Antonio, Texas

**Certified Public Accountants** ..... Pattillo, Brown & Hill. L.L.P.  
Waco, Texas

**Financial Advisor** ..... Southwest Securities  
San Antonio, Texas

**For Additional Information Please Contact:**

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City Manager  
City of Kennedale, Texas  
405 Municipal Drive  
Kennedale, Texas 76060  
bhart@cityofkennedale.com  
(817) 985-2100 Phone  
(817)478-7169 (Fax)

Mr. Mark McLiney  
Mr. Ryan B. Cunningham  
Southwest Securities  
4040 Broadway, Suite 220  
San Antonio, Texas 78209  
mmcliney@swst.com  
rcunningham@swst.com  
(210) 226-8677 (Phone)  
(210) 226-8299 (Fax)

**USE OF INFORMATION IN THE OFFICIAL STATEMENT**

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the Issuer and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the City, the Financial Advisor nor the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System or the Insurer (defined herein) and its municipal bond insurance policy described under the caption "BOND INSURANCE".

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Assured Guaranty Corp. makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, Assured Guaranty Corp. has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty Corp. supplied by Assured Guaranty Corp. and presented under the heading "BOND INSURANCE" and "Exhibit E - Specimen Financial Guaranty Insurance Policy".

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*The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.*

**SELECTED DATA FROM THE OFFICIAL STATEMENT**

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

<b>The Issuer</b>	The City of Kennedale, Texas (the "City" or "Issuer") is a political subdivision of the State of Texas located in Tarrant County on Highway 287, just South of Interstate 820 and Interstate 20. The City is 11 miles southeast of downtown Fort Worth. The City operates as a home rule city under the laws of the State of Texas. The City's estimated 2010 population is 6,450. See Appendix B - "General Information Regarding the City of Kennedale and Tarrant County, Texas" herein.
<b>The Certificates</b>	The City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Certificates") are being issued pursuant to the Certificate of Obligation Act of 1971, Sections 271.041 through 271.065, Texas Local Government Code, as amended and an ordinance (the "Ordinance") adopted by the City Council of the City. See "THE CERTIFICATES - Authority for Issuance" herein.
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Austin, Texas.
<b>Security</b>	The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system, all as provided in the Ordinance. See "THE CERTIFICATES – Security for Payment".
<b>Redemption Provisions of the Certificates</b>	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after May 1, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2020, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. See "THE CERTIFICATES - Redemption Provisions of the Certificates" – Optional Redemption" herein. The Term Certificates are subject to mandatory sinking fund redemption prior to stated maturity. See "THE CERTIFICATES – Redemption Provisions of the Certificates – Mandatory Redemption" herein.
<b>Tax Matters</b>	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing law, subject to matters discussed herein under "TAX MATTERS". See "TAX MATTERS" and Appendix C - "Form of Opinion of Bond Counsel" herein.
<b>Qualified Tax-Exempt Obligations</b>	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.
<b>Use of Certificate Proceeds</b>	Proceeds from the sale of the Certificates will be used to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects. See "THE CERTIFICATES – Use of Certificate Proceeds."
<b>Bond Insurance</b>	The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Corp. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.

<b>Rating</b>	Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has rated the Certificates "AAA" (negative outlook) based upon the issuance of a financial guaranty insurance policy issued by Assured Guaranty Corp. The unenhanced, underlying rating on the Certificates is "A+" by S&P. See "OTHER PERTINENT INFORMATION- Ratings", "BOND INSURANCE", and "BOND INSURANCE RISK FACTORS" herein.
<b>Payment Record</b>	The Issuer has never defaulted on the payment of its bonded indebtedness.
<b>Future Bond Issues</b>	The Issuer does not anticipate the issuance of any additional bonded indebtedness in 2010.
<b>Delivery</b>	When issued, anticipated on or about February 10, 2010.
<b>Legality</b>	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Bond Counsel, San Antonio, Texas. Certain legal matters will be passed upon for the Underwriter by their counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas.

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## OFFICIAL STATEMENT

relating to

CITY OF KENNEDALE, TEXAS

\$2,000,000

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION  
SERIES 2010

### INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Kennedale, Texas (the "City" or "Issuer") of its \$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas and a municipal corporation organized and existing under the laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the hereinafter defined Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained from the Issuer or the Financial Advisor, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

### THE CERTIFICATES

#### General Description of the Certificates

The Certificates will be dated January 1, 2010, and will mature on the dates and in the principal amounts and bear interest at the rates set forth on the inside front cover page of this Official Statement. The Certificates will be registered and will be in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from January 1, 2010, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on May 1 and November 1 of each year, commencing May 1, 2010, until stated maturity or earlier redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by Wells Fargo Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar, as of the Record Date (defined herein), by check, mailed first-class, postage prepaid, to the address of such person on the security register or 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 the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

#### Authority for Issuance

The Certificates are being issued pursuant to the Certificate of Obligation Act of 1971, Sections 271.041 through 271.065, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City.

#### Security for Payment

The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system, all as provided in the Ordinance.

## Redemption Provisions of the Certificates

### Optional Redemption

The Issuer reserves the right to redeem Certificates stated to mature May 1, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar) on May 1, 2020 or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed will be selected by lot or by other customary random method by the Paying Agent/Registrar.

### Mandatory Redemption

The Certificates stated to mature on May 1, 2015, May 1, 2017, May 1, 2019, May 1, 2021, May 1, 2023, May 1, 2025, May 1, 2027, and May 1, 2030 are referred to herein as the "Term Certificates". The Term Certificates are also subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on May 1 in the years and principal amounts shown below:

#### Term Certificates Stated to Mature On May 1, 2015

Year	Principal Amount
2014	\$ 80,000
2015*	80,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2017

Year	Principal Amount
2016	\$ 80,000
2017*	85,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2019

Year	Principal Amount
2018	\$ 85,000
2019*	90,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2021

Year	Principal Amount
2020	\$ 90,000
2021*	95,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2023

Year	Principal Amount
2022	\$ 100,000
2023*	105,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2025

Year	Principal Amount
2024	\$ 110,000
2025*	115,000

\* Payable at stated maturity

#### Term Certificates Stated to Mature On May 1, 2027

Year	Principal Amount
2026	\$ 120,000
2027*	125,000

\* Payable at stated maturity

Term Certificates Stated to Mature  
On May 1, 2030

Year	Principal Amount
2028	\$130,000
2029	140,000
2030*	145,000

\* Payable at stated maturity

Approximately fifty (50) days prior to each mandatory redemption date Term Certificates are to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates within the applicable Stated Maturity to be redeemed on the next following May 1 from money set aside for that purpose in the Interest and Sinking Fund maintained for the payment of the Certificates. Any Term Certificates not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Certificates for a Stated Maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Issuer, by the principal amount of the Term Certificates of like Stated Maturity which, at least forty-five (45) days prior to the mandatory redemption date, (i) shall have been defeased or acquired by the Issuer and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the Issuer with money in the Interest and Sinking Fund, or (iii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

**Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects.

**Payment Record**

The Issuer has never defaulted on the payment of its bonded indebtedness.

**Amendments**

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of default to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, change, modification, or waiver.

**Defeasance**

The Ordinance provides that any Certificate will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Ordinance when payment of principal of and interest on such Certificate to its stated maturity or earlier redemption date has been made or provided for. Payment may be provided for by deposit of any combination of (1) cash in an amount sufficient to make such payment and/or (2) Government Securities. Any such deposit must generally be certified by an independent public accountant to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Certificates.

The Ordinance provides that "Government Securities" means (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid and the Issuer shall have no further ability to amend the Ordinance or redeem the Certificates prior to their stated maturity; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

### **Default and Remedies**

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Austin, Texas. In the Ordinance the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

### **Record Date**

The record date ("Record Date") for determining the registered owner entitled to receive the interest payable on a Certificate on any interest payment date is the close of business on the fifteenth day of the month preceding each interest payment date. 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 will be established by the Paying Agent/Registrar. See "Special Record Date for Interest Payment" herein.

### **Special Record Date for Interest Payment**

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

### **Future Registration**

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.

### **Limitation on Transfer of Certificates**

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part within 45 days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owners of the uncalled balance of a Certificate.

### **Replacement Certificates**

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

## **BOOK-ENTRY-ONLY SYSTEM**

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Underwriter believe to be reliable, but neither of the City, the Financial Advisor, nor the Underwriter take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Certificates, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

### **BOND INSURANCE**

#### **The Insurance Policy**

Concurrently with the issuance of the Certificates, Assured Guaranty Corp. ("AGC" or the "Insurer") will issue its financial guaranty insurance policy (the "Policy") for the Certificates. The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as Exhibit E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

#### **The Insurer**

AGC is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. AGC commenced operations in 1988. AGC is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of AGC or any claims under any insurance policy issued by AGC.

AGC's financial strength is rated "AAA" (negative outlook) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's") and "AA-" (negative outlook) by Fitch, Inc. ("Fitch"). Each rating of AGC should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGC. AGC does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

#### *Recent Developments*

In a press release dated December 18, 2009, Moody's announced that it had confirmed its "Aa3" insurance financial strength rating of AGC, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody's comments.

In a press release dated October 12, 2009, Fitch announced that it had downgraded the insurer financial strength rating of AGC to "AA-" (negative outlook) from "AA" (ratings watch negative). Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch's comments.

On July 1, 2009, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGC. At the same time, S&P revised its outlook on AGC to negative from stable. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

There can be no assurance as to any further ratings action that Moody's, Fitch or S&P may take with respect to AGC.

For more information regarding AGC's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, which was filed by AGL with the SEC on November 16, 2009.

#### *Capitalization of Assured Guaranty Corp.*

As of September 30, 2009, AGC had total admitted assets of \$2,096,784,037 (unaudited), total liabilities of \$1,917,777,236 (unaudited), total surplus of \$179,006,801 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$951,037,548 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

#### *Incorporation of Certain Documents by Reference*

The portions of the following documents relating to AGC are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 (which was filed by AGL with the SEC on November 16, 2009);
- the filed portion of the Current Report on Form 8-K of AGL dated December 11, 2009; and
- the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.

All consolidated financial statements of AGC and all other information relating to AGC included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Certificates shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "BOND INSURANCE-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of AGC incorporated by reference herein and of the statutory financial statements filed by AGC with the Maryland Insurance Administration are available upon request by contacting AGC at 31 West 52<sup>nd</sup> Street, New York, New York 10019 or by calling AGC at (212) 974-0100. In addition, the information regarding AGC that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

AGC makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGC has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGC supplied by AGC and presented under the heading "BOND INSURANCE".

### **BOND INSURANCE RISK FACTORS**

The Policy purchased by the City carries the following risk factors related to municipal bond insurance policies.

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City

from the owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Policy provider (the "Insurer") at such time and in such amounts as would have been due absence such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Default and Remedies"). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the holders. Additionally, the Insurer's consent may be required in connection with amendments to the Ordinance. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the herein before identified surplus revenues and the ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. See the disclosure described in "OTHER PERTINENT INFORMATION - Rating" herein.

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the Financial Advisor, or the Underwriter has made independent investigation into the claims paying ability of any Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given.

## INVESTMENT POLICIES

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

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for City deposits, and in addition (b) the City is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the City to be pledged to the City, held in the City's name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least A-1 or P-1 or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (13), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days, and (13) Certificates issued, assumed or guaranteed by the State of Israel. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) pledged irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated by such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Under Texas law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, Ordinance or resolutions. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

### **Investment Policies**

Under Texas law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Issuer funds, maximum allowable stated maturity of any individual investment owned by the Issuer and the maximum average dollar-weighted maturity allowed for pooled fund groups.

All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

### **Additional Provisions**

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no load market mutual funds in the aggregate to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board

requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

**Current Investments<sup>(1)</sup>**

**TABLE 1**

As of September 30, 2009 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Investment Pools	\$7,167,856	54.20%
Money Markets and Cash	<u>6,056,971</u>	<u>45.80%</u>
	\$13,224,827	100.00%

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

<sup>(1)</sup> Unaudited.

**AD VALOREM TAX PROCEDURES**

**Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code (the "Tax Code ") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Tarrant County Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Tarrant County Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the Issuer in establishing its tax roll and tax rate

**Property Subject to Taxation by the Issuer**

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the City is subject to taxation by the City. Principal categories of exempt property (including certain exemptions which are subject to local option by the City Council) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the Issuer has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and wind-powered energy devices; most individually owned automobiles; certain varying amounts of valuation attributable to residential homesteads of disabled persons or persons ages 65 or over and property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; and certain classes of intangible property. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

At an election held on September 13, 2003, the voters of the State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college Districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation. The City has not implemented this "tax freeze" nor received a valid petition requesting that an election be held concerning this matter.

## **Valuation of Property for Taxation**

Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal role is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) years for agricultural open space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the City or an estimate of any new property or improvements within the City. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the City, it cannot be used for establishing a tax rate within the City until such time as the Appraisal District chooses to formally include such values on its appraisal role.

## **Residential Homestead Exemptions**

Under Section 1-b, Article VIII of the Texas Constitution, and State law, the governing body of a political subdivision, at its option, may grant:

1. An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. The Issuer has elected to grant a \$50,000 exemption to persons 65 years of age or older and the disabled.
2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000. The Issuer has not elected to grant an exemption equal to 10% of market value of residence homesteads with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. The Issuer has not granted the additional exemption.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000.

House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Texas Tax Code. This law, effective January 1, 2010, states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

## **Freeport Goods and Goods-In-Transit Exemption**

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas

Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The City has elected to allow the freeport exemption; however, on November 8, 2007 the City adopted an ordinance that continued the taxation of all goods-in-transit and waived any exemptions for the 2008 tax year and beyond.

### **Tax Abatement**

The Issuer may designate areas within the City as a reinvestment zone. Thereafter, the Issuer may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity with taxing authority over the property will follow in granting tax abatement to owners of property. The tax abatement agreement may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the Issuer, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. The terms of all tax abatement agreements must be substantially the same. The City has granted one (1) tax abatement.

### **Issuer and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the Issuer, may appeal the orders of the Appraisal Review Board by filing a timely petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

The Tax Code sets forth notice and hearing procedures for certain tax rate increases by the Issuer and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal role.

### **The Financial Institutions Act of 1989**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC").

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states that (i) no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property tax when due, (iii) no personal property owned by FDIC is subject to ad valorem taxation, and (iv) notwithstanding failure of a person to challenge an appraisal in accordance with State law, such value shall be determined as of the period for which such tax is imposed.

As of the date hereof, the Issuer is not aware of any significant properties in the City which are under the control of the FDIC, however, real property could come under their control while acting as the receiver of an insolvent financial institution. Accordingly, to the extent the FIRREA provisions are valid and applicable to property in the City, and to the extent that the FDIC attempts to enforce the same, the provisions may affect the time at which the Issuer can collect taxes on property owned by the FDIC, if any, in the City.

### **Levy and Collection of Taxes**

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Before the later of September 30<sup>th</sup> or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code also makes provision for the split payment

of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. The Issuer does not allow split payments or discounts.

### **Issuer's Rights in the Event of Tax Delinquencies**

Taxes levied by the Issuer are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the Issuer, having power to tax the property. The Issuer's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Issuer is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the Issuer may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the Issuer must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the City records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

### **TAX RATE LIMITATIONS**

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population: \$2.50 per \$100 assessed valuation. The Issuer has adopted a Home Rule Charter which does not limit the City's maximum tax rate limit beyond the Constitutional limit of \$2.50 per \$100 of assessed valuation for all Issuer purposes. No direct funded debt limitation is imposed on the City under current Texas law.

No direct funded debt limitation is imposed on the City under current Texas law. Article XI, Section of Section 5 of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. As stated above, the City operates under a Home Rule Charter which adopts a limit of \$2.50 per \$100 of assessed valuation. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the Certificates does not violate this constitutional provision or the Texas Attorney General's administrative policy.

Before the later of September 30<sup>th</sup> or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, the City Council must adopt a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

### **The Tax Code**

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

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

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

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

The Tax Code provides certain cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election. The Issuer has authorized the additional one-half cent sales tax.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), for federal income tax purposes interest on the Certificates (i) will be excludable from the "gross income" of the holders thereof and (ii) will not be included as an alternative minimum tax preference item under section 55 of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C – Form of Opinion of Bond Counsel.

In rendering its opinions, Bond Counsel will rely upon (a) certain information and representations of the Issuer, including information and representations contained in the Issuer's federal tax certificate, and (b) covenants of the Issuer contained in the financing documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates and the property financed therewith. Failure by the Issuer to observe the aforementioned representations or covenants could cause the interest on the Certificates to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinions of Bond Counsel are conditioned on compliance by the Issuer with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinions represent its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinions are not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Certificates or the property financed with proceeds of the Certificates. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinions of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

### **Collateral Federal Income Tax Consequences**

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT CERTIFICATES BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

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

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

### **State, Local and Foreign Taxes**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity Certificates," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year, except that such amount will be \$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state

supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer has designated the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011), there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011) is disregarded,; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Certificates would not be "qualified tax-exempt obligations."**

## CONTINUING DISCLOSURE OF INFORMATION

The Issuer in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The Issuer is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the Issuer will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org), as further described below under "Availability of Information."

### Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the Issuer must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report within 180 days after the close of the Issuer's fiscal year. The Issuer's fiscal records and audit reports are available for public inspection during the regular business hours, and the Issuer is required to provide a copy of the Issuer's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The Issuer will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Table 1 hereof, Tables 1 through 10 of Appendix A to this Official Statement and Appendix D. The Issuer will update and provide this information within six months after the end of each fiscal year.

The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the Issuer will provide unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation.

The Issuer's current fiscal year end is September 30. Accordingly, it must provide updated information by the end of March in each year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB of the change.

### Material Event Notices

The Issuer will also provide timely notices of certain events to the MSRB. The Issuer will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement (other than a municipal bond insurance policy if such policy is obtained), or liquidity enhancement. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

## Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of its EMMA system, at [www.emma.msrb.org](http://www.emma.msrb.org). EMMA is the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Issuer in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB. The Issuer will continue to make information filings, including material event notices, with the Texas state information repository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

## Limitations and Amendments

The Issuer has agreed to update information and to provide notices of material events only as described above. The Issuer has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the Issuer to comply with its agreement.

The Issuer may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, if the agreement, as amended, would have permitted an Underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Certificates. The Issuer may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the applicable provisions of the Ordinance in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an Underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

## Compliance with Prior Undertakings

During the past five years, the City has complied in all material respects with its continuing disclosure agreements in accordance with SEC Rule 15c2-12.

## LEGAL MATTERS

### Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding Certificates of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed the information under the captions "THE CERTIFICATES" other than the information under the sub-caption "Payment Record", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS—Legal Opinions and No-Litigation Certificate" (except for the last sentence of the first paragraph thereof to which no opinion is expressed) "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion

that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, whose fee is contingent upon the sale and delivery of the Certificates.

The various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **Litigation**

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Section 271.051, as amended, of the Certificate of Obligation Act provides that the Certificates are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking funds of cities, school districts, and other political subdivisions or public agencies of the State of Texas. Texas law further provides that Certificates, such as the Certificates are eligible to secure deposits of the state, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code) the Certificates may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such Certificates are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Rating" herein.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

### **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

### **OTHER PERTINENT INFORMATION**

#### **Registration and Qualification of Certificates for Sale**

The sale of the Certificates has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Certificates have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The

Issuer assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

## **Rating**

Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") has assigned a municipal bond rating of "AAA" to the Certificates based upon the issuance of a financial guaranty insurance policy issued by Assured Guaranty Corp. (see "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS"). The unenhanced, underlying rating by S&P on the Certificates is "A+". An explanation of the significance of such rating may be obtained from S&P. The rating of the Certificates by S&P only reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

## **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources that are believed to be reliable. All of the summaries of the statutes, documents and Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

## **Underwriting**

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the Issuer at a price of \$2,068,788.04 (representing the par amount of the Certificates, plus a premium of \$85,418.65, less an underwriting discount of \$16,630.61), plus accrued interest on the Certificates from their dated date to their date of initial delivery. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Certificates, if any Certificates are purchased. The Certificates may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

## **Financial Advisor**

Southwest Securities is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Certificates.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the Issuer and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **Authorization of the Official Statement**

The Official Statement will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council of the City on the date of sale, and the Underwriter will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the Issuer.

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the Issuer, and authorize its further use in the reoffering of the Certificates by the Underwriter. This Official Statement has been approved by the City Council of the Issuer for distribution in accordance with the provisions of the United States Securities and Exchange Commission's Rule codified at 17 C.F.R. Section 240.15c2-12.

**CITY OF KENNEDALE, TEXAS**

/s/ Bryan Lankhorst  
Mayor  
City of Kennedale, Texas

ATTEST:  
/s/ Kathy Turner  
City Secretary  
City of Kennedale, Texas

**APPENDIX A**

Financial information - City of Kennedale, Texas

## FINANCIAL INFORMATION OF THE ISSUER

### ASSESSED VALUATION

**TABLE 1**

2009 Actual Market Value of Taxable Property.....	\$602,563,484
Less Exemptions:	
Local, Optional Over-65 and/or Disabled Homestead Exemptions .....	\$18,905,380
Veterans Exemptions .....	1,426,752
Freeport Exemption.....	15,717,189
Productivity Value Loss .....	8,499,631
Abatement Value Loss.....	11,916,798
Solar/Wind Exemption.....	88,812
10% Cap.....	<u>4,743,409</u>
<b>TOTAL EXEMPTIONS</b> .....	<b>\$61,297,971</b>
2009 Net Taxable Assessed Valuation (100% of Actual) <sup>(1)</sup> .....	<u>\$541,265,513</u>

<sup>(1)</sup> See "AD VALOREM TAX PROCEDURES" in the Official Statement for a description of the Issuer's taxation procedures.  
Source: Tarrant County Appraisal District

### GENERAL OBLIGATION BONDED DEBT

(As of December 15, 2009)<sup>(1)</sup>

#### General Obligation Debt Outstanding:

Combination Tax and Revenue Certificates of Obligation, Series 2005	\$ 730,000
Tax Notes, Series 2006	185,000
Combination Tax and Revenue Certificates of Obligation, Series 2007	2,705,000
General Obligation Refunding Bonds, Series 2007	3,955,000
Combination Tax and Revenue Certificates of Obligation, Series 2007A	2,490,000
Combination Tax and Revenue Certificates of Obligation, Series 2008	4,300,000
The Certificates	<u>2,000,000</u>
Total Gross General Obligation Debt Outstanding:	<u>\$16,365,000</u>
Less: Self-Supporting Debt:	
Combination Tax and Revenue Certificates of Obligation, Series 2007 (100.0% Utility System)	\$ 2,705,000
General Obligation Refunding Bonds, Series 2007 (38.25% Utility System)	1,512,788
Combination Tax and Revenue Certificates of Obligation, Series 2008 (33.72% Waste Disposal Fees)	1,450,000
The Certificates (100.00% Sales Tax, Economic Development Corporation)	<u>2,000,000</u>
	<u>\$7,667,788</u>
Total Net General Obligation Debt Outstanding:	<u>\$8,697,212</u>
2009 Net Assessed Valuation	\$541,265,513
Ratio of Gross General Obligation Debt to 2009 Net Taxable Assessed Valuation	3.02%
Ratio of Net General Obligation Debt to 2009 Net Taxable Assessed Valuation	1.61%

<sup>(1)</sup> Unaudited.

Population: 1990 – 4,096; 1995 – 4,850; 2000 – 5,850; 2010 Est. 6,450  
Per Capita 2009 Net Taxable Assessed Valuation - \$83,917.13  
Per Capita Gross General Obligation Debt - \$2,537.21  
Per Capita Net General Obligation Debt - \$1,348.40

### DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

**TABLE 2**

The City has acquired certain fixed assets for governmental and business-type activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities	Total
Assets:			
Machinery and Equipment	\$ 548,492	\$ 218,489	\$ 766,981
Less: Accumulated Depreciation	<u>(358,695)</u>	<u>(47,917)</u>	<u>(406,267)</u>
Total	<u>\$ 189,797</u>	<u>\$ 170,917</u>	<u>\$ 360,714</u>

Source: The Issuer's audited financial statements for the fiscal year ending September 30, 2008.

## ESTIMATED GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Current Total Outstanding Debt <sup>(1)</sup>	The Certificates				Less: Self-Supporting Debt	Total Net Debt Service
		Principal	Interest	Principal & Interest	Combined Debt Service		
2010	\$1,203,148		\$26,540	\$26,540	\$1,229,687	\$495,904	\$733,783
2011	1,167,889	\$75,000	79,619	154,619	1,322,507	624,609	697,898
2012	1,206,496	75,000	78,119	153,119	1,359,615	624,440	735,175
2013	1,198,276	75,000	76,619	151,619	1,349,895	615,855	734,040
2014	1,169,660	80,000	75,119	155,119	1,324,779	621,902	702,876
2015	1,185,205	80,000	73,519	153,519	1,338,724	615,506	723,217
2016	1,208,724	80,000	71,919	151,919	1,360,643	617,466	743,177
2017	1,244,528	85,000	69,819	154,819	1,399,347	628,165	771,182
2018	1,238,165	85,000	67,588	152,588	1,390,753	621,211	769,542
2019	1,240,922	90,000	64,825	154,825	1,395,747	625,318	770,429
2020	1,242,622	90,000	61,900	151,900	1,394,522	621,930	772,592
2021	1,237,487	95,000	58,300	153,300	1,390,787	624,082	766,704
2022	1,083,521	100,000	54,500	154,500	1,238,021	563,434	674,588
2023	1,085,719	105,000	49,500	154,500	1,240,219	563,363	676,856
2024	1,086,034	110,000	44,250	154,250	1,240,284	565,424	674,859
2025	638,578	115,000	38,750	153,750	792,328	476,090	316,238
2026	643,540	120,000	33,000	153,000	796,540	477,958	318,583
2027	573,601	125,000	27,000	152,000	725,601	478,861	246,740
2028	363,254	130,000	20,750	150,750	514,004	263,308	250,696
2029		140,000	14,250	154,250	154,250	154,250	0
2030		<u>145,000</u>	<u>7,250</u>	<u>152,250</u>	<u>152,250</u>	<u>152,250</u>	<u>0</u>
Total	<u>\$20,017,365</u>	<u>\$2,000,000</u>	<u>\$1,093,133</u>	<u>\$3,093,133</u>	<u>\$23,110,498</u>	<u>\$11,031,325</u>	<u>\$12,079,174</u>

<sup>(1)</sup> Includes self-supporting debt.

### TAX ADEQUACY [Includes Self-Supporting Debt]

2009 Net Assessed Valuation	\$541,265,513
Estimated Maximum Annual Debt Service Requirements for Fiscal Year Ending: 9/30/2017	1,399,347
Indicated Interest and Sinking Fund Tax Rate	0.2639
Indicated Interest and Sinking Fund Tax Rate at 98% Collections	1,399,832

### TAX ADEQUACY [Excludes Self-Supporting Debt]

2009 Net Assessed Valuation	\$541,265,513
Estimated Maximum Annual Debt Service Requirements for Fiscal Year Ending: 9/30/2020	772,592
Indicated Interest and Sinking Fund Tax Rate	0.1457
Indicated Interest and Sinking Fund Tax Rate at 98% Collections	772,851

Note: See "Tax Data" herein

### INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Audited Fiscal Year Ended September 30, 2008	\$48,766
Estimated Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2009 <sup>(1)</sup>	0
2009 Interest and Sinking Fund Tax Levy at 98% Collections Produce	<u>794,446</u>
Total Available for Debt Service	\$794,446
Less: Net General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/10 <sup>(3)</sup>	<u>\$733,783</u>
Estimated Surplus at Fiscal Year Ending 9/30/10 <sup>(2)</sup>	<u>\$60,663</u>

<sup>(1)</sup> Unaudited.

<sup>(2)</sup> Excludes self-supporting general obligation debt.

<sup>(3)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

**GENERAL OBLIGATION REPAYMENT SCHEDULE**

Fiscal Year Ending 9/30	Currently Outstanding Obligations Principal Repayment Schedule <sup>(1)</sup>	The Certificates Repayment Schedule	Combined Principal Repayment Schedule	Obligations Remaining Outstanding End of Year	Percent of Principal Retired
2010	\$620,000		\$620,000	\$15,745,000	
2011	610,000	\$75,000	685,000	15,060,000	
2012	675,000	75,000	750,000	14,310,000	
2013	695,000	75,000	770,000	13,540,000	
2014	695,000	80,000	775,000	12,765,000	
2015	740,000	80,000	820,000	11,945,000	27.01%
2016	795,000	80,000	875,000	11,070,000	
2017	865,000	85,000	950,000	10,120,000	
2018	895,000	85,000	980,000	9,140,000	
2019	935,000	90,000	1,025,000	8,115,000	
2020	975,000	90,000	1,065,000	7,050,000	56.92%
2021	1,010,000	95,000	1,105,000	5,945,000	
2022	895,000	100,000	995,000	4,950,000	
2023	935,000	105,000	1,040,000	3,910,000	
2024	975,000	110,000	1,085,000	2,825,000	
2025	560,000	115,000	675,000	2,150,000	86.86%
2026	590,000	120,000	710,000	1,440,000	
2027	545,000	125,000	670,000	770,000	
2028	355,000	130,000	485,000	285,000	
2029		140,000	140,000	145,000	
2030		145,000	145,000	0	100.00%
Total	<u>\$14,365,000</u>	<u>\$2,000,000</u>	<u>\$16,365,000</u>		

<sup>(1)</sup> Includes self-supporting debt.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2000-2009**

**TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2000-01	\$233,819,195	\$19,031,761	8.86%
2001-02	260,344,707	26,525,512	11.34%
2002-03	295,105,130	34,760,423	13.35%
2003-04	310,501,026	15,395,896	5.22%
2004-05	333,704,742	23,203,716	7.47%
2005-06	355,857,239	22,152,497	6.64%
2006-07	387,653,132	31,795,893	8.94%
2007-08	435,040,102	47,386,970	12.22%
2008-09	493,189,136	58,149,034	13.37%
2009-10	541,265,513	48,076,377	9.75%

Source: The Tarrant County Appraisal District and the Municipal Advisory Council of Texas.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 4**

	2009	% OF TOTAL	2008	% OF TOTAL	2007	% OF TOTAL
Real, Residential, Single-Family	\$310,427,142	51.52%	\$295,367,960	54.01%	\$267,007,582	54.49%
Real, Residential, Multi-Family	22,178,859	3.68%	21,976,147	4.02%	21,631,350	4.41%
Real, Vacant Lots/Tracts	12,742,974	2.11%	12,052,158	2.20%	11,965,267	2.44%
Real, Acreage (Land Only)	10,458,306	1.74%	7,947,461	1.45%	8,167,603	1.67%
Real, Farm and Ranch Improvements	1,003,063	0.17%	1,062,341	0.19%	1,702,848	0.35%
Real, Commercial	59,898,865	9.94%	59,675,657	10.91%	51,429,417	10.49%
Real, Industrial	15,553,819	2.58%	15,642,011	2.86%	14,711,695	3.00%
Real & Tangible, Personal Utilities	35,601,090	5.91%	8,738,800	1.60%	16,022,512	3.27%
Tangible Personal, Commercial	16,614,520	2.76%	16,177,308	2.96%	31,420,326	6.41%
Tangible Personal, Industrial	43,840,038	7.28%	38,984,751	7.13%	48,699,069	9.94%
Tangible Personal, Mobile Homes	58,396,927	9.69%	50,222,596	9.18%	2,175,241	0.44%
Intangible	1,802,641	0.30%	1,977,941	0.36%	0	0.00%
Real Property, Inventory	<u>14,045,240</u>	<u>2.33%</u>	<u>17,019,715</u>	<u>3.11%</u>	<u>15,114,100</u>	<u>3.08%</u>
<b>Total Appraised Value</b>	<b>\$602,563,484</b>	<b>100.00%</b>	<b>\$546,844,846</b>	<b>100.00%</b>	<b>\$490,047,010</b>	<b>100.00%</b>
Less:						
Local, Optional Over-65 or Disabled Exemptions	\$ 18,905,380		\$ 17,686,986		\$16,402,538	
Disabled and Deceased Veterans' Exemptions	1,426,752		399,150		384,150	
Freeport Exemption Loss	15,717,189		11,607,263		8,926,110	
Open-Space Land and Timberland	8,499,631		6,032,787		5,787,878	
Abatement Loss	4,743,409		4,775,358		12,953,048	
Solar/wind Exemption	11,916,798		13,036,150		9,370	
10% Per Year Cap on Residential Homesteads	<u>88,812</u>		<u>118,016</u>		<u>6,212,477</u>	
<b>Net Taxable Assessed Valuation</b>	<b><u>\$541,265,513</u></b>		<b><u>\$493,189,136</u></b>		<b><u>\$439,371,439</u></b>	

Note: The above figures were taken from the State Property Tax Board City Report of Property Value or Report of the Property Tax Division of the State Comptroller's Office which is compiled during the initial phase of the tax year.

Source: State Comptroller's Office, Property Tax Division.

**PRINCIPAL TAXPAYERS**

**TABLE 5**

Name	Type of Property	2009 Net Taxable Assessed Valuation	% of Total 2009 Assessed Valuation
XTO Energy Inc.	Oil and Gas	\$ 23,190,720	4.28%
F W T Inc.	Radio, Telephone Tower Manufacturing	12,245,691	2.26%
Excel Polymers LLC	Manufacturer	8,089,334	1.49%
Goss International Americas	Printing Press Manufacturing	7,474,700	1.38%
Harrison Jet Guns II LP	Manufacturer	6,833,455	1.26%
Hawk Steel Industries Inc.	Manufacturer	6,624,759	1.22%
Southwestern Bell	Tellephone Utility	5,468,940	1.01%
Carrizo Oil and Gas	Oil and Gas	4,633,540	0.86%
Driver Pipeline Co Inc.	Oil and Gas	4,193,785	0.77%
Eagle Pipeline Construction Co.	Pipeline Construction	<u>3,623,347</u>	<u>0.67%</u>
		<b><u>\$82,378,271</u></b>	<b>15.22%</b>

Source: Municipal Advisor Council of Texas

**TAX RATE DISTRIBUTION**

**TABLE 6**

	2009	2008	2007	2006	2005
General Fund	\$0.572729	\$0.569197	\$0.5727	\$0.6282	\$0.6248
I & S Fund	<u>0.149771</u>	<u>0.153303</u>	<u>0.1498</u>	<u>0.0943</u>	<u>0.0977</u>
Total Tax Rate	<b><u>\$0.722500</u></b>	<b><u>\$0.722500</u></b>	<b><u>\$0.7225</u></b>	<b><u>\$0.7225</u></b>	<b><u>\$0.7225</u></b>

Source: Texas Municipal Reports, the Issuer's Annual Financial Report (Supplemental Section) and information supplied by the Issuer.

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. No split payments or discounts are allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below excludes penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% Collections		Year Ended
				Current	Total	
1999	\$214,787,434	0.6350	1,363,902	96.21	97.87	9/30/2000
2000	233,819,195	0.6350	1,484,751	96.56	99.01	9/30/2001
2001	260,344,707	0.6925	1,802,887	97.20	99.34	9/30/2002
2002	295,105,130	0.7125	2,102,624	96.00	97.63	9/30/2003
2003	310,501,026	0.7325	2,274,420	96.69	99.71	9/30/2004
2004	333,704,742	0.7225	2,411,016	97.09	100.37	9/30/2005
2005	355,857,239	0.7225	2,571,068	98.42	100.73	9/30/2006
2006	387,653,132	0.7225	2,800,793	98.11	100.11	9/30/2007
2007	439,371,439	0.7225	3,174,459	97.72	99.36	9/30/2008
2008	493,189,136	0.7225	3,563,292	97.75	99.88	9/30/2009
2009	541,265,513	0.7225	3,910,643	(In the Process of Collection)		9/30/2010

Source: The Tarrant County Appraisal District, the Issuer's Annual Financial Report (Supplemental Section) and information supplied by the Issuer.

**MUNICIPAL SALES TAX****TABLE 8**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The Issuer has an additional 1/2 of 1% for the benefit of the 4B Economic Development Corporation.

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	(\$ Equivalent of Ad Valorem Tax Rate
1999	\$977,728	71.69	0.4552
2000	1,224,329	82.46	0.5236
2001	1,371,745	76.09	0.5269
2002	1,295,116	61.60	0.4389
2003	1,317,960	57.95	0.4245
2004	1,343,330	55.72	0.4026
2005	1,325,087	51.54	0.3724
2006	1,400,529	50.00	0.3613
2007	1,280,203	44.56	0.3219
2008	1,332,867	37.41	0.2703
2009	1,143,938	29.25	0.2113

Source: State Comptroller's Office of the State of Texas.

## OVERLAPPING DEBT DATA AND INFORMATION

(As of December 15, 2009)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 12/15/09)	% Overlapping	Amount Overlapping
Arlington Independent School District	\$405,251,261	0.02%	\$81,050
Fort Worth Independent School District	681,269,995	0.08%	545,016
Kennedale Independent School District	50,330,025	39.00%	19,628,710
Tarrant County	322,210,000	0.38%	1,224,398
Tarrant County College District	43,340,000	0.38%	164,692
Tarrant County Hospital District	28,810,000	0.38%	<u>109,478</u>
<b>Total Gross Overlapping Debt</b>			<b><u>\$21,753,344</u></b>
Kennedale, City of			\$16,365,000*
<b>Total Gross Direct and Overlapping Debt</b>			<b><u>\$38,118,344</u></b>
Ratio of Direct and Overlapping Debt to 2009 Assessed Valuation			7.04%
Per Capita Direct and Overlapping Debt			\$5,909.82

Note: The above figures show Gross General Obligation Debt for Kennedale, Texas. The Issuer's Net General Obligation Debt is \$8,697,212. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$30,450,556
Ratio of Direct and Overlapping Debt to 2009 Assessed Valuation	5.63%
Per Capita Direct and Overlapping Debt	\$4,721.02

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

\* Includes the Certificates.

## ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2009 Assessed Valuation	% of Actual	2009 Tax Rate
Arlington Independent School District	\$20,186,713,200	100%	\$1.272
Fort Worth Independent School District	25,717,744,800	100%	1.322
Kennedale Independent School District	958,466,160	100%	1.489
Tarrant County	121,465,013,127	100%	0.264
Tarrant County College District	122,129,756,706	100%	0.138
Tarrant County Hospital District	121,565,707,497	100%	0.228

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

Issuer	Date of Authorization	Purpose	Amount Authorized	Issued To-Date	Unissued
City of Kennedale	None				
Arlington Independent School District	2/15/58 11/3/09	School Buildings School Buildings	\$5,000,000 \$197,500,000	\$4,655,000 0	\$345,000* 197,500,000
Fort Worth Independent School District	11/6/07 11/6/07	School Buildings Refunding	586,890,000 6,710,000	426,435,000 6,700,000	160,455,000 10,000
Kennedale Independent School District	None				
Tarrant County	4/4/87 8/8/98 8/8/98 5/13/06 5/13/06	Courthouse Improvements Law Enforcement Center Healthcare Facility County Buildings Juvenile Detention Center	47,000,000 70,600,000 9,100,000 62,300,000 36,320,000	46,500,000 63,100,000 1,000,000 16,000,000 4,200,000	500,000** 7,500,000 8,100,000 46,300,000 32,120,000
Tarrant County College District	None				
Tarrant County Hospital District	None				

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\* The District does not expect to issue these bonds.

\*\* Will not issue authorization due to age.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES AND ANALYSIS OF CHANGES IN FUND BALANCES**

**TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ending				
	9/30/09 <sup>(1)</sup>	9/30/08	9/30/07	9/30/06	9/30/05
Fund Balance - Beginning of Year	\$1,433,468	\$2,162,064	\$2,206,719	\$1,954,867	\$1,759,702
Revenues	\$6,476,818	\$5,868,797	\$5,639,675	\$5,838,668	\$5,255,319
Expenditures	<u>6,340,064</u>	<u>6,361,406</u>	<u>6,069,084</u>	<u>5,632,940</u>	<u>4,962,967</u>
Excess (Deficit) of Revenues					
Over Expenditures	\$136,754	\$(492,609)	\$(429,409)	\$205,728	\$292,352
Other Financing Sources (Uses):	-0-				
Operating Transfers In	-0-	93,659	-0-	10,172	-0-
Operating Transfers Out	-0-	(329,646)	(5,123)	(73,714)	(97,187)
Proceeds from debt issuance	-0-	-0-	300,000		
Proceeds from sale of capital lease	<u>-0-</u>	<u>-0-</u>	<u>89,877</u>	<u>109,666</u>	<u>-0-</u>
Total Other Financing Sources (Uses):	-0-	(235,987)	384,754	(46,124)	(97,187)
Fund Balance - End of Year	<u>\$1,570,222</u>	<u>\$1,433,468</u>	<u>\$2,162,064</u>	<u>\$2,206,719</u>	<u>\$1,954,867</u>

<sup>(1)</sup> Unaudited.

Source: The Issuer's Comprehensive Annual Financial Reports.

The City participates in the Texas Municipal Retirement System.

**Retirement Plan**

**Plan Description.** The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system. Kennedale is one of 821 municipalities having their benefit plan administered by TMRS. Each of the 821 municipalities having their benefit plan administered by TMRS. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available to the state statutes governing TMRS and within the actuarial constraints also in the statutes.

**Contributions**

The contribution rate for the employees is 7% and the City matching rate is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

**Assumptions and Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years-Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by Age and Service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.1% (3.0% CPI)
Payroll Growth Assumption	3.0%
Withdrawal Rates for Male/Female	Mid/Mid

**Schedule of Actuarial Liabilities and Funding Progress**

<b>Actuarial Valuation Date</b>	<b>12/31/2007</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
Actuarial Value of Assets	\$ 3,574,103	\$ 2,976,832	\$2,602,120
Actuarial Accrued Liability	5,609,304	4,050,957	3,582,597
Percentage Funded	63.7%	73.5%	72.6%
Underfunded (Overfunded) Actuarial Accrued Liability (UAAL)	2,035,201	1,074,125	980,477
Annual covered Payroll	3,249,914	3,139,372	3,082,802
UAAL as a percentage of Covered Payroll	62.6%	34.2%	31.8%
Net Pension Obligation (NPO) at Beginning of Year	\$ --	\$ --	\$ --

Annual Pension Cost:			
Annual Required Contribution (ARC)	341,863	305,896	235,338
Contributions Made	<u>341,863</u>	<u>305,896</u>	<u>235,338</u>
NOP at End of Year	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>          --</u>

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, those changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) for their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$796,157 and the funded ratio would have been 90.5%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate, the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

*Source: The Issuer's Annual Financial Report for the year ended September 30, 2008.*

## **RISK MANAGEMENT**

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The City is exposed to various risks of loss related in torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 31, 2008, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2008, the City believed the amount paid on workers' compensation would not change significantly from the amounts recorded.

*Source: The Issuer's Annual Financial Report for the year ended September 30, 2008.*

**REVENUE BOND DEBT DATA**

- NONE -

Source: The Issuer's audited financial statements for the fiscal year ending September 30, 2008.

**UTILITY PLANT IN SERVICE**

**TABLE 11**

(As of September 30, 2008)

Land	\$ 194,538
Buildings and Improvements	4,747,445
Equipment	548,034
Water and Wastewater Distribution	11,053,596
Construction in Progress	<u>10,800</u>
<b>Total</b>	<b>\$16,554,413</b>
Less: Accumulated Depreciation	<u>(\$4,111,971)</u>
<b>Net Utility Plant in Service</b>	<b><u>\$12,442,442</u></b>

Source: The Issuer's Comprehensive Annual Financial Report.

**WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**

**TABLE 12**

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, garbage, bad debt, debt service payments and expenditures identified as capital.

	Fiscal Year Ended				
	9/30/09 <sup>(1)</sup>	9/30/08	9/30/07	9/30/06	9/30/05
Revenues	\$2,760,272	\$2,720,996	\$2,774,862	\$3,302,498	\$2,533,131
Expenses	<u>2,840,023</u>	<u>1,935,911</u>	<u>1,803,788</u>	<u>2,167,583</u>	<u>1,759,069</u>
Net Revenue Available for Debt Service	<u>\$ 0</u>	<u>\$ 785,085</u>	<u>\$ 971,074</u>	<u>\$ 1,134,915</u>	<u>\$ 774,062</u>
Customer Count:					
Water	2,411*	2,441*	2,150*	2,134*	2,134*
Sewer	2,148*	2,153*	1,950*	1,931*	1,934*

<sup>(1)</sup> Unaudited.

\* Estimate.

Source: The Issuer's Comprehensive Annual Financial Reports and the Municipal Advisory Council of Texas.

**WATER SUPPLY**

The City has (5) five wells.

**WATER RATES****TABLE 13***[Based on Monthly Billing]*

(Effective October 8, 2009)

**Inside the City Limits**

Meter Size	Residential/Commercial Base Rate	Senior/Disabled Base Rate	Multiple Residential Units on Single Meter Base Rate
.75"	\$11.69	\$6.43	\$11.69/ Per Unit
1.0"	19.52	10.73	\$11.69/ Per Unit
1.5"	38.92	21.40	\$11.69/ Per Unit
2.0"	62.29	34.26	\$11.69/ Per Unit
3.0"	136.40	75.02	\$11.69/ Per Unit
4.0"	245.45	135.00	\$11.69/ Per Unit

Volume	Residential/Commercial Rate	Senior/Disabled
First 5,000 Gallons*	\$2.35 Per 1,000 Gallons	\$1.29 Per 1,000 Gallons
Over 5,000 Gallons	\$4.44 Per 1,000 Gallons	\$4.44 Per 1,000 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.

**Outside the City Limits**

Meter Size	Residential/Commercial Base Rate	Multiple Residential Units on Single Meter Base Rate
.75"	\$23.39	\$23.39/Per Unit
1.0"	39.04	\$23.39/Per Unit
1.5"	77.83	\$23.39/Per Unit
2.0"	124.58	\$23.39/Per Unit
3.0"	272.79	\$23.39/Per Unit
4.0"	490.91	\$23.39/Per Unit

For gas well drilling, the base rate charge shall be double the Residential/Commercial Base Rate for service outside the City Limits for the appropriate meter size.

Volume	Residential/Commercial Rate	Gas Well Drilling Rate
First 5,000 Gallons*	\$2.35 Per 1,000 Gallons	\$7.24 Per 1,000 Gallons
Over 5,000 Gallons	\$4.44 Per 1,000 Gallons	\$7.24 Per 1,000 Gallons

**SEWER RATES****TABLE 14***[Based on Monthly Billing]*

(Effective October 8, 2009)

**Inside the City Limits**

	Residential Rate	Commercial Rate	Senior/Disabled Rate
Mimumum	\$16.28	\$27.13	\$8.95
Volume Per 1,000 Gallons	3.87	4.24	2.13

**Outside the City Limits**

Double the charge for service within the City for the appropriate category user.

**APPENDIX B**

General Information Regarding the City of Kennedale and Tarrant County, Texas

**CITY OF KENNEDALE, TEXAS**

The City of Kennedale is situated at the apex of the southeast border of Fort Worth and the southwest border of Arlington in southern Tarrant County. The City's location is the hub of Interstate 20, Loop 820, and U.S. Highway 287. Business Highway 287 bisects the City of Kennedale from north to south.

After an election in July of 1947, the Town of Kennedale was incorporated with a population of 300 people. By 1950, the population had increased to 500 residents and a petition to the State of Texas was approved which changes the Township into a recognized City. The City currently occupies a land area of seven square miles and serves a population of 6,150, a 5.1% increase in population since 2000. The vast majority of land in the City is undeveloped. This allows for selective locations for the incoming developments and pulls the citizen away from the crowds and traffic congestion of a major metropolitan city. As the economy continues to grow and expand into North Texas, Kennedale will be the leading choice for businesses and families alike.

The City operates under a Council/Manager form of government with a city Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the three Councilmembers expiring in odd-numbered years.

The City of Kennedale provides a full range of services including police, fire, emergency ambulance service, municipal court, library, parks, recreation, water, sewer, refuse collection and disposal, streets and infrastructure, community development (planning and zoning), public improvements, and general administrative services.

Kennedale Independent School District has one alternative education program, two elementary schools, one intermediate school, one junior high school and one high school. In addition to standard curriculum, Kennedale Independent School District provides education opportunities for gifted and special needs students, as well as vocational and technical skills training.

**Demographic Information**

Calendar Year	Population	Unemployment Rate
2000	5,850	1.90%
2001	5,950	2.70%
2002	6,100	3.80%
2003	6,100	3.80%
2004	6,100	3.03%
2005	6,100	4.90%
2006	6,150	5.10%
2007	6,150	5.10%
2008	6,450	5.10%

Source: The Issuer's Comprehensive Financial Report for the Fiscal Year Ended September 30, 2008.

**Principal Employers**

Employer	2008 Employees	2008 Percentage of Total City Employment
Kennedale Independent School District	375	30.07%
Fort Worth Tower, Inc.	170	13.63%
Speed Fab Crete	101	8.10%
Goss International	115	9.22%
Excel Polymers	92	7.38%
City of Kennedale	75	6.01%
Redi-Mix LP	70	5.61%
Mike Conkle's Custom Cabinets	52	4.17%
Rebar Service and Supply	50	4.01%
US Galvanizing LP	45	3.61%

Source: The Issuer's Comprehensive Financial Report for the Fiscal Year Ended September 30, 2008.

## TARRANT COUNTY

Tarrant County is an urban county located in the north central part of Texas with an estimated 2008 population of 1,745,050. The City of Fort Worth, which began as an army post in 1849, serves as the county seat. Tarrant County is one of the fastest growing urban counties in the United States today. Twenty-five other incorporated cities are located wholly within Tarrant County, and seven other incorporated county-line cities are located largely within the County boundaries. It is estimated the Dallas-Fort Worth-Arlington Metroplex has a population in excess of 6,100,000.

Tarrant County's roots lie in the 'Old West' and much of its heritage can be traced to the era of the cowboy and the cattle drives that passed through Tarrant County. Tarrant County is one of 254 counties in Texas which were originally set up by the State to serve as decentralized administrative divisions providing state services and collecting state taxes.

Tarrant County has changed dramatically over the past few years. Once dependent on defense plants and its military base, Tarrant County's economy has been transformed into one of the most vibrant and diverse in the nation and is leading the regional resurgence in business relocations and expansions, retail development and new housing construction. Once tied to the oil rigs and cattle ranches of west Texas, Tarrant County's businesses today reach around the globe and the County's commercial and industrial airports are among the country's foremost international gateways.

The advantages that Tarrant County offers -- a low cost of living, a central location, a mild climate, an outstanding transportation network, an educated, dynamic and adaptable work force, a vigorous "can do" business attitude and a long and effective tradition of cooperation between government and business -- have made the County one of the fastest growing economies in the nation.

Nokia, AT&T, Zenith Electronics, the James River Paper Company, Bell Helicopter, Haggar Apparel Company, Corning Cable Systems, Pier I Imports, Radio Shack, and Dannon Yogurt Company have all moved to or expanded operations in Tarrant County over the past several years. The Dallas/Fort Worth area is a dominating force in the state's activities in the electronic and telecommunications industry. Four of every five telecommunications equipment jobs in the state are in the D/FW region.

### Major Employers

Employer	Entity	# of Employees	% of Total Tarrant County Employment
AMR Corp./American Airlines	Commercial Airlines	25,000	2.95%
Lockheed Martin Aeronautics Company	Aircraft Manufacturer	14,000	1.65%
Wal-Mart Stores	Discount Retailer	10,558	1.24%
Fort Worth Independent School District	School District	10,308	1.21%
Texas Health Resources	Health Care	8,252	0.97%
Arlington Independent School District	School District	8,000	0.94%
City of Fort Worth	Municipal Government	6,563	0.77%
Bell Helicopter - Textron	Helicopter Manufacturer	6,500	0.77%
JPMorgan Chase Bank	Municipal Government	4,337	0.51%
Tarrant County	Municipal Government	4,248	0.50%

*Source: Tarrant County audited financial statements for fiscal year ended September 30, 2008.*

## Principal Taxpayers

Fiscal Year 2008		
Taxpayer	Taxable Assessed Value*	% of Taxable Assessed Value
TXU/Oncor Electric	\$1,022,692	0.90%
American Airlines	517,042	0.45%
XTO Energy	502,644	0.44%
AT&T	467,495	0.41%
Wal-Mart Stores Texas LP	413,905	0.36%
Devon Energy Production	299,099	0.26%
Bell Helicopter Textron Inc.	285,082	0.25%
Opryland Hotel	254,568	0.22%
Ddr/Dtccity Investments	238,242	0.21%
Grapevine Mills Ltd. Partnership	204,391	0.18%

\* Amounts in thousands.

Source: Tarrant County audited financial statements for fiscal year ended September 30, 2008.

## Museums

The Amon Carter Museum was established by Amon G. Carter, Sr. (1879-1955), and opened in 1961 to house his collection of four hundred paintings, drawings, and sculptures by Frederic Remington and Charles M. Russell, the single most important collection of works by these artists. The Amon Carter Museum collects, preserves and exhibits a wide range of nineteenth and early twentieth-century American paintings, prints, and sculptures as well as one of the finest collections of American photography from the early days to the present.

The Kimbell Art Museum has long been considered the finest small museum in the United States. Its holdings range in period from antiquity to the 20th century including masterpieces by Fra Angelico, El Greco, Caravaggio, La Tour, Velazquez, Rembrandt, Houdon, Goya, David, Delacroix, Cezanne, Mondrian, Picasso, Matisse, Holbein and Vigee Le Brun. The museum is one of the only institutions in the Southwest with a substantial collection of Asian arts and has also assembled small but select groups of Mesoamerican, African and Mediterranean antiquities. The Kimbell is the site of choice for many traveling show and exhibits.

## Parks and Lakes

The region's many parks and lakes offer everything from public trails for horseback riding, hiking and rollerblading to lectures and guided tours of the area's natural sanctuaries. there are over 20 public and private golf courses. There are ten lakes, all or partly located in Tarrant Count, covering over 100,000 acres. County residents have access to numerous other lakes throughout the region and camping is available at several state parks within the North Texas region.

**APPENDIX C**

Form of Opinion of Bond Counsel

LAW OFFICES  
M<sup>c</sup>CALL, 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  
1800 ONE AMERICAN CENTER  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: 512 478-3805  
FACSIMILE: 512 472-0871

February \_\_, 2010

**CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2010  
DATED AS OF JANUARY 1, 2010  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,000,000**

***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 dates specified in the text of the Certificates until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Certificates, and which are subject to 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 principal of the Certificates, 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, under the statutes, regulations, published rulings and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Certificates (i) is excludable from the gross income of the owners thereof, and (ii) is not includable in an owner's alternative minimum taxable income under section 55 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 EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

**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, if any, 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 role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

**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, if any, as includable in gross income for federal income tax purposes.

Respectfully,

#### **APPENDIX D**

Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the City of Kennedale, Texas Audited Financial Statements for the fiscal year ended September 30, 2008, and are not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF KENNEDALE, TEXAS**

**YEAR ENDED  
SEPTEMBER 30, 2008**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF KENNEDALE, TEXAS**

**YEAR ENDED  
SEPTEMBER 30, 2008**

**Prepared by: Department of Finance**

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CITY OF KENNEDALE, TEXAS

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**INTRODUCTORY SECTION**

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February 12, 2009

Honorable Mayor and City Council,  
Citizens of Kennedale:

The City of Kennedale (the "City") Financial Management Policies requires that the City's Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report for the City of Kennedale, Texas for the fiscal year ended September 30, 2008, is hereby issued.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making representations, the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2008, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

## **PROFILE OF THE GOVERNMENT**

The City of Kennedale was incorporated in 1947. The City of Kennedale is located at the apex of the southeast corner of Fort Worth and the southwest border of Arlington in south Tarrant County. The City currently occupies a land area of 7 square miles and serves a population of 6,450. The City is empowered to levy property tax on both real and business personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically, when deemed appropriate by the governing council.

The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the three Councilmembers expiring in odd-numbered years. The City Council is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Secretary, and Municipal Judges. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the executive directors, and heads of departments, and the performance of functions within the municipal organization.

The City of Kennedale provides a full range of services including police, fire, emergency ambulance service, municipal court, library, parks, recreation, water, sewer, refuse collection and disposal, streets and infrastructure, community development (planning and zoning), public improvements, and general administrative services.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of Kennedale as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are legally separate entities and not part of the primary government's operations. The Kennedale Economic Development Corporation (KEDC) is included in the financial statements as a discretely presented component unit.

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kennedale operates.

**Local Economy.** After an election in July of 1947, the Town of Kennedale was incorporated with a population of 300 people. By 1950, the population had increased to 500 residents and a petition to the State of Texas was approved which changed the Township into a recognized City.

Kennedale is becoming one of Tarrant County's fastest growing cities. Fronted by the major highways of I-20 and 287, the City provides an excellent location for major retail and professional businesses. This transportation corridor provides quick and easy access to the Dallas/Fort Worth Intercontinental Airport, downtown Fort Worth just 15 minutes to the west, and downtown Dallas just 20-25 minutes to the east. Furthermore, the City of Kennedale is within just a short drive to major entertainment venues including, but not limited to, Six Flags over Texas, Hurricane Harbor, Texas Motor Speedway, the Ballpark at Arlington, home of the Texas Rangers baseball team, and soon to be home of the Dallas Cowboys football team.

Kennedale has experienced steady population growth in the last decade. Beautiful Village Creek slowly winds through the City and provides a tranquil feeling throughout the community. Current and future subdivisions are designed on oversized lots, which result in spacious residential areas that compliment the coveted rural setting.

Currently, the City is approximately 7 square miles with the vast majority of this land undeveloped. This allows for selective locations for the incoming developments and pulls the citizen away from the crowds and traffic congestion of a major metropolitan city. As the economy continues to grow and expand into North Texas, Kennedale will be the leading choice for businesses and families alike.

The Kennedale Economic Development Corporation (KEDC) was formed in 1996 to spearhead the anticipated growth of the City. The KEDC is funded by a voter approved, half cent sales tax, which is used to offer grants and other economic incentives to existing and new businesses. The KEDC has successfully upgraded and improved the infrastructure of the City in preparation for commercial and retail businesses locating in Kennedale. With a vision in mind for the future, the KEDC recently teamed with the University of Texas at Arlington for a comprehensive redevelopment plan that is geared toward establishing a TownCenter atmosphere. The plan was presented to the Economic Development Board and to the City Council. Currently, this redevelopment plan serves as a guide for a comprehensive and detailed plan for the much anticipated Town Square.

**Accounting System and Budgetary Control.** The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concepts of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation for the City of Kennedale's financial planning and control. All agencies of the City of Kennedale are required to submit requests for appropriation to the City Manager on or before June of each year. These requests are used to develop a proposed budget. The proposed budget is then presented to the City Council for review on or before August. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of Kennedale's fiscal year. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Transfer of appropriations within a department and within funds may be made with approval from the City Manager. Transfers between funds or additional appropriation require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

#### **Long-Term Financial Planning.**

*CURRENT YEAR PROJECTS.* The City of Kennedale secured a long-term water supply through a wholesale water contract with the City of Fort Worth. A 16-inch water main was constructed to provide the water. The project was completed during the fiscal year with final acceptance of the project in early 2009. The City will maintain use of its four water wells and gradually shift to Fort Worth water as demand grows.

The City is also working with Tarrant County and the City of Arlington to construct three major road projects: Bowman Springs Road realignment, reconstruction, and extension; Little-School Road reconstruction and extension; and the reconstruction of Sublett Road. Surveying of the projects began in late 2008 with design and right-of-way acquisition to occur in 2009. Utility relocation and construction is planned for 2010 with completion during 2011. Bowman Springs Road will be four-lane. Little-School Road and Sublett Road will be three lanes with a landscaped median and will contain round-a-bouts at the major intersections in order to more smoothly move traffic.

*FUTURE PROJECTS.* The City has partnered with the University of Texas @ Arlington to prepare a strategic plan – *Imagine Kennedale 2015*. The planning effort involves almost 50 citizens and will continue through the first half of 2009. The strategic plan will be the basis for preparing future annual operating budgets.

The City is also working with the Kennedale Economic Development (EDC) Corporation to develop the Kennedale TownCenter. The development of the TownCenter is a long sought project to bring office and retail services to Kennedale. The City intends to create a Tax Increment Financing (TIF) District and a Municipal Management District (MMD) to generate public funds for the project. A development agreement with Cypress Properties, Cedar Park, Texas, is being negotiated to develop the six acre – 90,000 square feet project. The TownCenter is anticipated to take eight to ten years to complete.

Similarly, the City intends to establish a TIF District to assist in the redevelopment of the Oak Crest area in anticipation of the existing sexually-oriented businesses closing and relocating from Kennedale in February 2012.

**Cash Management Policies and Practices.** Cash temporarily idle during the year can be invested in demand deposits and investment pools. The City has adopted an investment policy to further document the goals and strategy of the City's investment and cash management program. At September 30, 2008, the fair value of the City's investments totaled \$14,885,982 with \$6,283,882 (42.21%) in bank deposit, and \$8,602,100 (57.79%) in local government investment pools. Investment income generated for the year for all funds within the primary government was \$326,202. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amount, especially in the case of temporary changes in fair value of investments that the City intends to hold to maturity.

**Risk Management.** The City participates in the Texas Municipal League Risk Pool ("TML") for general liability, property, workers' compensation and crime insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. Claims over the self-insured deductibles are covered by TML.

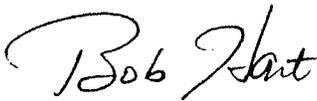
## AWARDS AND ACKNOWLEDGEMENTS

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kennedale for its CAFR for the fiscal year ended September 30, 2007. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

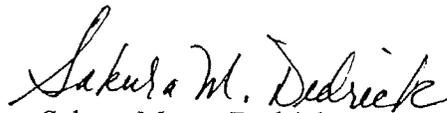
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments.** The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and our independent auditors. We would like to express our sincere appreciation to those persons who have made possible the publication of this report. We would also like to thank the mayor and the members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,



Bob Hart  
City Manager



Sakura Moten-Dedrick  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kennedale  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2007

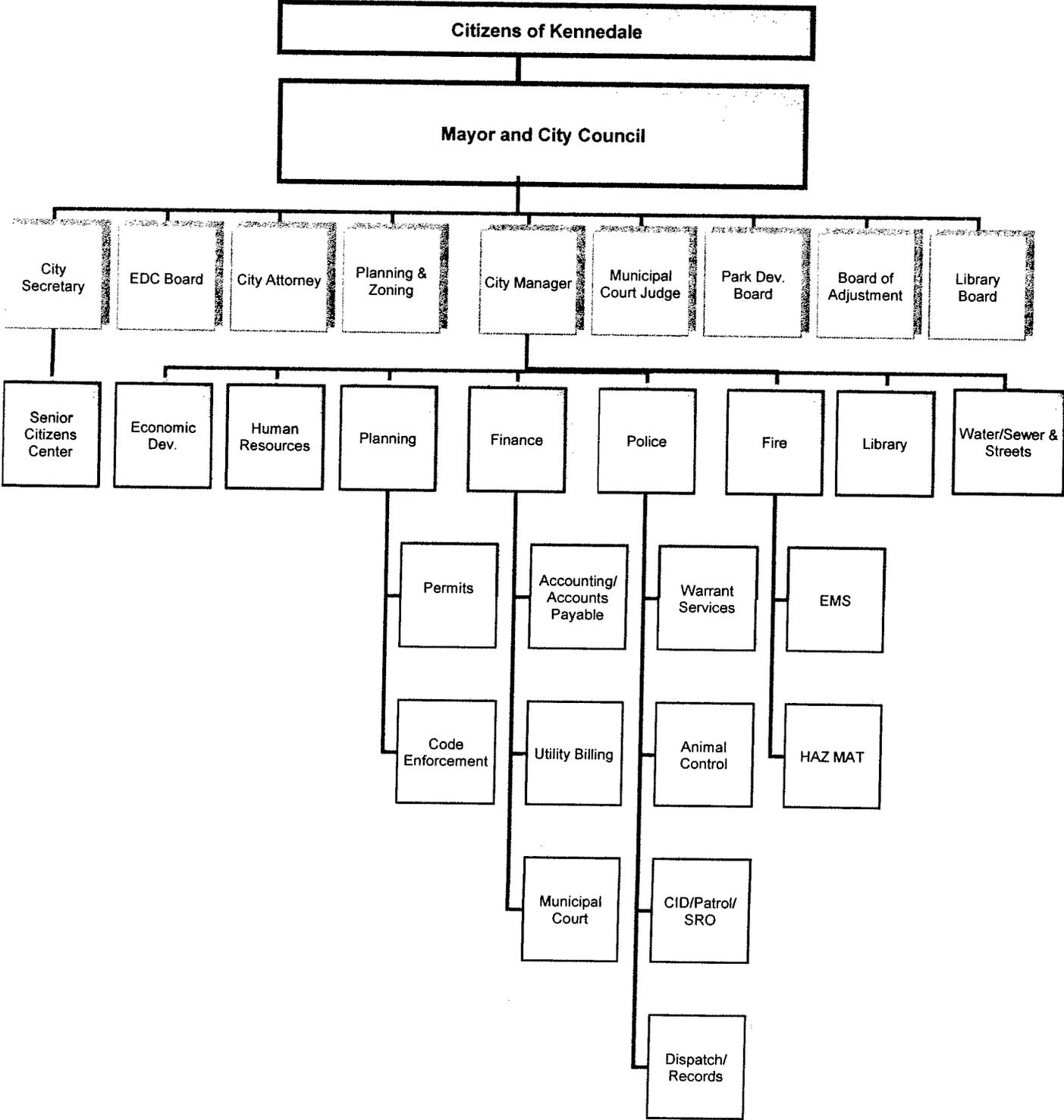
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# CITY OF KENNEDALE ORGANIZATIONAL CHART



**CITY OF KENNEDALE, TEXAS**

**PRINCIPAL OFFICIALS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**ELECTED OFFICIALS**

Mayor  
Council Member/Mayor Pro Tem  
Council Member  
Council Member  
Council Member  
Council Member

Bryan Lankhorst  
John Clark  
David Green  
Brian Johnson  
Kelly Turner  
Jerry Miller

**APPOINTED OFFICIALS**

City Manager  
Director of Finance  
Police Chief  
City Secretary  
Director of Economic Development

Bob Hart  
Sakura Moten-Dedrick  
Thomas Williams  
Kathy Turner  
Mike Soab

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**FINANCIAL SECTION**

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**PATTILLO, BROWN & HILL, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,  
City Council and City Manager  
City of Kennedale, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas as of September 30, 2008, and the respective changes in financial position and cash flows, and where applicable, the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Patillo, Brown & Hill, L.L.P.*

February 12, 2009

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kennedale, we offer readers of the City of Kennedale financial statements, this narrative overview, and analysis of the financial activities of the City of Kennedale for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Kennedale exceeded its liabilities at the close of the most recent fiscal year by \$27,977,646. Of this amount, \$7,652,116 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Kennedale's net assets increased by \$241,808. This increase is approximately the same as the increase in the prior year due to an increase in operating grants and contributions on property tax revenue offset by increase general government expenses.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$10,726,944, an increase of \$6,776,087 in comparison with the prior year. Approximately, 99.5% of this amount, \$10,678,178, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$1,433,468 or 22.53% of total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Kennedale's basic financial statements. The City of Kennedale's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Kennedale's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Kennedale's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Kennedale is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the full accrual basis of accounting.

In the Statement of Net Assets and the Statement of Activities, the primary government is divided into two kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including administrative, police, fire, municipal court, community development, public works, parks, senior citizen center and library. Property taxes, sales taxes, franchise fees, license and permit fees finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water and wastewater system and solid waste system are reported here.

The government-wide financial statements include not only the City of Kennedale itself (known as the primary government), but also a legally separate economic development corporation. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kennedale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kennedale can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kennedale maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Capital Bond Fund, which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Kennedale adopts an annual appropriated budget for its General Fund and Debt Service Fund. Budgetary comparison statements have been provided for the General Fund and the Debt Service Fund to demonstrate compliance with the budget.

**Proprietary funds.** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. There is one type of proprietary fund: Enterprise Fund. The City's Enterprise Fund is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Kennedale maintains one individual Enterprise Fund to account for its water and wastewater, and solid waste. This fund is considered to be a major fund of the City.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Kennedale, assets exceeded liabilities by \$27,977,646 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (\$20,276,764 or 72.47%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## CITY OF KENNEDALE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	Activities	Activities	Activities	Activities	2008	2007
	2008	2007	2008	2007		
Current and other assets	\$ 12,169,064	\$ 4,885,848	\$ 4,327,630	\$ 4,992,629	\$ 16,496,694	\$ 9,878,477
Capital assets	<u>16,516,182</u>	<u>16,437,147</u>	<u>12,442,442</u>	<u>11,955,233</u>	<u>28,958,624</u>	<u>28,392,380</u>
Total assets	<u>28,685,246</u>	<u>21,322,995</u>	<u>16,770,072</u>	<u>16,947,862</u>	<u>45,455,318</u>	<u>38,270,857</u>
Long-term liabilities	11,156,429	4,323,519	4,794,067	5,108,877	15,950,496	9,432,396
Other liabilities	<u>1,101,071</u>	<u>655,308</u>	<u>426,105</u>	<u>447,315</u>	<u>1,527,176</u>	<u>1,102,623</u>
Total liabilities	<u>12,257,500</u>	<u>4,978,827</u>	<u>5,220,172</u>	<u>5,556,192</u>	<u>17,477,672</u>	<u>10,535,019</u>
Net assets:						
Invested in capital assets,						
net of related debt	12,612,099	12,344,055	7,664,665	6,903,231	20,276,764	19,247,286
Restricted	48,766	78,464	-	924,985	48,766	1,003,449
Unrestricted	<u>3,766,881</u>	<u>3,921,649</u>	<u>3,885,235</u>	<u>3,563,454</u>	<u>7,652,116</u>	<u>7,485,103</u>
Total net assets	<u>\$ 16,427,746</u>	<u>\$ 16,344,168</u>	<u>\$ 11,549,900</u>	<u>\$ 11,391,670</u>	<u>\$ 27,977,646</u>	<u>\$ 27,735,838</u>

An additional portion of the City of Kennedale's net assets (\$48,766 or 0.17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7,652,116 or 27.35%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year, the City's net assets increased by \$241,808. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. The key elements of this increase are increases in capital grants and contributions and property tax revenue offset by the increase in general government, interest on long-term debt and water and wastewater expenses.

## CITY OF KENNEDALE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,225,316	\$ 1,262,149	\$ 2,585,218	\$ 2,552,255	\$ 3,810,534	\$ 3,814,404
Operating grants and contributions	143,139	191,039	-	-	143,139	191,039
Capital grants and contributions	402,146	-	-	-	402,146	-
<b>General revenues:</b>						
Property taxes	3,194,210	2,891,614	-	-	3,194,210	2,891,614
Other taxes	1,698,031	1,666,337	-	-	1,698,031	1,666,337
Other revenues	591,450	436,649	135,778	222,607	727,228	659,256
<b>Total revenues</b>	<u>7,254,292</u>	<u>6,447,788</u>	<u>2,720,996</u>	<u>2,774,862</u>	<u>9,975,288</u>	<u>9,222,650</u>
<b>Expenses:</b>						
General government	1,614,745	1,051,485	-	-	1,614,745	1,051,485
Public safety	3,843,086	3,895,186	-	-	3,843,086	3,895,186
Public works	1,162,378	1,227,223	-	-	1,162,378	1,227,223
Culture and recreation	273,145	251,217	-	-	273,145	251,217
Interest on long-term debt	297,360	184,457	-	-	297,360	184,457
Water and wastewater	-	-	2,542,766	2,377,911	2,542,766	2,377,911
<b>Total expenses</b>	<u>7,190,714</u>	<u>6,609,568</u>	<u>2,542,766</u>	<u>2,377,911</u>	<u>9,733,480</u>	<u>8,987,479</u>
Change in net assets before transfers	63,578	( 161,780)	178,230	396,951	241,808	235,171
Transfers	20,000	-	( 20,000)	-	-	-
<b>Change in Net Assets</b>	<u>83,578</u>	<u>( 161,780)</u>	<u>158,230</u>	<u>396,951</u>	<u>241,808</u>	<u>235,171</u>
Net assets, beginning	16,344,168	16,505,948	11,391,670	10,994,719	27,735,838	27,500,667
<b>Net assets, ending</b>	<u>\$ 16,427,746</u>	<u>\$ 16,344,168</u>	<u>\$ 11,549,900</u>	<u>\$ 11,391,670</u>	<u>\$ 27,977,646</u>	<u>\$ 27,735,838</u>

**Governmental activities.** Governmental activities net assets increased by \$83,578. The increase was due primarily to an increase in capital gains and contributions and property tax revenue. These increases compensated for the increase in general government expenses and interest on long-term debt.

**Business-type activities.** Business-type activities net assets increased by \$158,230. Gross revenue of the Water and Sewer Fund was \$2,720,996 for the fiscal year, which is \$53,866 less than the 2006-2007 fiscal year gross revenue, \$2,774,862. This decrease is a result of the decrease in investment income due to decreased cash and investments from the payment of construction costs on water and wastewater system improvements. Direct operating expenses, excluding depreciation, was \$2,135,459 for the fiscal year. Direct operating expenses are \$114,706 more than 2006-2007 fiscal year direct operating expenses, \$2,020,753, due to increased costs for water system maintenance and administration service charges.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,726,944. Approximately 99.5% of this total amount (\$10,678,178) constitutes unreserved fund balance. \$9,233,185 of this unreserved amount is held in capital projects funds. These funds are set to be used to finance future capital projects. Some of these amounts have been obtained through the issuance of debt and must be used to finance the items stated in the debt issuance. The remainder of the fund balance (\$48,766) is reserved to indicate that is not available for new spending because it has already been committed to pay for debt service or to provide for other items.

The General Fund is the chief operating fund of the City of Kennedale. At the end of the current fiscal year, 100% of the General Fund balance (\$1,433,468) was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved General Fund balance and total General Fund expenditures. Unreserved fund balance represents 22.53% of total General Fund expenditures.

In the General Fund, the City budgeted for a decrease of fund balance in the amount of \$717,832. The General Fund balance decreased by \$728,596, or 33.70% during the current fiscal year. Significant revenue and expenditure increases were in the following areas:

- Property tax
- Charges for services
- General government
- Transfers out

The Debt Service Fund has a total fund balance of \$48,766, all of which is reserved for the payment of debt.

**Proprietary funds.** At the end of the year, unrestricted net assets for the Water and Sewer Fund were \$3,885,235. The total growth in net assets for the fund was \$158,230. See business-type activity discussion above.

**General Fund budgetary highlights.** The actual expenditures for the year were \$6,361,406, which was \$84,929 less than the budget.

For FY 2007-08, the actual revenues were \$5,868,797 as compared to the budget amount of \$5,732,692. Contributing to the variance was higher than anticipated revenues from Licenses and permits (\$79,899 higher than the budget), charges for services (\$48,814 higher than the budget) and other revenue (\$282,207 higher than the budget). Also contributing to the variance was lower than anticipated revenues from fines and forfeitures (\$32,794 lower than the budget), sales tax (\$132,744 lower than the budget) and investment earnings (\$65,921 lower than the budget).

With higher revenues and higher expenditures, the General Fund balance decreased by \$728,596, which was \$10,764 lower than the final budget due to unbudgeted transfers out of \$255,987.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** The investment in capital assets for its governmental and business type activities as of September 30, 2008, amounts to \$28,958,624 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure, construction work in progress, and water and sewer systems. Approximately 57.03% of the capital assets are governmental and 42.97% are business type activities.

### CITY OF KENNEDALE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 627,107	\$ 595,650	\$ 194,538	\$ 194,538	\$ 821,645	\$ 790,188
Buildings and improvements	4,110,372	4,265,665	4,747,445	4,738,719	8,857,817	9,004,384
Machinery and equipment	2,609,446	2,489,350	548,034	548,034	3,157,480	3,037,384
Infrastructure/water and wastewater distribution	17,701,348	17,592,523	11,053,596	8,638,660	28,754,944	26,231,183
Construction in progress	838,730	339,274	10,800	1,542,964	849,530	1,882,238
Less accumulated depreciation	( 9,370,821)	( 8,845,315)	( 4,111,971)	( 3,707,682)	( 13,482,792)	( 12,552,997)
Total capital assets, net	\$ 16,516,182	\$ 16,437,147	\$ 12,442,442	\$ 11,955,233	\$ 28,958,624	\$ 28,392,380

Major governmental-type capital asset events during the current fiscal year included the following:

Governmental activities equipment purchase	\$ 120,096
Governmental activities infrastructure capitalization	108,825
Governmental activities building improvements	36,654
Governmental activities construction in progress	499,456
Governmental activities land purchase	31,457
Business-type activities improvements	44,732
Business-type activities building improvements	8,726
Business-type activities construction in progress	838,040

Additional information on the capital assets can be found in Note 4 on pages 35 – 36 of this report.

**Long-term debt.** At year-end, the City had total bonded debt, capital lease and loan payable obligations of \$15,636,715. Of this amount, \$14,965,001 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligation of \$431,583 pertains to the purchase of a fire truck, street equipment and utility vehicles and equipment. The loan payable of \$240,131 pertains to the loan agreement for financing the relocation of utilities along a roadway.

**OUTSTANDING DEBT AT YEAR-END  
BONDS, CAPITAL LEASE AND LOAN PAYABLE**

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Certificates of obligation bonds	\$ 10,341,888	\$ 3,485,388	\$ 4,398,113	\$ 4,569,613	\$ 14,740,001	\$ 8,055,001
Capital leases	292,050	342,704	139,533	177,613	431,583	520,317
Revenue bonds	225,000	265,000	-	-	225,000	265,000
Loan payable	-	-	240,131	353,315	240,131	353,315
<b>Total</b>	<b>\$ 10,858,938</b>	<b>\$ 4,093,092</b>	<b>\$ 4,777,777</b>	<b>\$ 5,100,541</b>	<b>\$ 15,636,715</b>	<b>\$ 9,193,633</b>

The City's certificates of obligation bonds continue to carry Baa1 from Moody's Investor Services.

Additional information on the long-term debt can be found in Note 4 on pages 37 - 41 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City Council retained the tax rate of \$0.722500 per \$100 assessed valuation for the new fiscal year. The budget was conservatively prepared in anticipation of a continued economic downturn. The fund balance for the General Fund has been budgeted to be \$1,617,318 for fiscal year 2008-2009, which represents a fund balance of 31% of operating expenditures. This has been determined in anticipation of a tighter budget year. The City's ability to adopt this strategy was based on reduced spending and personnel achieved in fiscal year 2007-2008.

During the current year, the General Fund unreserved fund balance decreased by \$728,596, to \$1,433,468. This decrease was in line with the decrease of \$717,832 that was budgeted for fiscal year 2007-2008.

The City has begun work on a strategic plan that will articulate a Vision Statement, a Values Statement and a Mission Statement to guide the governance efforts and ultimately the development of the City of Kennedale. This plan will help solidify the desired culture within the city and will prioritize capital spending, service delivery strategies and economic development initiatives. The economic development strategy is based on three primary objectives: 1) Provide the infrastructure needed to encourage and accommodate the economic activity. This includes the reconstruction of Bowman Springs Road, Little-School Road, Sublett Road and Dick Price Road; 2) Development of the Town Center to provide retail and service oriented space; and 3) Encourage the redevelopment of several areas of town, including the Oak Crest area, following the closure of four sexually-oriented businesses in February 2012. Achievement of these objectives will enhance the City's economic base. Each initiative is underway with activity anticipated in late 2009 and early 2012.

Additionally, by developing a strategic plan that addresses a vision, values, and mission, the following year's budget will help prioritize the spending patterns, while providing more effective services to the citizens of Kennedale.

## **REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the City of Kennedale's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Kennedale, 405 Municipal Dr., Kennedale, Texas 76060.

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**BASIC  
FINANCIAL STATEMENTS**

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# CITY OF KENNEDALE, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and investments	\$ 10,881,127	\$ 3,865,512	\$ 14,746,639	\$ 1,260,073
Receivables (net of allowances for uncollectibles):				
Taxes	403,855	-	403,855	55,733
Accounts	665,742	342,465	1,008,207	12,920
Inventories	-	26,583	26,583	-
Other assets	26,766	39,213	65,979	-
Deferred charges	191,574	53,857	245,431	30,721
Capital assets:				
Land	627,107	194,538	821,645	320,618
Buildings and improvements	4,110,372	4,747,445	8,857,817	1,200,500
Machinery and equipment	2,609,446	548,034	3,157,480	-
Infrastructure/water and wastewater distribution	17,701,348	11,053,596	28,754,944	-
Construction in progress	838,730	10,800	849,530	616,347
Less: accumulated depreciation	( 9,370,821)	( 4,111,971)	( 13,482,792)	( 60,025)
Total capital assets	<u>16,516,182</u>	<u>12,442,442</u>	<u>28,958,624</u>	<u>2,077,440</u>
 Total assets	 <u>28,685,246</u>	 <u>16,770,072</u>	 <u>45,455,318</u>	 <u>3,436,887</u>
<b>LIABILITIES</b>				
Accounts payable	246,875	198,924	445,799	112,893
Accrued liabilities	186,027	10,725	196,752	-
Due to other governments	44,698	-	44,698	-
Accrued interest payable	64,494	34,252	98,746	-
Unearned revenue	558,977	-	558,977	-
Customer deposits	-	182,204	182,204	-
Noncurrent liabilities:				
Due within one year	515,980	333,740	849,720	30,000
Due in more than one year	10,640,449	4,460,327	15,100,776	1,140,000
Total liabilities	<u>12,257,500</u>	<u>5,220,172</u>	<u>17,477,672</u>	<u>1,282,893</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	12,612,099	7,664,665	20,276,764	907,440
Restricted for:				
Debt service	48,766	-	48,766	-
Unrestricted	<u>3,766,881</u>	<u>3,885,235</u>	<u>7,652,116</u>	<u>1,246,554</u>
 Total net assets	 <u>\$ 16,427,746</u>	 <u>\$ 11,549,900</u>	 <u>\$ 27,977,646</u>	 <u>\$ 2,153,994</u>

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

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 1,614,745	\$ 578,314	\$ -	\$ -
Public safety	3,843,086	607,201	36,505	-
Public works	1,162,378	37,377	-	400,000
Culture and recreation	273,145	2,424	106,634	2,146
Interest on long-term debt	297,360	-	-	-
Total governmental activities	<u>7,190,714</u>	<u>1,225,316</u>	<u>143,139</u>	<u>402,146</u>
Business-type activities:				
Water/Wastewater	<u>2,542,766</u>	<u>2,585,218</u>	-	-
Total business-type activities	<u>2,542,766</u>	<u>2,585,218</u>	-	-
Total primary government	<u>\$ 9,733,480</u>	<u>\$ 3,810,534</u>	<u>\$ 143,139</u>	<u>\$ 402,146</u>
<b>Component Unit:</b>				
Kennedale Economic				
Development Corporation	<u>\$ 596,152</u>	<u>\$ 212,403</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property - general purposes				
Property - debt service				
Sales				
Franchise				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues				
Change in net assets				
Net assets, beginning				
Net assets, ending				

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

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$( 1,036,431)	\$ -	\$( 1,036,431)	\$ -
( 3,199,380)	-	( 3,199,380)	-
( 725,001)	-	( 725,001)	-
( 161,941)	-	( 161,941)	-
( 297,360)	-	( 297,360)	-
<u>( 5,420,113)</u>	<u>-</u>	<u>( 5,420,113)</u>	<u>-</u>
<u>-</u>	<u>42,452</u>	<u>42,452</u>	<u>-</u>
<u>-</u>	<u>42,452</u>	<u>42,452</u>	<u>-</u>
<u>\$( 5,420,113)</u>	<u>\$ 42,452</u>	<u>\$( 5,377,661)</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 383,749)</u>
2,529,422	-	2,529,422	-
664,788	-	664,788	-
993,288	-	993,288	331,268
704,743	-	704,743	-
190,424	135,778	326,202	52,087
401,026	-	401,026	-
20,000	( 20,000)	-	-
<u>5,503,691</u>	<u>115,778</u>	<u>5,619,469</u>	<u>383,355</u>
83,578	158,230	241,808	( 394)
<u>16,344,168</u>	<u>11,391,670</u>	<u>27,735,838</u>	<u>2,154,388</u>
<u>\$ 16,427,746</u>	<u>\$ 11,549,900</u>	<u>\$ 27,977,646</u>	<u>\$ 2,153,994</u>

**CITY OF KENNEDALE, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2008**

	<u>General</u>	<u>Capital Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 1,570,245	\$ 8,608,157	\$ 702,725	\$ 10,881,127
Receivables (net of allowance for uncollectibles):				
Taxes	355,530	-	48,325	403,855
Accounts	654,275	-	11,467	665,742
Due from other funds	11,467	-	-	11,467
Prepaid expenses	26,766	-	-	26,766
Total assets	<u>2,618,283</u>	<u>8,608,157</u>	<u>762,517</u>	<u>11,988,957</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	246,875	-	-	246,875
Accrued liabilities	165,017	21,010	-	186,027
Due to other governments	44,698	-	-	44,698
Due to other funds	-	-	11,467	11,467
Deferred revenue	728,225	-	44,721	772,946
Total liabilities	<u>1,184,815</u>	<u>21,010</u>	<u>56,188</u>	<u>1,262,013</u>
Fund balances:				
Reserved for:				
Debt service	-	-	48,766	48,766
Unreserved, reported in:				
General fund	1,433,468	-	-	1,433,468
Special revenue funds	-	-	11,525	11,525
Capital projects funds	-	8,587,147	646,038	9,233,185
Total fund balances	<u>1,433,468</u>	<u>8,587,147</u>	<u>706,329</u>	<u>10,726,944</u>
Total liabilities and fund balances	\$ <u>2,618,283</u>	\$ <u>8,608,157</u>	\$ <u>762,517</u>	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

16,516,182

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

405,543

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

( 11,220,923)

Net assets of governmental activities

\$ 16,427,746

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

**CITY OF KENNEDALE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>General</u>	<u>Capital Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,574,968	\$ -	\$ 664,788	\$ 3,239,756
Sales	993,288	-	-	993,288
Franchise fees	704,743	-	-	704,743
Licenses and permits	291,261	-	37,377	328,638
Fines and forfeitures	346,206	-	2,424	348,630
Public safety fees	257,942	-	-	257,942
Intergovernmental	41,030	-	2,109	43,139
Charges for services	292,252	-	-	292,252
Investment earnings	67,500	93,448	29,476	190,424
Contributions	-	400,000	100,000	500,000
Other	299,607	-	101,419	401,026
Total revenues	<u>5,868,797</u>	<u>493,448</u>	<u>937,593</u>	<u>7,299,838</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,594,288	-	-	1,594,288
Public safety	3,878,088	-	637	3,878,725
Public works	684,074	-	979	685,053
Culture and recreation	204,956	-	-	204,956
Capital outlay	-	251,030	372,054	623,084
Debt service:				
Principal	-	-	450,944	450,944
Interest and fiscal charges	-	-	248,077	248,077
Bond issue costs	-	156,195	-	156,195
Total expenditures	<u>6,361,406</u>	<u>407,225</u>	<u>1,072,691</u>	<u>7,841,322</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	( 492,609)	86,223	( 135,098)	( 541,484)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt issuance	-	7,235,000	-	7,235,000
Transfers in	93,659	250,000	255,987	599,646
Premium on debt issuance	-	62,571	-	62,571
Transfers out	( 329,646)	-	( 250,000)	( 579,646)
Total other financing sources and (uses)	<u>( 235,987)</u>	<u>7,547,571</u>	<u>5,987</u>	<u>7,317,571</u>
<b>NET CHANGE IN FUND BALANCES</b>	( 728,596)	7,633,794	( 129,111)	6,776,087
<b>FUND BALANCES, BEGINNING</b>	<u>2,162,064</u>	<u>953,353</u>	<u>835,440</u>	<u>3,950,857</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,433,468</u>	<u>\$ 8,587,147</u>	<u>\$ 706,329</u>	<u>\$ 10,726,944</u>

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

**CITY OF KENNEDALE, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Amounts reported for governmental activities in the Statement of Activities (pages 12 - 13) are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 6,776,087
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	79,035
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	( 45,546)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	102,419
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	<u>( 6,828,417)</u>
Change in net assets of governmental activities (pages 12 -13)	<u>\$ 83,578</u>

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

**CITY OF KENNEDALE, TEXAS**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,605,975	\$ 2,605,975	\$ 2,574,968	\$( 31,007)
Sales	1,126,032	1,126,032	993,288	( 132,744)
Franchise fees	710,526	710,526	704,743	( 5,783)
Licenses and permits	211,362	211,362	291,261	79,899
Fines and forfeitures	379,000	379,000	346,206	( 32,794)
Public safety fees	210,000	210,000	257,942	47,942
Intergovernmental	95,538	95,538	41,030	( 54,508)
Charges for service	243,438	243,438	292,252	48,814
Investment earnings	133,421	133,421	67,500	( 65,921)
Other	17,400	17,400	299,607	282,207
Total revenues	5,732,692	5,732,692	5,868,797	136,105
<b>EXPENDITURES</b>				
Current:				
General government	1,649,239	1,674,715	1,594,288	80,427
Public safety	3,933,450	3,879,050	3,878,088	962
Public works	684,229	684,229	684,074	155
Culture and recreation	215,091	208,341	204,956	3,385
Total expenditures	6,482,009	6,446,335	6,361,406	84,929
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	( 749,317)	( 713,643)	( 492,609)	221,034
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	69,470	69,470	93,659	24,189
Transfers out	( 73,659)	( 73,659)	( 329,646)	( 255,987)
Total other financing sources (uses)	( 4,189)	( 4,189)	( 235,987)	( 231,798)
<b>NET CHANGE IN FUND BALANCE</b>	( 753,506)	( 717,832)	( 728,596)	( 10,764)
<b>FUND BALANCE, BEGINNING</b>	2,162,064	2,162,064	2,162,064	-
<b>FUND BALANCE, ENDING</b>	\$ 1,408,558	\$ 1,444,232	\$ 1,433,468	\$( 10,764)

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

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUND**

**SEPTEMBER 30, 2008**

	Business-type Activities- Enterprise Fund Water and Wastewater
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 3,865,512
Accounts receivable - net of allowances for uncollectibles	342,465
Inventories	26,583
Prepaid expense	39,213
Total current assets	<u>4,273,773</u>
Noncurrent assets:	
Deferred charges	53,857
Capital assets:	
Land	194,538
Buildings and improvements	4,747,445
Equipment	548,034
Water and wastewater distribution	11,053,596
Construction in progress	10,800
Less: accumulated depreciation	<u>( 4,111,971)</u>
Total capital assets	<u>12,442,442</u>
Total noncurrent assets	<u>12,496,299</u>
Total assets	<u>16,770,072</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	198,924
Accrued liabilities	10,725
Accrued interest	34,252
Customer deposits	182,204
Compensated absences	3,258
Capital leases payable	32,446
Loan payable	117,711
Certificates of obligation	<u>180,325</u>
Total current liabilities	<u>759,845</u>
Long-term liabilities:	
Compensated absences	13,032
Capital leases payable	107,087
Loan payable	122,420
Certificates of obligation	<u>4,217,788</u>
Total long-term liabilities	<u>4,460,327</u>
Total liabilities	<u>5,220,172</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	7,664,665
Unrestricted	<u>3,885,235</u>
Total net assets	<u>\$ 11,549,900</u>

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

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Business-type Activities- Enterprise Fund Water and Wastewater
<b>OPERATING REVENUES</b>	
Water sales	1,333,587
Wastewater charges	1,011,208
Tap and collection fees	136,815
Other service charges	37,195
Miscellaneous income	<u>66,413</u>
Total operating revenues	<u>2,585,218</u>
<b>OPERATING EXPENSES</b>	
Cost of sales and services	777,364
Administration	1,113,243
Depreciation	407,307
Miscellaneous expense	<u>45,304</u>
Total operating expenses	<u>2,343,218</u>
<b>OPERATING INCOME</b>	242,000
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	135,778
Interest and fiscal charges on debt	<u>( 199,548)</u>
Total nonoperating revenues (expenses)	<u>( 63,770)</u>
Income before transfers	178,230
Transfers out	<u>( 20,000)</u>
<b>CHANGE IN NET ASSETS</b>	158,230
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>11,391,670</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 11,549,900</u>

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

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Business-type Activities- Enterprise Fund Water and Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 3,684,335
Cash payments to employees for services	( 1,102,223)
Cash payments to suppliers for goods and services	( 901,946)
Cash provided by operating activities	<u>1,680,166</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	( 20,000)
Cash used for noncapital financing activities	( 20,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal repayments on debt	( 322,763)
Proceeds from capital debt	-
Interest and fiscal charges on debt	( 197,232)
Acquisition and construction of capital assets	( 891,498)
Cash used for capital and related financing activities	( 1,411,493)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	135,778
Cash provided by investing activities	<u>135,778</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	384,451
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>4,481,061</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ <u>4,865,512</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 242,000
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	407,307
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	93,573
Decrease (increase) in inventories	( 7,928)
Decrease (increase) in prepaid expenses	( 39,213)
Increase (decrease) in accounts payable	( 32,137)
Increase (decrease) in accrued liabilities	3,067
Increase (decrease) in customer deposits	5,544
Increase (decrease) in compensated absences	<u>7,953</u>
Total adjustments	<u>438,166</u>
Net cash provided by operating activities	\$ <u>680,166</u>

**The accompanying notes are an integral part of this statement.**

CITY OF KENNEDALE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Kennedale, Texas (the "City") was incorporated in 1947. The City operates as a home-rule City under a council-manager form of government and provides the following services as authorized by its charter: police, fire, planning, zoning and code enforcement, public works, streets, parks and recreation, public library, ambulance, water and sewer utilities and general administrative services. Sanitation collection services are provided through a private contractor.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit: The Kennedale Economic Development Corporation ("KEDC"). KEDC is a legally separate entity incorporated on December 2, 1996. The City Council appoints the governing board for this entity and is able to impose its will upon the Corporation, which serves the purpose of promoting economic development within the City. KEDC is presented as a governmental fund type.

Separate financial statements of KEDC may be obtained from:

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

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Bond Fund is a capital projects fund. It is used to account for the acquisition and construction of various capital improvements and is funded by general obligation bonds.

The City reports the following major proprietary fund:

The Water and Wastewater Fund accounts for the activities necessary for the provision of water and wastewater services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
(Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity**

**Deposits and Investments**

The City pools substantially all cash and investments except for separate cash and investment accounts, which are maintained in accordance with legal restrictions. Investments maturing within one year of date of purchase are stated at cost or amortized cost; all other investments are stated at fair value, which is based on quoted market prices. Investment income is recorded in the funds in which the investments are recorded.

The City invests in The Texas Local Government Investment Pool (TexPool). The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Assets, Liabilities and Net Assets or Equity** (Continued)

**Deposits and Investments** (Continued)

The City also invests in Texas Short-term Asset Reserve Program (TexSTAR). TexSTAR is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. TexSTAR is currently rated AAAM by Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share.

The City also invests in TexasTERM. TexasTERM is a local government investment portfolio established to allow counties, municipalities, school districts, municipal authorities and other governmental entities in Texas to pool their funds for investment under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, the PTIA and other cooperative statutes and under the statutes governing investment of funds by those local governments. TexasTERM is rated AAAM by Standard and Poor's. TexasTERM seeks to maintain a constant net asset value of \$1.00 per share.

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents includes demand deposits and investments with a maturity date within three months of the date acquired by the City.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The Tarrant County Tax Assessor/Collector bills and collects the City's property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenue.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2008, the City had a tax rate of \$.7225 per \$100 of which \$.572665 was allocated for general government and \$.149835 was allocated for payment of principal and interest on general long-term debt.

**Inventories**

All inventories are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets**

Certain proceeds of the Enterprise Fund bonds and certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Plants and buildings	20
Machinery and equipment	4 - 10
Infrastructure (streets and drainage)	35 - 125
Other structures	50

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Assets, Liabilities and Net Assets or Equity** (Continued)

**Compensated Absences**

Vacation is earned in varying amounts up to a maximum of 160 hours per year for 40-hour week personnel with 6 or more years of service. Vacation leave does not accumulate from one year to the next for amounts over 160 hours.

40-hour per week personnel accrue one-half working day (4 hours) of sick leave for each full month of employment in the calendar year. Upon separation from employment, a permanent employee who has completed six months of employment is entitled to be paid the amount of salary for the employee's accumulated sick leave but not to exceed 60 hours for 40-hour per week employees.

All unused vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this \$11,220,923 difference are as follows:

Certificates of obligation bonds	\$( 10,566,888)
Premiums on issuance of debt (to be amortized over life of debt)	( 62,571)
Capitalized lease obligations	( 292,050)
Accrued interest payable	( 64,494)
Compensated absences	( 234,920)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$( <u>11,220,923</u> )

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$79,035 difference are as follows:

Capital outlay (includes \$173,314 not classified as capital expenditures on the fund statements)	\$ 796,398
Depreciation expense	<u>( 717,363)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 79,035</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$6,828,417 difference are as follows:

Principal repayments:	
General obligation debt	\$ 418,500
Capital lease	50,654
Debt issuance:	
General obligation debt	( 7,235,000)
Premiums on the issuance of debt	<u>( 62,571)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$( 6,828,417)</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$102,419 difference are as follows:

Compensated absences	\$( 4,493)
Accrued interest	( 46,129)
Bond issuance costs	156,195
Amortization of issuance costs	<u>( 3,154)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 102,419</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City Council follows these procedures in establishing the budgets reflected in the financial statements.

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriation balances from one expenditure account to another within a single fund. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.

(continued)

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

#### Budgetary Information (Continued)

5. Annual budgets are only adopted for the General and Debt Service Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP").
6. The budgetary data presented has been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.

#### Expenditures over Appropriations

Expenditures exceeded appropriations in the General Fund in one functions. The following overruns were funded by unexpected revenues and fund balance.

Transfers out	\$ 255,987
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### 4. DETAILED NOTES ON ALL FUNDS

#### Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

- a. **Custodial Credit Risk:** Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2008, \$6,083,882 of the City's \$6,283,882 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$200,000, was covered by FDIC insurance.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

At September 30, 2008, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 1,224,866
Texas Term	1,630,192
State Treasurer's Investment Pool (TexPool)	<u>5,747,042</u>
	<u>\$ 8,602,100</u>

During the fiscal year, the City managed the investments of the KEDC. The KEDC investments are categorized in the same manner as the City's and consist of the following:

	Fair Value
TexStar	\$ <u>1,139,091</u>
	<u>\$ 1,139,091</u>

At September 30, 2008, all of the above investments are not categorized by risk. TexStar, TexPool, and Texas Term balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Wastewater</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:				
Taxes	\$ 355,530	\$ -	\$ 48,325	\$ 403,855
Accounts	<u>663,865</u>	<u>391,265</u>	<u>11,467</u>	<u>1,066,597</u>
Gross receivables	1,019,395	391,265	59,792	1,470,452
Less: allowance for uncollectibles	( 9,590)	( 48,800)	-	( 58,390)
Net total receivables	<u>\$ 1,009,805</u>	<u>\$ 342,465</u>	<u>\$ 59,792</u>	<u>\$ 1,412,062</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
General fund:	
Delinquent property taxes receivable	\$ 169,248
Ambulance charges	534,482
Court fees	<u>24,495</u>
	728,225
Debt service fund:	
Delinquent property taxes receivable	<u>44,721</u>
Governmental Funds	<u>\$ 772,946</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 595,650	\$ 31,457	\$ -	\$ 627,107
Construction work in progress	339,274	499,456	-	838,730
Total capital assets not being depreciated	<u>934,924</u>	<u>530,913</u>	<u>-</u>	<u>1,465,837</u>
Capital assets, being depreciated:				
Buildings	4,265,665	36,564	( 191,857)	4,110,372
Machinery and equipment	2,489,350	120,096	-	2,609,446
Infrastructure	<u>17,592,523</u>	<u>108,825</u>	<u>-</u>	<u>17,701,348</u>
Total capital assets being depreciated	<u>24,347,538</u>	<u>265,485</u>	<u>( 191,857)</u>	<u>24,421,166</u>
Less accumulated depreciation:				
Buildings	1,196,958	113,457	( 191,857)	1,118,558
Machinery and equipment	1,807,769	192,398	-	2,000,167
Infrastructure	<u>5,840,588</u>	<u>411,508</u>	<u>-</u>	<u>6,252,096</u>
Total accumulated depreciation	<u>8,845,315</u>	<u>717,363</u>	<u>( 191,857)</u>	<u>9,370,821</u>
Total capital assets, being depreciated, net	<u>15,502,223</u>	<u>( 451,878)</u>	<u>-</u>	<u>15,050,345</u>
Governmental activities capital assets, net	<u>\$ 16,437,147</u>	<u>\$ 79,035</u>	<u>\$ -</u>	<u>\$ 16,516,182</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 194,538	\$ -	\$ -	\$ 194,538
Construction work in progress	1,542,964	838,040	( 2,370,204)	10,800
Total capital assets not being depreciated	<u>1,737,502</u>	<u>838,040</u>	<u>( 2,370,204)</u>	<u>205,338</u>
Capital assets, being depreciated:				
Buildings	4,738,719	8,726	-	4,747,445
Machinery and equipment	548,034	-	-	548,034
Improvements other than buildings	<u>8,638,660</u>	<u>2,414,936</u>	<u>-</u>	<u>11,053,596</u>
Total capital assets being depreciated	<u>13,925,413</u>	<u>2,423,662</u>	<u>-</u>	<u>16,349,075</u>
Less accumulated depreciation:				
Buildings	1,501,864	86,178	-	1,588,042
Machinery and equipment	297,963	36,357	-	334,320
Improvements other than buildings	<u>1,907,855</u>	<u>281,754</u>	<u>-</u>	<u>2,189,609</u>
Total accumulated depreciation	<u>3,707,682</u>	<u>404,289</u>	<u>-</u>	<u>4,111,971</u>
Total capital assets, being depreciated, net	<u>10,217,731</u>	<u>2,019,373</u>	<u>-</u>	<u>12,237,104</u>
Business-type activities capital assets, net	<u>\$ 11,955,233</u>	<u>\$ 2,857,413</u>	<u>\$( 2,370,204)</u>	<u>\$ 12,442,442</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 20,457
Public works	151,392
Public safety	477,325
Culture and recreation	<u>68,189</u>
Total depreciation expense - governmental activities	<u>\$ 717,363</u>
Business-type activities:	
Water and wastewater	<u>\$ 404,289</u>
Total depreciation expense - business-type activities	<u>\$ 404,289</u>

Discretely presented component units

A summary of discretely presented component units' capital assets for the year ended September 30, 2008, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 320,618	\$ -	\$ -	\$ 320,618
Construction in progress	<u>55,863</u>	<u>560,484</u>	<u>-</u>	<u>616,347</u>
Totals, capital assets, not being depreciated	<u>376,481</u>	<u>560,484</u>	<u>-</u>	<u>936,965</u>
Capital assets, being depreciated:				
Buildings	<u>1,200,500</u>	<u>-</u>	<u>-</u>	<u>1,200,500</u>
Totals, capital assets being depreciated	<u>1,200,500</u>	<u>-</u>	<u>-</u>	<u>1,200,500</u>
Less accumulated depreciation for:				
Buildings	<u>-</u>	<u>60,025</u>	<u>-</u>	<u>60,025</u>
Total accumulated depreciation	<u>-</u>	<u>60,025</u>	<u>-</u>	<u>60,025</u>
Total capital assets, being depreciated, net	<u>1,200,500</u>	<u>(60,025)</u>	<u>-</u>	<u>1,140,475</u>
Capital assets, net	<u>\$ 1,576,981</u>	<u>\$ 500,459</u>	<u>\$ -</u>	<u>\$ 2,077,440</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 11,467
Total		<u>\$ 11,467</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$ 255,987
Street Improvement Fund	Nonmajor Governmental	250,000
General	Water and Wastewater	20,000
General	General	<u>73,659</u>
Total		<u>\$ 599,646</u>

The transfers were used to move unrestricted revenues collected in various funds to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

**Capital Leases**

The City has acquired certain fixed assets for governmental and business-type activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Machinery and Equipment	\$ 548,492	\$ 218,489	\$ 766,981
Less: Accumulated depreciation	<u>(358,695)</u>	<u>(47,572)</u>	<u>\$ (406,267)</u>
Total	<u>\$ 189,797</u>	<u>\$ 170,917</u>	<u>\$ 360,714</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2009	\$ 62,007	\$ 39,213
2010	62,007	39,213
2011	62,007	39,213
2012	62,007	39,213
2013	43,255	-
2014-2018	<u>43,255</u>	<u>-</u>
Total minimum lease payments	334,538	156,852
Less: amount representing interest	<u>42,488</u>	<u>17,319</u>
Present value of minimum lease payments	<u>\$ 292,050</u>	<u>\$ 139,533</u>

Long-term Debt

**General Obligation Bonds**

The City issues certificates of obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of general obligation bonds issued in prior years was \$8,055,000. During the year, certificates of obligation bonds totaling \$7,235,000 were issued for street, curb and sidewalk improvements as well as utility relocation and drainage improvements.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.65 - 4.65	\$ 7,770,000
Governmental activities - refunding	3.97	2,571,888
Business-type activities	4.10	2,805,000
Business-type activities - refunding	3.97	<u>1,593,113</u>
		<u>\$ 14,740,001</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Long-term Debt (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 379,675	\$ 425,022	\$ 180,325	\$ 174,607
2010	385,850	408,939	189,150	167,140
2011	365,113	393,500	199,888	159,278
2012	423,200	375,796	206,800	151,059
2013	434,375	358,077	210,625	142,623
2014 - 2018	2,792,587	1,480,944	1,197,413	575,337
2019 - 2023	3,401,413	829,782	1,348,587	310,488
2024 - 2028	2,159,675	212,299	865,325	67,707
Total	<u>\$ 10,341,888</u>	<u>\$ 4,484,359</u>	<u>\$ 4,398,113</u>	<u>\$ 1,748,239</u>

General obligation bonds are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

##### **Revenue Bonds**

During fiscal year 2007, the City issued \$300,000 in governmental revenue bonds. The bonds were issued to finance general construction projects. Bond requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2009	\$ 40,000	\$ 10,658
2010	45,000	8,918
2011	45,000	7,069
2012	45,000	5,111
2013	50,000	1,088
Total	<u>\$ 225,000</u>	<u>\$ 32,844</u>

##### **Loan Payable**

The City entered into a loan agreement for financing a project that includes the relocation of utilities along a roadway. The original amount of the loan was \$857,189. The loan balance currently outstanding is as follows:

Purpose	Interest Rate	Amount
Business-type activities	4.0%	\$ 240,131

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

**Loan Payable** (Continued)

Annual debt service requirements to maturity for the Loan Payable are as follows:

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2009	\$ 117,711	\$ 9,605
2010	122,420	4,897
Total	\$ 240,131	\$ 14,502

The various bond obligations contain certain financial limitations and restrictions. The ordinances authorizing the issuance of certificates of obligation bonds created an interest and sinking fund (general debt service fund). The ordinances require the City to ascertain a rate and amount of tax which will be sufficient to pay interest as it comes due and provide a reserve fund which is adequate to meet principal as it matures. The City is in compliance with all such significant financial restrictions.

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Government activities</b>					
General obligation bonds	\$ 3,485,388	\$ 7,235,000	\$ 378,500	\$ 10,341,888	\$ 379,675
Premium on bonds	-	62,571	-	62,571	-
Revenue bonds	265,000	-	40,000	225,000	40,000
Capital leases	342,704	-	50,654	292,050	49,321
Compensated absences	230,427	152,082	147,589	234,920	46,984
Governmental activity					
Long-term liabilities	\$ 4,323,519	\$ 7,449,653	\$ 616,743	\$ 11,156,429	\$ 515,980
<b>Business-type activities</b>					
General obligation bonds	\$ 4,569,613	\$ -	\$ 171,500	\$ 4,398,113	\$ 180,325
Loan payable	353,315	-	113,184	240,131	117,711
Capital leases	177,613	-	38,080	139,533	32,446
Compensated absences	8,337	9,537	1,584	16,290	3,258
Business-type activity					
Long-term liabilities	\$ 5,108,878	\$ 9,537	\$ 324,348	\$ 4,794,067	\$ 333,740

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Discretely Presented Long-Term Debt**

Long-term liability activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	<u>1,200,000</u>	<u>-</u>	<u>30,000</u>	<u>1,170,000</u>	<u>30,000</u>
Long-term liabilities	<u>1,200,000</u>	<u>-</u>	<u>30,000</u>	<u>1,170,000</u>	<u>30,000</u>

**Other Information**

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2008, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2008, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is periodically the defendant in lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Retirement Plan

##### **Plan Description**

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

**Contributions**

The contribution rate for the employees is 7%, and the City matching ration is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Closed Period
Asset Valuation Method	-	Amortized Cost
Investment Rate of Return	-	7%
Projected Salary Increases	-	Varies by Age and Service
Includes Inflation at	-	3.0%
Cost-of-living Adjustments	-	2.1% (3.0% CPI)
Payroll Growth Assumption	-	3.0%
Withdrawal Rates for Male/Female	-	Mid/Mid

Actuarial Valuation Date	12/31/07	12/31/06	12/31/05
Actuarial value of assets	\$ 3,574,103	\$ 2,976,832	\$ 2,602,120
Actuarial accrued liability	5,609,304	4,050,957	3,582,597
Percentage funded	63.7%	73.5%	72.6%
Unfunded actuarial accrued liability (UAAL)	2,035,201	1,074,125	980,477
Annual covered payroll	3,249,914	3,139,372	3,082,802
UAAL as percentage of covered payroll	62.6%	34.2%	31.8%
Net pension obligation (NPO) at beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	341,863	305,896	235,338
Contributions made	341,863	305,896	235,338
Increase in NPO	-	-	-
NPO at the end of the period	\$ -	\$ -	\$ -

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Retirement Plan (Continued)

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$1,091,541 and the funded ratio would have been 76.6%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

**APPENDIX E**

Specimen Financial Guaranty Insurance Policy



## Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**AGC**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

AGC will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which AGC shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by AGC is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and AGC shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in AGC. Upon and to the extent of such disbursement, AGC shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by AGC to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of AGC under this Policy to the extent of such payment.

This Policy is non-cancelable by AGC for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of AGC, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or AGC are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless AGC in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to AGC may be mailed by registered mail or personally delivered or telecopied to it at 31 West 52<sup>nd</sup> Street, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel at the same address and at [generalcounsel@assuredguaranty.com](mailto:generalcounsel@assuredguaranty.com) or at the following Facsimile Number: (212) 445-8705, or to such other address as shall be specified by AGC to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by AGC on a given Business Day if it is Received prior to 12:00 noon (New York City

time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, AGC may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to AGC pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to AGC. All payments required to be made by AGC under this Policy may be made directly by AGC or by the Fiscal Agent on behalf of AGC. The Fiscal Agent is the agent of AGC only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of AGC to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGC hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to AGC to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and AGC expressly reserves, AGC's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by AGC of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of AGC with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, AGC has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon AGC by virtue of such signature.

(SEAL)

**ASSURED GUARANTY CORP.**

By: \_\_\_\_\_  
[Insert Authorized Signatory Name]  
[Insert Authorized Signatory Title]

Signature attested to by:

\_\_\_\_\_  
Counsel

\$2,000,000  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010

**PURCHASE CONTRACT**

January 14, 2010

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

Ladies and Gentlemen:

The undersigned (the “*Underwriter*”) offers to enter into the following agreement (this “*Purchase Contract*”) with the City Council (the “*Council*”) of the City of Kennedale, Texas (the “*City*”) which, upon your acceptance of this offer, will be binding upon you and upon the Underwriter.

The offer contained herein is made subject to your acceptance of this Purchase Contract on or before 10:00 P.M., Kennedale, Texas time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City by the Underwriter at any time prior to the acceptance hereof by the City.

1. Purchase and Sale of the Obligations. Upon the terms and conditions and upon the basis of the respective representations, warranties, and covenants set forth herein, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of an aggregate of \$2,000,000 original principal amount of CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010 (the “*Certificates*”). The Certificates are stated to mature on May 1 in the years 2011 through 2013, May 1, 2015, May 1, 2017, May 1, 2019, May 1, 2021, May 1, 2023, May 1, 2025, May 1, 2027, and May 1, 2030 and shall have the stated maturities, be offered at the prices, and bear interest at the rates per annum all as set forth in the Official Statement. Interest on the Certificates will be payable initially on May 1, 2010 and on each November 1 and May 1 thereafter. The purchase price for the Certificates is \$2,068,788.04 (representing an aggregate principal amount of \$2,000,000 of Certificates, plus a net original issue premium of \$85,418.65, less an Underwriter’s discount of \$16,630.61), together with accrued interest on the Certificates from January 1, 2010 to the date of the Closing.

The Certificates are being issued pursuant to the provisions of the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code Section 271.041 through 271.065 (the “*Certificate Act*”), Chapter 1502, as amended, Texas Government Code (“*Chapter 1502*”), and the City’s Home Rule Charter and are secured under the provisions of an ordinance

authorizing their issuance and sale adopted by the Council on the date hereof (the “*Certificate Ordinance*”). The Certificates are to bear interest, be subject to redemption, if applicable, and be payable as provided in the Certificate Ordinance, all as described in the Official Statement referred to below. Capitalized terms not defined herein relating to the Certificates shall have the meanings assigned in the Certificate Ordinance.

The Underwriter represents that it has been duly authorized to execute this Purchase Contract and has been duly authorized to act hereunder. In as much as this purchase and sale represents a negotiated transaction, the City understands and hereby confirms, that the Underwriter is not acting as a fiduciary of the City but rather is acting solely in its individual capacity as an underwriter for its own account.

2. Public Offering. The Underwriter agrees to make a bona fide public offering of all of the Certificates at a price not to exceed the public offering prices set forth on the inside cover page of the Official Statement and may subsequently change such offering prices without any requirement of prior notice. The Underwriter agrees, for the purpose of enabling the City to comply with their obligations set forth in Section 5(m) of this Purchase Contract, to inform the City of the date of expiration of the initial offering period for the Certificates. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the public offering prices (or yields higher than the public offering yields) stated on the inside cover page of the Official Statement. On or before the Closing, the Underwriter shall execute the Issue Price Certificate, in substantially the form attached hereto as Exhibit A, verifying the initial offering prices to the public at which a substantial amount of each stated maturity of the Certificates was sold to the public.

3. Official Statement. The Certificates are described in the final Official Statement dated the date hereof, a substantially final version of which is attached hereto as Exhibit B. Such final Official Statement, together with the Appendices thereto, as further amended or supplemented only in the manner hereinafter provided, is hereinafter defined and referred to as the “Official Statement”.

The City hereby authorizes and approves the distribution and use by the Underwriter of the Official Statement in connection with the offering and sale of the Certificates. In addition, the City hereby ratifies and approves the distribution of the Preliminary Official Statement dated January 7, 2010 relating to the Certificates (the “*Preliminary Official Statement*”; together with the Official Statement, referred to herein as the “*Official Statement*”) and its use by the Underwriter prior to the date hereof in connection with the offering and sale of the Certificates. The City shall within seven days of the date hereof (exclusive of Saturdays, Sundays, and legal holidays) provide additional printed copies of the Official Statement in such form and number as the Underwriter may reasonably request in order to enable the Underwriter to comply with their obligations set forth in 17 C.F.R. Section 240.15c2-12 (“*Rule 15c2-12*”). In the event that the number of additional copies of the Official Statement supplied to the Underwriter pursuant to the immediately preceding sentence shall prove to be insufficient to enable the Underwriter to comply with their obligations under paragraph (b) of Rule 15c2-12, the City agrees to make available from time to time such additional printed or photostatic copies of the Official Statement as may be reasonably required to enable the Underwriter to comply with their obligations under Rule 15c2-12. The City hereby represents and warrants that the Preliminary Official Statement

was deemed final by the City as of its date, except for the omission of such information which is dependent upon the final pricing of the Certificates for completion, all as permitted to be excluded by Section (b)(1) of Rule 15c2-12. Lastly, the Council hereby ratifies and approves the execution by the City Manager of a Rule 15c2-12 Certificate pertaining to the distribution of the Preliminary Official Statement.

4. Security Deposit. Delivered to the City herewith is a corporate check of the Underwriter payable to the order of the City in the amount of \$18,500. The City agrees to hold such check uncashed until the Closing to ensure the performance by the Underwriter of its obligations to purchase, accept delivery of, and pay for the Certificates at the Closing. Concurrently with the payment by the Underwriter of the purchase price of the Certificates at the Closing, the City shall return such check to the Underwriter. Should the City fail to deliver the Certificates at the Closing, or should the City be unable to satisfy the conditions of the obligations of the Underwriter to purchase, accept delivery of, and pay for the Certificates, as set forth in this Purchase Contract (unless waived by the Underwriter), or should such obligations of the Underwriter be terminated for any reason permitted by this Purchase Contract, such check shall immediately be returned to the Underwriter. In the event the Underwriter fails (other than for a reason permitted hereunder) to purchase, accept delivery of, and pay for the Certificates at the Closing as herein provided, such check shall be retained and cashed by the City as and for full liquidated damages for such failure of the Underwriter and for any defaults hereunder on the part of the Underwriter. Acceptance of such check by the City shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults, and neither the City nor any other person shall have any further action for damages, specific performance, or any other legal or equitable relief against the Underwriter. The Underwriter and the City understand that in such event the City's actual damages may be greater or may be less than such amount. Accordingly, the Underwriter hereby waives any right to claim that the City's actual damages are less than such amount, and the City's acceptance of this offer shall constitute a waiver of any right the City may have to additional damages from the Underwriter. The Underwriter hereby agrees not to stop or cause payment on said check to be stopped unless the City has breached any of the terms of this Purchase Contract.

5. Representations and Warranties. The City hereby represents and warrants to the Underwriter as follows:

(a) The City is a home rule municipality, a political subdivision of the State of Texas, and a governmental agency and a body politic and corporate, duly created, organized, and existing under the laws of the State of Texas and its Home Rule Charter.

(b) The City (i) has the power and is authorized under the laws of the State of Texas, including particularly the Certificate Act and Chapter 1502, to (1) issue the Certificates for the purposes for which they are to be issued, and (2) enter into and perform this Purchase Contract, and (ii) at the Closing, will be in compliance in all respects with the terms of the Act, this Purchase Contract, and the Certificate Ordinance.

(c) The City has the requisite right, power, and authority (i) to adopt the Certificate Ordinance authorizing the issuance of the Certificates and the execution and delivery of this Purchase Contract, (ii) to execute, deliver, and perform its obligations under this Purchase

Contract, and (iii) to consummate the transactions described in such instruments and in the Official Statement, and the City has complied with all provisions of applicable law in all matters relating to such transactions.

(d) The information with respect to the City and the Certificates contained in the Preliminary Official Statement is, as of the date hereof, and the information contained in the Official Statement, as of the date of Closing, will be correct in all material respects, and such information does not contain and will not contain any untrue statement of a material fact and does not omit and will not omit to state a material fact required to be stated therein or necessary to make the statements in the Preliminary Official Statement, as of the date hereof, or in the Official Statement, as of the date of Closing, in light of the circumstances under which they were made, not misleading.

(e) The City has duly authorized all necessary action to be taken by it for (i) the issuance and sale of the Certificates upon the terms set forth herein and in the Official Statement; (ii) the approval of the Official Statement (which the City represents has been reviewed and approved by the City or a designated official thereof and the final form of which has been authorized to be distributed in an electronic format) and the signing of the Official Statement by a duly authorized officer; and (iii) the execution, delivery, and receipt of this Purchase Contract, the Certificates, and any and all such other agreements and documents as may be required to be executed, delivered, and received by the City in order to carry out, give effect to, and consummate the transactions described herein and in the Certificates, and the Official Statement.

(f) The Certificate Ordinance is and, on the date of the Closing, will be in full force and effect, and, on the date of Closing, will have been duly executed and delivered by the City. The Certificate Ordinance is and, on the date of the Closing, will be the legal and valid acts of the City, and, assuming the due authorization, execution, and delivery of such instrument by the other parties thereto and its authority to perform such instrument, this Purchase Contract is and, on the date of the Closing, will be the legal, valid, and binding agreement on behalf of the parties thereto, enforceable (assuming the due authorization and execution by the other parties to such documents) in accordance with its terms (except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, and similar laws affecting creditors' rights generally and general principles of equity).

(g) The Certificates, when issued, delivered, and paid for as herein provided, will have been duly authorized, executed, and issued and will constitute legal, valid, and binding obligations of the City entitled to the benefits of the Certificate Ordinance and the Certificate Ordinance is enforceable in accordance with its terms (except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, and similar laws affecting creditors' rights generally and general principles of equity).

(h) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation at law or in equity or before or by any court, public board, or body pending against the City or, to the knowledge of the City, threatened against or affecting the City (or, to the knowledge of the City, any basis therefore) contesting the due organization and valid corporate existence of the City or the validity of the Act or wherein an unfavorable decision, ruling, or finding would adversely affect (i) the transactions described herein or in the Official

Statement, (ii) the validity or due adoption of the Certificate Ordinance, or the validity, due authorization, and execution of the Certificates, this Purchase Contract, or any agreement or instrument to which the City is a party and which is to be used in the consummation of the transactions described herein or in the Official Statement, or (iii) the federal tax-exempt status of the interest on the Certificates. Except as described in the Official Statement, the City is not a party to any litigation or other proceeding pending or, to its knowledge, threatened, in any court, agency, or other administrative body (either state or federal) which, if decided adversely to the City, would have a materially adverse effect on the financial condition of the City.

(i) The authorization, execution, and delivery by the City of the Official Statement, this Purchase Contract, the Certificates, and the other documents described herein and in the Official Statement, the adoption of the Certificate Ordinance by the City, the consummation of the transactions described herein and therein, and compliance by the City with the provisions of such instruments, do not and will not conflict with or constitute on the part of the City a breach of or a default under any provision of the Constitution of the State of Texas or the Act or any other existing law, court or administrative decision, regulation, decree, or order or any agreement, indenture, mortgage, lease, or other instrument by which the City or its properties are or, on the date of Closing, will be bound or affected.

(j) Other than the opinion of the Attorney General of the State of Texas approving the Certificates as required by law and the registration of the Certificates by the Comptroller of Public Accounts of the State of Texas (which approvals and registration shall have been duly obtained or effected on or before the date of the Closing), and other than such permits, consents, licenses, notices, and filings, if any, as may be required under the securities or blue sky laws of any jurisdiction as may be reasonably requested by the Underwriter (all of which, subject to Section 11(c) hereof, shall have been duly made or obtained by the Underwriter on or before the date of the Closing), no permit, consent, license, notice, or filing with governmental authorities is necessary or required (i) to permit the City to execute and deliver this Purchase Contract or the other instruments and documents described herein or therein, to perform its obligations hereunder and thereunder, or to consummate the transactions described herein or therein, or (ii) to issue and deliver the Certificates as described herein and in the Official Statement, or to perform in accordance with the terms hereof and thereof, or (iii) to adopt and enact the Certificate Ordinance, or to perform in accordance with the terms thereof, or to issue and sell the Certificates as therein and in the Official Statement provided.

(k) The financial statements of the City included in Appendix D to the Official Statement present fairly the financial position and the results of operations of the City at the respective dates and for the respective periods indicated thereon, in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods presented.

(l) The City, to the extent heretofore requested in writing by the Underwriter, has delivered to the Underwriter true, correct, complete, and legible copies of all information, applications, reports, or other documents of any nature whatsoever submitted to any rating agency for the purpose of obtaining a rating for the Certificates and to any bond insurance companies to obtain credit enhancement for the Certificates, and, in each instance, true, correct, complete, and legible copies of all correspondence or other communications relating, directly or indirectly, thereto.

(m) If, after the date of this Purchase Contract to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 (the earlier of (i) 90 days from the end of the underwriting period (as defined in Rule 15c2-12) and (ii) the time when the Official Statement is available to any person from a nationally recognized municipal securities information repository, but in no case less than 25 days after the end of the underwriting period for the Certificates), the City becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the City will notify the Underwriter (and for the purposes of this clause provide the Underwriter with such information as it may from time to time request), and if, in the reasonable opinion of the Underwriter, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish, at the City's own expense (in a form and manner approved by the Underwriter and which approval will not be unreasonably withheld), a reasonable number of copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or so that the Official Statement will comply with law. If such notification shall be subsequent to the Closing, the City shall furnish such legal opinions, certificates, instruments and other documents as the Underwriter may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(n) Between the date of this Purchase Contract and the date of the Closing the City shall disclose to, discuss with, and provide any information reasonably requested by, the Underwriter in connection with any breach, default, or failure to comply, of whatever nature and of which the City has knowledge, regarding any law, loan agreement, indenture, or other agreement to which the City is a party or to which the City or any of the property or assets of the City is otherwise subject.

(o) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is a bond issuer whose arbitrage certificates may not be relied upon.

(p) To the best of the knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates; and the City has entered into previous continuing disclosure undertakings in a written contract or agreement specified in Rule 15c2-12 (b)(5)(i) and, except as disclosed in the Official Statement, has not failed to comply with any such undertakings in any material respect during the past five years.

(q) The Certificates and the Certificate Ordinance conform to the description thereof contained in the Official Statement under the caption "THE CERTIFICATES"; the proceeds of the sale of the Certificates will be applied generally as described in the Official Statement under the caption "THE CERTIFICATES – Use of Certificate Proceeds"; and the undertaking (the

“*Undertaking*”) conforms to the description thereof contained in the Official Statement under the caption “CONTINUING DISCLOSURE OF INFORMATION.”

(r) The City will apply, or cause to be applied, the proceeds from the sale of the Certificates as provided in and subject to all of the terms and provisions of the Certificate Ordinance and the City will not take or omit to take any action which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Certificates.

(s) Any certificate, signed by any official of the City authorized to do so in connection with the transactions contemplated by this Purchase Contract, shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(t) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change, in the condition, financial or otherwise, of the City from that set forth in the Official Statement that in the reasonable judgment of the Underwriter, is material and adverse and that makes it, in the reasonable judgment of the Underwriter, impracticable to market the Certificates on the terms and in the manner contemplated in the Official Statement.

6. Representations and Covenants. The Underwriter hereby agrees to file the Official Statement with a nationally recognized municipal securities information repository. Unless otherwise notified in writing by the Underwriter, the City can assume that the end of the underwriting period for purposes of Rule 15c2-12 is the date of the Closing.

7. Delivery of, and Payment for, the Certificates. The consummation of the sale of the Certificates to the Underwriter (the “*Closing*”) shall be held at the offices of McCall, Parkhurst & Horton L.L.P., 1525 One Riverwalk Place, 700 North Saint Mary’s, San Antonio, Texas 78205. The Closing shall be held at 10:00 a.m., San Antonio, Texas time, on February 10, 2010, or at such other time or date as shall be mutually agreed upon by the City and the Underwriter.

Subject to the conditions stated herein, at the Closing, the City will deliver, or cause to be delivered, the Certificates to the Underwriter (being one initial Certificate) in temporary form, duly executed and registered as hereinafter provided, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in Section 1 hereof in immediately available funds by federal funds wire transfer to or for the account of the City. It is anticipated that the definitive Certificates shall be issued in the form of one typewritten or printed bond for each maturity, registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York (“*DTC*”) in the same aggregate principal amount of the Certificates. Delivery of the Definitive Certificates as aforesaid shall be made at the place in New York, New York, designated by DTC or to the Paying Agent/Registrar acting on behalf of DTC. The City will have the opinion of Bond Counsel attached to or printed on the Certificates. The definitive Certificates shall be in fully registered form, bear proper CUSIP numbers, and be in authorized denominations and registered in such names and in such amounts as the Underwriter may request. The definitive Certificates shall be made available to the Underwriter for checking and

packaging not less than two full business days prior to the Closing. In lieu of the foregoing, such Certificates shall be held in safe custody by the paying agent/registrant or any authorized agent for the paying agent/registrant. The paying agent/registrant shall release or authorize the release of such Certificates at the Closing from safe custody to the Underwriter upon receipt by the City of payment for the Certificates as provided herein. In addition, the City and the Underwriter agree that there shall be a preliminary Closing held at such place as the City and the Underwriter shall mutually agree, commencing at least 24 hours prior to the Closing; provided, however, that such preliminary Closing shall not be required if Bond Counsel provides a complete Transcript of Proceedings acceptable to the Underwriter relating to the Certificates to the counsel for the Underwriter at least 24 hours prior to the Closing. Drafts of all documents to be delivered at the Closing shall be prepared and distributed to the parties and their counsel for review at least two business days prior to the Closing.

8. Certain Conditions to Underwriter's Obligations. The obligations of the Underwriter hereunder are subject to the satisfaction on or before the date of the Closing of each of the following conditions (unless waived by the Underwriter in writing):

(a) The representations and warranties of the City contained herein or on any certificate or other document delivered pursuant to the provisions hereof shall be true on and as of the date of the Closing as though such representations and warranties were made on and as of the date of the Closing.

(b) The City shall have performed and complied with all agreements and conditions required by this Purchase Contract and the Certificate Ordinance to be performed or complied with by it prior to or on the date of the Closing.

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

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

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

(f) Except as described in the Official Statement, no suit, action, investigation, or legal or administrative proceeding shall be threatened or pending before any court or governmental agency which is likely to result in the restraint, prohibition, or the obtaining of damages or other relief in connection with the issuance of the Certificates or the consummation of the transactions described herein, or which would have a material effect on the financial condition of the City, or which, in the reasonable opinion of the Underwriter, would have a materially adverse effect on the transactions described herein.

(g) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions described in this Purchase Contract shall be reasonably satisfactory in legal form and effect to counsel for the Underwriter.

(h) At or prior to the Closing, the Underwriter shall have received one (1) executed copy of each of the following documents:

(1) the opinion, dated the date of the Closing, of McCall, Parkhurst & Horton L.L.P., as bond counsel ("*Bond Counsel*"), delivered to the Underwriter, relating to, among other things, the validity of the Certificates and the tax-exempt status of the interest on the Certificates for federal income tax purposes, in substantially the form attached as Appendix C to the Official Statement;

(2) the supplemental opinion, dated the date of the Closing, of Bond Counsel attached hereto in substantially final form as Exhibit C hereto, including a reliance letter with respect to the Bond Counsel opinion referenced in Section 8(h)(1) hereof;

(3) an opinion, dated the date of the Closing, of Fulbright & Jaworski L.L.P., counsel for the Underwriter, in substantially the form of Exhibit D hereto;

(4) an opinion, dated the date of Closing, of the general counsel to Assured Guaranty Corp. (the "*Insurer*") addressed to, at a minimum, the Underwriter and the City, in a form satisfactory to Bond Counsel and counsel to the Underwriter;

(5) a certificate of the City, dated the date of the Closing and signed on its behalf by the Mayor and City Manager of the City acting solely in their official capacity, in form satisfactory to counsel to the Underwriter, to the effect that (a) the representations and warranties of the City herein, or in any certificate or document delivered by the City pursuant to the provisions hereof, are true and correct in all material respects on and as of the date of the Closing as though such representations and warranties were made on and as of the date of the Closing, (b) all agreements or conditions to be performed or complied with by the City hereunder on or prior to the date of the Closing have been performed or complied with, and (c) there has not been any materially adverse change or any development involving a prospective change in the financial condition or otherwise of the City since September 30, 2008, the latest date as of which audited financial information is available.

(6) the Official Statement executed (or approved as evidenced by a conformed copy thereof) on behalf of the City by the Mayor and City Secretary;

(7) a copy of the Certificate Ordinance and all other orders, ordinances, or resolutions or other proceedings of the City authorizing the issuance and sale of the Certificates and the execution and delivery of this Purchase Contract, the Official Statement, in each case certified by the City Secretary of the City, as having been duly adopted and being in full force and effect and as being true, accurate, and complete copies thereof;

(8) an unqualified opinion, dated on or prior to the date of the Closing, of the Attorney General of the State of Texas (the "*Attorney General*"), relating to the legality and validity of the Certificates and approving the Certificates as required by law;

(9) evidence satisfactory to the Underwriter that the Certificates have been registered by the Comptroller of Public Accounts of the State of Texas as required by law;

(10) a letter from Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies indicating a rating for the Certificates which is not lower than "AAA" (Negative Outlook), based upon the issuance of the bond insurance policy by the Insurer and "A+" without regard to credit enhancement;

(11) a certificate, dated the date of the Closing, executed by the Mayor and City Manager of the City, to the effect that (i) except to the extent disclosed in the Official Statement, no suit, action, investigation, or legal or administrative proceeding is pending or, to the knowledge of such persons, threatened, before any court or governmental agency (A) to restrain, enjoin, prohibit, or obtain damages or other relief in connection with the issuance or delivery of the Certificates, the consummation of the transactions described herein, or the levy, collection, or application of the taxes pledged to pay the principal of and interest on the Certificates, or the pledge thereof, or the lien on and pledge of the Surplus Revenues (as defined in the Certificate Ordinance) to pay the principal of and interest on the Certificates, or the pledge thereof, or that would otherwise adversely affect in a material manner the City's financial condition, its ability to pay the principal of and interest on the Certificates, or its ability to consummate the transactions described herein; (B) contesting or questioning the corporate existence or boundaries of the City or the right to hold office of any member of the governing body of the City or any other elected or appointed official of the City or (C) in any way contesting or affecting the validity of the Certificates, the Certificate Ordinance or this Purchase Contract, the powers of the City to issue the Certificates, the authorization of the Certificates or the Certificate Ordinance, or the accuracy, completeness, or fairness of the Preliminary Official Statement (to the extent not modified by the Official Statement) or the Official Statement; and (ii) to the best of such persons' knowledge, no event affecting the City has occurred since the date of the Official Statement which should be disclosed therein for the purpose for which it is to be used or which it is necessary to be disclosed therein in order to make the statements and information therein not misleading in any respect; and

(12) a certificate of the City, dated the date of the Closing, and signed by an appropriate official of the City, in the form approved by Bond Counsel and satisfactory to the Underwriter and Underwriter's counsel, with respect to arbitration matters; and

(13) a policy of bond insurance from the Insurer, which unconditionally and irrevocably guarantees the full, complete, and timely payment of an amount equal to the principal of and interest on the Certificates, along with the customary closing certificates executed by the Insurer.

(i) The City shall have returned the corporate check of the Underwriter delivered to the City pursuant to Section 4 hereof.

(j) The Underwriter shall receive such additional legal opinions, certificates, proceedings, instruments, and other documents as counsel to the Underwriter or Bond Counsel may reasonably request to evidence compliance by the City with legal requirements, the truth and accuracy, as of the time of Closing, of the representations and warranties of the City

contained herein, and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

(k) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change, in the condition, financial or otherwise, of the City from that set forth in the Official Statement that in the reasonable judgment of the Underwriter, is material and adverse and that makes it, in the reasonable judgment of the Underwriter, impracticable to market the Certificates on the terms and in the manner contemplated in the Official Statement.

All such opinions, certificates, letters, agreements, and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to the Underwriter and their counsel and to Bond Counsel. The Underwriter shall be entitled to receive such conformed copies or photocopies of such opinions, certificates, letters, agreements, and documents as the Underwriter may reasonably request.

9. Conditions to Obligations of the City. The obligations of the City hereunder to deliver the Certificates shall be subject to receipt on or before the date of the Closing of the purchase price set forth in Section 1 hereof, the opinion of Bond Counsel described in Section 8(h)(1) hereof, and the opinion of the Attorney General of Texas described in Section 8(h)(8) hereof.

10. Termination. The Underwriter shall have the right to cancel its obligation to purchase the Certificates if, between the date hereof and the Closing, (i) legislation shall be enacted or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or the United States Tax Court shall be rendered, or a ruling, regulation, or statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service, or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose directly or indirectly federal income taxation upon interest received on obligations of the general character of the Certificates or upon income of the general character to be derived by the City in such a manner as, in the reasonable opinion of the Underwriter, would materially adversely affect the market price of the Certificates, or the market price generally of obligations of the general character of the Certificates, or (ii) there shall exist any event which, in the reasonable judgment of the Underwriter, either (a) makes untrue or incorrect in any material and adverse respect any statement or information contained in the Official Statement or (b) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect, or (iii) there shall have occurred any national or international calamity or crisis, including, without limitation, financial crisis, or a financial crisis or a default with respect to the debt obligations of, or the institution of proceedings under the federal or the state bankruptcy laws by or against the State of Texas or any political subdivision, agency, or instrumentality of the State of Texas, the effect of which on the financial markets of the United States being such as, in the reasonable judgment of the Underwriter, would make it impracticable for the Underwriter to market the Certificates or to enforce contracts for the sale of the Certificates, or (iv) there shall have occurred any (a) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (b) new

material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereof and the effect of any such event on the financial markets of the United States, shall be such as would make it impracticable, in the reasonable judgment of the Underwriter, for the Underwriter to sell the Certificates on the terms and in the manner contemplated by the Official Statement, or (v) there shall be in force a general suspension of trading on the New York Stock Exchange, or (vi) a general banking moratorium shall have been declared by either federal, Texas, or New York authorities, or (vii) there shall have occurred any materially adverse change in the affairs or financial condition of the City, except for changes which the Official Statement discloses have occurred or may occur, or (viii) legislation shall be enacted or any action shall be taken by the United States Securities and Exchange Commission which, in the written opinion of counsel for the Underwriter delivered to the Underwriter and the City has the effect of requiring the contemplated distribution of the Certificates to be registered under the Securities Act of 1933, as amended, or requiring the Certificates or the Certificate Ordinance or any other document relating to the Certificates or transactions described herein to be qualified under the Trust Indenture Act of 1939, as amended, or (ix) a stop order, ruling, regulation, or official statement by or on behalf of the United States Securities and Exchange Commission shall be issued or made to the effect that the issuance, offering, or sale of the Certificates, or of obligations of the general character of the Certificates, is in violation of any provision of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or (x) any state blue sky or securities commission or other governmental agency or body in a state in which at least 20% of the Certificates shall have been sold shall have withheld registration, exemption, or clearance of the offering of the Certificates as described herein, or issued a stop order or similar ruling relating thereto, and in the reasonable judgment of the Underwriter, the market for the Certificates would be materially affected thereby, or (xi) the Constitution of the State of Texas shall be amended, or an amendment shall be proposed, or legislation shall be enacted, or a decision shall have been rendered as to matters of Texas law, or any order, ruling, or regulation shall have been rendered as to or on behalf of the State of Texas by an official, agency, or department thereof, affecting the tax status of the City, its property or income, its bonds (including the Certificates), or the interest thereon, which in the reasonable judgment of the Underwriter would materially affect the market price of the Certificates, or (xii) there shall be established any new restriction on transactions in securities materially affecting the free market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, Underwriter established by the New York Stock Exchange, the United States Securities and Exchange Commission, any other federal or state agency or the Congress of the United States, or by Executive Order, or (xiii) there shall have occurred any downgrading or published negative credit watch or similar published information from the rating agency or rating agencies that have been asked by the City to furnish a rating on the Certificates which action reflects a negative change or possible negative change in the ratings accorded the Certificates, the City's unenhanced rating, or the credit worthiness of the provider or source of credit enhancement for the Certificates, or (xiv) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of, and to pay for the Certificates contained in this Purchase Contract, or if the obligations of the Underwriter to purchase, to accept delivery of, and to pay

for the Certificates shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and be of no further force or effect, and neither the Underwriter nor the City shall be under further obligation hereunder, except that the respective obligations of the City and the Underwriter set forth in Sections 12, 13, 14, and 17 hereof shall continue in full force and effect. In addition, the City shall promptly return the corporate check of the Underwriter delivered to the City pursuant to Section 4 hereof.

11. Particular Covenants of the City. The City covenants and agrees with the Underwriter as follows:

(a) Up to and including the date the Underwriter are no longer required to provide an Official Statement to potential customers who request the Official Statement pursuant to Rule 15c2-12, the City shall cooperate with the Underwriter in amending or supplementing the Official Statement whenever requested by the Underwriter if, in the reasonable judgment of the Underwriter, such amendment or supplement is required.

(b) The City shall not revise, amend, or supplement the Official Statement unless such revision, amendment, or supplement has been previously approved by the Underwriter, which approval shall not be unreasonably withheld.

(c) The City shall cooperate with the Underwriter and its counsel in any endeavor to qualify the Certificates for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request, and the City shall use its best efforts to assist the Underwriter to effect such qualifications and to maintain them in effect until the distribution of the Certificates described in the Official Statement shall have been completed; provided, however, the City shall not be required with respect to the offer or sale of the Certificates to file a general or special written consent to suit or to file a general or special written consent to service of process in any jurisdiction, will not be required to qualify as a foreign corporation, and will not bear any expense in connection with any such qualification. The City consents to the use of the Certificate Ordinance, the Preliminary Official Statement, and the Official Statement by the Underwriter in obtaining such qualifications.

(d) Any certificate or other instrument or document signed by an authorized officer or agent of the City and delivered to the Underwriter pursuant to the terms and provisions hereof shall be deemed to be a representation and warranty made by the City to the Underwriter as to the statements made therein.

(e) From and after the date of this Purchase Contract through and including the time of the Closing, the City will not, without the prior written consent of the Underwriter, issue any additional bonds, notes, or other obligations for borrowed money, and the City will not incur any material liabilities, direct or contingent, relating to the City.

(f) If, at any time prior to the time of the Closing as herein provided, an event occurs affecting the City which is materially adverse for the purpose for which the Official Statement is to be used and is not disclosed in the Official Statement, the City shall notify the Underwriter, and if, in the opinion of the City and the Underwriter, such event requires a supplement or amendment to the Official Statement, the City shall supplement or amend the Official Statement

in a form and in a manner approved by the Underwriter, counsel to the Underwriter, and Bond Counsel to the City.

12. Survival of Representations. All representations, warranties, and agreements of the City hereunder or in any certificate delivered pursuant hereto shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, and shall survive the delivery of and payment for the Certificates and any termination of this Purchase Contract by the Underwriter pursuant to the terms hereof.

13. Payment of Expenses. Costs related to the issuance and sale of the Certificates, including, but not limited to, costs of preparation, printing, and mailing of the Certificates, the Preliminary Official Statement, and the Official Statement, postage, the fees and expenses of any persons retained by the City relating to this transaction, the cost of obtaining credit ratings on the Certificates, the fees of the Texas Attorney General, the Insurer's premium, the fees and expenses of Southwest Securities, Inc. as financial advisors to the City, the fees and costs of the Paying Agent/Registrar, any other persons retained by the City relating to this transaction, and the fees and disbursements of Bond Counsel to the City shall be paid out of the proceeds of the Certificates or other funds of the City. The Underwriter shall pay for its costs related to the purchase of the Certificates, including, without limitation, appropriate advertising expenses, "blue sky" fees and expenses, the fees and expenses of their legal counsel, and other expenses incurred at the Underwriter's discretion (including, but not limited to, travel, lodging, meals, entertainment, deal mementos, and similar expenses).

14. No Personal Liability. None of the members of the Council, nor any officer, agent, or employee of the City, shall be charged personally by the Underwriter with any liability, or be held liable to the Underwriter under any term or provision of this Purchase Contract, or because of execution or attempted execution, or because of any breach or attempted or alleged breach, of this Purchase Contract.

15. Continuing Disclosure Agreement. The City will agree in the Certificate Ordinance to provide certain periodic information and notices of material events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Underwriter has reviewed the agreement as set forth in the Certificate Ordinance and the Underwriter's obligation to accept and pay for the Certificates is conditioned upon delivery to the Underwriter or their agent of a certified copy of the Certificate Ordinance containing the agreement described under such heading.

16. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing at its address set forth above, Attention: Mayor, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Mr. Duane Westerman, SAMCO Capital Markets, Inc., 8700 Crownhill Boulevard, Suite 601, San Antonio, Texas 78209.

17. Parties in Interest; Entire Agreement. This Purchase Contract shall constitute the entire agreement and is made solely for the benefit of the City and the Underwriter (including the

successors or assigns of the Underwriter), and no other person shall acquire or have any right hereunder or by virtue hereof. The Underwriter shall have the right to assign their rights, duties, and obligations under this Purchase Contract. This Purchase Contract may not be assigned by the City. All of the City's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Certificates pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

18. Governing Law and Choice of Law. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

19. Business Day. For purposes of this Purchase Contract, business day means any day on which the New York Stock Exchange is open for trading.

20. Status of the Underwriter. It is understood and agreed that for all purposes of this Purchase Contract and the transactions contemplated hereby the Underwriter have, in their role as Underwriter, acted solely as independent contractors and have not acted as a financial or investment advisor, fiduciary or agent to or for the City, whether directly or indirectly through any person. The City recognizes that the acquisition and potential distribution of the Certificates by the Underwriter may result in the Underwriter deriving a profit from the underwriting of the Certificates.

21. General. This Purchase Contract may be executed in several counterparts, each of which shall be regarded as an original and all of which will constitute one and the same instrument. The section headings of this Purchase Contract are for convenience of reference only and shall not affect its interpretation. This Purchase Contract shall become effective upon your acceptance hereof and delivery of a signed copy of this Purchase Contract to the Underwriter.

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

Very truly yours,

SAMCO CAPITAL MARKETS, INC.

By: *Diana Williams*  
Title: *Managing Director*

Accepted and agreed to as of 7:25 p.m. Central time,  
on the 14th day of January, 2010.

CITY OF KENNEDALE, TEXAS

By: *Bryan Lankhorst*  
Mayor

**ISSUE PRICE CERTIFICATE**

The undersigned hereby certifies with respect to the sale of the “City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010” issued in the aggregate original principal amount of \$2,000,000 (the “*Certificates*”) as follows:

1. The undersigned is the underwriter or the manager of the syndicate of Underwriter (the “*Underwriter*”) which has purchased the Certificates from the City of Kennedale, Texas (the “*Issuer*”) at a negotiated sale.

2. The Underwriter has made a bona fide offering of the Certificates to the public and the Certificates were reoffered to the public at the prices set forth below.

3. The first price during the initial offering (expressed as a “yield”) of each maturity of the Certificates (except the Certificates maturing in 2023 and 2025) at which a substantial amount thereof (at least 10% of the principal amount of each maturity of the Certificates) has been sold to the public is set forth below:

<u>Principal Amount or Maturity Amount at Stated Maturity (\$)</u>	<u>Year of Stated Maturity</u>	<u>Offering Price or Yield (%)</u>
75,000	2011	1.000
75,000	2012	1.250
75,000	2013	1.500
****	****	****
160,000	2015	2.000
****	****	****
165,000	2017	2.750
****	****	****
175,000	2019	3.310
****	****	****
185,000	2021	3.580
****	****	****
205,000	2023	3.790
****	****	****
225,000	2025	4.000
****	****	****
245,000	2027	4.120
****	****	****
****	****	****
415,000	2030	4.400

For Certificates maturing in 2023 and 2025 the Underwriter reasonably expected on the offering date to sell at least 10% of the principal amount of each maturity to the public at the price set forth above.

4. For purposes of this certificate, the term "public" does not include (a) the undersigned, (b) the members of the syndicate, if any, managed by the undersigned, or (c) any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of any syndicate in which the undersigned is participating in the sale of the Certificates.

5. The offering prices described above reflect current market prices at the time of such sales.

6. The CUSIP number of the Certificate with the latest stated maturity is 489332 GU 4.

7. The undersigned understands that the statements made herein will be relied upon by the Issuer in its efforts to comply with the conditions imposed by the Internal Revenue Code of 1986, as amended, and by Bond Counsel in rendering their legal opinion concerning the excludability of interest on the Certificates from the gross income of their owners.

EXECUTED AND DELIVERED this 17<sup>th</sup> January, 2010.

SAMCO CAPITAL MARKETS, INC.

By:   
Title: Managing Director

**EXHIBIT B**

Official Statement

**NEW ISSUE - BOOK-ENTRY-ONLY**

**Rating: Standard & Poor's: "AAA" (negative outlook)  
Assured Guaranty Corp. Insured  
(See: "BOND INSURANCE" and "OTHER PERTINENT INFORMATION – Ratings")**

**OFFICIAL STATEMENT  
Dated January 14, 2010**

*In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to the matters described under "TAX MATTERS" herein.*

**THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

**\$2,000,000  
CITY OF KENNEDALE, TEXAS  
(A political subdivision of the State of Texas located in Tarrant County, Texas)  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010**

**Dated Date: January 1, 2010**

**Due: May 1, as shown on inside cover**

The \$2,000,000 City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Certificates") are being issued pursuant to the Certificate of Obligation Act of 1971, Sections 271.041 through 271.065, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Kennedale, Texas (the "City" or "Issuer"). See "THE CERTIFICATES - Authority for Issuance" herein.

The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system, all as provided in the Ordinance. See "THE CERTIFICATES – Security for Payment".

Interest on the Certificates will accrue from the dated date as shown above and will be payable on May 1 and November 1 of each year, commencing May 1, 2010, until stated maturity or earlier redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by Wells Fargo Bank, N.A., Austin, Texas, as Paying Agent/Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Certificates will be used to (1) construct improvements and extensions to the City's waterworks, sewer and storm sewer systems; (2) construct, improve and repair City streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (3) relocate and restore historic section house; (4) provide local match for federal grant to make street, sidewalk, landscaping, intersection, and lighting improvements; and (5) pay all or a portion of the City's contractual obligations for professional services rendered by engineers, attorneys, and financial advisors in connection with the above projects. See "THE CERTIFICATES – Use of Certificate Proceeds."

The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Corp. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.



SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Bond Counsel, San Antonio, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" herein. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas. It is expected that the Certificates will be available for initial delivery through DTC on or about February 10, 2010.*

**SAMCO CAPITAL MARKETS, INC.**

**MATURITY SCHEDULE  
(Due May 1)**

**CUSIP No. Prefix 489332<sup>(1)</sup>**

**\$225,000 Serial Certificates**

Stated Maturity 5/1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix <sup>(1)</sup>
2011	75,000	2.000	1.000	FZ4
2012	75,000	2.000	1.250	GA8
2013	75,000	2.000	1.500	GB6

**\$1,775,000 Term Certificates**

**CUSIP No. Suffix<sup>(1)</sup>**

\$160,000 2.000% Term Certificates due May 1, 2015 and priced to yield 2.000%	GD2
\$165,000 2.625% Term Certificates due May 1, 2017 and priced to yield 2.750%	GF7
\$175,000 3.250% Term Certificates due May 1, 2019 and priced to yield 3.310%	GH3
\$185,000 4.000% Term Certificates due May 1, 2021 and priced to yield 3.580% <sup>(2)</sup>	GK6
\$205,000 5.000% Term Certificates due May 1, 2023 and priced to yield 3.790% <sup>(2)</sup>	GM2
\$225,000 5.000% Term Certificates due May 1, 2025 and priced to yield 4.000% <sup>(2)</sup>	GP5
\$245,000 5.000% Term Certificates due May 1, 2027 and priced to yield 4.120% <sup>(2)</sup>	GR1
\$415,000 5.000% Term Certificates due May 1, 2030 and priced to yield 4.400% <sup>(2)</sup>	GU4

**Interest will accrue from the Dated Date**

The Issuer reserves the right to redeem the Certificates maturing on or after May 1, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2020, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. See "THE CERTIFICATES - Redemption Provisions of the Certificates – Optional Redemption" herein. The Term Certificates are subject to mandatory sinking fund redemption prior to stated maturity. See "THE CERTIFICATES – Redemption Provisions of the Certificates – Mandatory Redemption" herein.

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on May 1, 2020, the first optional call date for the Certificates, at a redemption price of par, plus accrued interest to the redemption date.

## **EXHIBIT C**

[Form of Supplemental Opinion of Bond Counsel to be provided by Bond Counsel]

## EXHIBIT D

[Letterhead of Fulbright & Jaworski L.L.P.]

February 10, 2010

SAMCO Capital Markets, Inc.,  
1700 Pacific Avenue, Suite 2000  
Dallas, Texas 75201

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by you on this date of "City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010" issued in the aggregate original principal amount of \$2,000,000 (the "*Certificates*") pursuant to a Purchase Contract dated January 14, 2010 (the "*Purchase Contract*") between you and the City of Kennedale, Texas (the "*City*"). This opinion is being furnished to you pursuant to Section 8(h)(3) of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used in this opinion shall have the meanings ascribed to them in the Purchase Contract.

We have examined a printed copy of the Preliminary Official Statement and the Official Statement and executed copies of the Certificate Ordinance and the Paying Agent/Registrar Agreement, and we have examined and rely upon the certificates and opinions referred to in Section 8(h) of the Purchase Contract.

In our examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents, and the accuracy of the statements contained in such certificates.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are exempted securities within the meaning of the Securities Act of 1933, as amended, and it is not necessary in connection with the offer and sale of the Certificates to the public to register the Certificates under the Securities Act of 1933, as amended, or to qualify the Certificates, the Certificate Ordinance, or any other instrument or document under the Trust Indenture Act of 1939, as amended. We express no opinion as to any

requirements as to the registration of any other security or qualification of any other instrument under such Acts.

2. We have not verified the information contained in the Official Statement. However, as your counsel we have participated in discussions with respect to the Official Statement with representatives of the City, McCall, Parkhurst & Horton, L.L.P., bond counsel to the City, Southwest Securities, Inc., as financial advisors to the City, and you, and, as stated above, we have reviewed the Official Statement. In the course of such discussions and review, nothing has come to our attention which leads us to believe that the Official Statement [except with respect to the financial statements and other financial and statistical data included therein, information relating to the Depository Trust Company and its Book-Entry-Only System, information concerning the bond insurer and its municipal bond insurance policy, and in the Appendices thereto, including but not limited to the financial statements appearing in Appendix D thereto (as to which we have not been requested to express a view and as to which we express no view)] contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

In addition, based upon (i) our understanding of Rule 15c2-12 of the United States Securities and Exchange Commission (the "*Rule*") and interpretive guidance published by the Securities and Exchange Commission relating thereto; (ii) our review of the continuing disclosure undertaking of the City contained in the Certificate Ordinance; and (iii) the inclusion in the Official Statement of a description of the specifics of such undertaking, and in reliance on the opinion of Bond Counsel that the Certificate Ordinance has been duly adopted by the City and constitutes a valid and legally binding obligation of the City enforceable in accordance with its terms, we have no reason to believe that such undertaking does not meet the requirements of paragraph (b)(5)(i) of the Rule and, accordingly, we advise you that such undertaking provides a suitable basis for you, as the Underwriter and any other broker, dealer, or municipal securities dealer acting as a Participating Underwriter (as defined in the Rule) in connection with the offering of the Certificates, to make a reasonable determination that the City has met the qualifications of paragraph (b)(5)(i) of the Rule.

In addition to the limitations set forth in the preceding paragraphs, we have not been requested to review, nor have we reviewed, any records or contracts of the City or the basis for any representations made by representatives of the City, and the foregoing is subject to the material, statements, and other data contained in the records or contracts of the City and any such representations, to the extent they are reflected in the Official Statement, not containing any untrue statement of a material fact or omitting to state a material fact necessary to make the statements contained in the Official Statement, in light of the circumstances under which they were made, not misleading.

We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed herein. In rendering a legal opinion, we do not become an insurer or

guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction; nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Very truly yours,

## PAYING AGENT/REGISTRAR AGREEMENT

***THIS AGREEMENT*** entered into as of January 1, 2010 (this "Agreement"), by and between the ***CITY OF KENNEDALE, TEXAS*** (the "Issuer"), and **WELLS FARGO BANK, N.A.** (the "Bank"), a national banking association duly organized and operating under the laws of the United States of America.

***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 2010*" (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 10, 2010; 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, if the Bank has the capability and, to the extent within its control, it 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.

**WELLS FARGO BANK, N.A.**



By JOSE A GAYTAN JR.  
Title VICE PRESIDENT

Address: 400 W. 15<sup>th</sup> Street, 1<sup>st</sup> Floor  
Austin, Texas 78701

**CITY OF KENNEDALE, TEXAS**

By Bryan Laukhorst

Mayor

Address: 405 Municipal Drive  
Kennedale, Texas 76060



# SCHEDULE A

Greg Stites  
Wells Fargo Bank  
Corporate Trust Services  
400 W. 15<sup>th</sup> Street, Ste.150  
Austin, Texas 78701  
Tel: 512.344.8640

## SCHEDULE OF FEES

**\$1,850,000**  
**City of Kennedale, Texas**  
**Combination Tax and Revenue Certificates of Obligation,**  
**Series 2010**

**To act as Paying Agent & Registrar**

**Acceptance Fee:** **\$0.00**

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

The acceptance fee is payable at time of Paying Agent/Registrar Agreement execution.

**Annual Administration Fee:** **\$400.00**

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

**Out of Pocket Expenses:**

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

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

**Submitted by:** Greg Stites  
January 7, 2010  
P: 72280

R-1

# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$75,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
2.000%	May 1, 2011	January 1, 2010	489332FZ4

**REGISTERED OWNER:** *CEDE & CO.*

**PRINCIPAL AMOUNT:** *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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

PRINCIPAL  
AMOUNT  
\$75,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
2.000%	May 1, 2012	January 1, 2010	489332GA8

REGISTERED OWNER: *CEDE & CO.*

PRINCIPAL AMOUNT: *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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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  
\$75,000

# SPECIMEN

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
2.000%	May 1, 2013	January 1, 2010	489332GB6

REGISTERED OWNER: *CEDE & CO.*

PRINCIPAL AMOUNT: *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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

PRINCIPAL  
AMOUNT  
\$160,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
2.000%	May 1, 2015	January 1, 2010	489332GD2

REGISTERED OWNER: *CEDE & CO.*

PRINCIPAL AMOUNT: *ONE HUNDRED SIXTY 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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

PRINCIPAL  
AMOUNT  
\$165,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
2.625%	May 1, 2017	January 1, 2010	489332GF7

REGISTERED OWNER: *CEDE & CO.*

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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

PRINCIPAL  
AMOUNT  
\$175,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
3.250%	May 1, 2019	January 1, 2010	489332GH3

REGISTERED OWNER: *CEDE & CO.*

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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$175,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
3.250%	May 1, 2019	January 1, 2010	489332GH3

**REGISTERED OWNER:** *CEDE & CO.*

**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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$185,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
4.000%	May 1, 2021	January 1, 2010	489332GK6

**REGISTERED OWNER:** *CEDE & CO.*

**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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$205,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
5.000%	May 1, 2023	January 1, 2010	489332GM2

**REGISTERED OWNER: *CEDE & CO.***

**PRINCIPAL AMOUNT: *TWO 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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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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# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$225,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
5.000%	May 1, 2025	January 1, 2010	489332GP5

**REGISTERED OWNER: *CEDE & CO.***

**PRINCIPAL AMOUNT: *TWO 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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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 *Wells Fargo Bank, N.A.*, Austin, 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

R-10

# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$245,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
5.000%	May 1, 2027	January 1, 2010	489332GR1

**REGISTERED OWNER: *CEDE & CO.***

**PRINCIPAL AMOUNT: *TWO 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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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 *Wells Fargo Bank, N.A.*, Austin, 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

R-11

# SPECIMEN

**PRINCIPAL  
AMOUNT  
\$415,000**

**UNITED STATES OF AMERICA  
STATE OF TEXAS  
CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION, SERIES 2010**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATE OF SERIES</u>	<u>CUSIP NO.</u>
5.000%	May 1, 2030	January 1, 2010	489332GU4

**REGISTERED OWNER: *CEDE & CO.***

**PRINCIPAL AMOUNT: *FOUR 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 January 1, 2010, at the Interest Rate per annum specified above, on May 1, 2010, and semiannually on each November 1 and May 1 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 *Wells Fargo Bank, N.A.*, Austin, 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

# SPECIMEN

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 fifteenth 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 January 1, 2010, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of ***\$2,000,000 FOR PAYING, IN WHOLE OR IN PART, THE CITY'S CONTRACTUAL OBLIGATIONS INCURRED TO (1) CONSTRUCT IMPROVEMENTS AND EXTENSIONS TO THE CITY'S WATERWORKS, SEWER AND STORM SEWER SYSTEMS; (2) CONSTRUCT, IMPROVE AND REPAIR CITY STREETS, PARKING LOTS AND SIDEWALKS, TOGETHER WITH DRAINAGE IMPROVEMENTS, UTILITY LINE CONSTRUCTION, RELOCATION AND REPLACEMENT, UTILITIES***

# SPECIMEN

**IMPROVEMENTS, TRAFFIC AND STREET SIGNALIZATION, LANDSCAPING AND LIGHTING IMPROVEMENTS; (3) RELOCATE AND RESTORE HISTORIC SECTION HOUSE; (4) PROVIDE LOCAL MATCH FOR FEDERAL GRANT TO MAKE STREET, SIDEWALK, LANDSCAPING, INTERSECTION, AND LIGHTING IMPROVEMENTS; AND (5) PAY ALL OR A PORTION OF THE CITY'S CONTRACTUAL OBLIGATIONS FOR PROFESSIONAL SERVICES RENDERED BY ENGINEERS, ATTORNEYS, AND FINANCIAL ADVISORS IN CONNECTION WITH THE ABOVE PROJECTS.**

ON MAY 1, 2020, or on any date thereafter, the Certificates of Obligation of this Series maturing on and after May 1, 2021, 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 (provided that a portion of a Certificate of Obligation may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount of Certificates of Obligation called for redemption, plus accrued interest thereon to the date fixed for redemption. The City shall determine the maturity or maturities, and the principal amount of Certificates of Obligation within each maturity, to be redeemed. If less than all Certificates of Obligation of a maturity are to be redeemed, the particular Certificates of Obligation to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot.

**ADDITIONALLY, THE CERTIFICATES MATURING** on May 1 in the years 2015, 2017, 2019, 2021, 2023, 2025, 2027 and 2030 (the "*Term Certificates*") are subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates and in the respective principal amounts shown below:

**TERM CERTIFICATES MATURING  
MAY 1, 2015**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2014	\$80,000
May 1, 2015 (maturity)	80,000

**TERM CERTIFICATES MATURING  
MAY 1, 2017**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2016	\$80,000
May 1, 2017 (maturity)	85,000

**TERM CERTIFICATES MATURING  
MAY 1, 2019**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2018	\$85,000
May 1, 2019 (maturity)	90,000

**TERM CERTIFICATES MATURING  
MAY 1, 2021**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2020	\$90,000
May 1, 2021 (maturity)	95,000

# SPECIMEN

**TERM CERTIFICATES MATURING  
MAY 1, 2023**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2022	\$100,000
May 1, 2023 (maturity)	105,000

**TERM CERTIFICATES MATURING  
MAY 1, 2025**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2024	\$110,000
May 1, 2025 (maturity)	115,000

**TERM CERTIFICATES MATURING  
MAY 1, 2027**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2026	\$120,000
May 1, 2027 (maturity)	125,000

**TERM CERTIFICATES MATURING  
MAY 1, 2030**

<u>MANDATORY REDEMPTION DATE</u>	<u>REDEMPTION AMOUNT</u>
May 1, 2028	\$130,000
May 1, 2029	140,000
May 1, 2030 (maturity)	145,000

The principal amount of the Term Certificates required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the City, by the principal amount of any such Term Certificates which, prior to the date of the mailing of notice of such mandatory redemption, (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (iii) shall have been redeemed pursuant to the optional redemption provisions described in the preceding paragraph and not theretofore credited against a mandatory redemption requirement.

*AT LEAST 30* 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.

# SPECIMEN

***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

# SPECIMEN

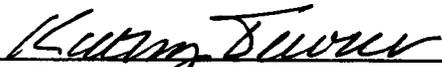
on the full faith and credit thereof; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Certificate of Obligation, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in 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.

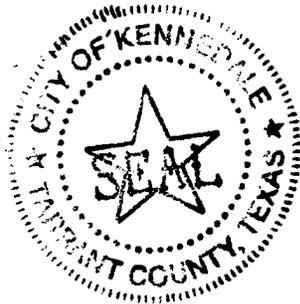
**BY BECOMING THE REGISTERED OWNER** of this Certificate of Obligation, the Registered Owner thereby acknowledges all of the terms and provisions of the Certificate of Obligation Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Certificate of Obligation Ordinance is duly 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



# SPECIMEN

**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

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

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

# SPECIMEN

## 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.

## STATEMENT OF INSURANCE

Assured Guaranty Corp. ("AGC" or the "Insurer"), a Maryland-domiciled insurance company, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments of principal of and interest on this Certificate of Obligation to **Wells Fargo Bank, N.A.**, as paying agent on behalf of the holders of the Certificates of Obligation (the "Paying Agent"). Such Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from AGC or the Paying Agent. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Certificate of Obligation acknowledges and consents to the subrogation rights of AGC as more fully set forth in the Policy.



# Blanket Issuer Letter of Representations

[To be Completed by Issuer]

City of Kennedale, Texas

[Name of Issuer]

March 14, 1996

[Date]

Attention: Underwriting Department — Eligibility  
The Depository Trust Company  
55 Water Street, 50th Floor  
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

City of Kennedale, Texas

By: *Vicki Thompson*  
(Authorized Officer's Signature)

Vicki Thompson  
Director of Finance  
City of Kennedale  
P.O. Box 268  
Kennedale, Texas 76060  
Phone: (817) 478-0351  
Fax: (817) 483-0720

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: *James Jones*

## SCHEDULE A

(To Issuer Letter of Representations)

**SAMPLE OFFERING DOCUMENT LANGUAGE  
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity

of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.



**Financial Guaranty Insurance Policy**

<b>Issuer:</b>	City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas)	<b>Policy No.:</b>	D-2010-30
<b>Obligations:</b>	\$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010	<b>Premium:</b>	\$21,033.31
		<b>Effective Date:</b>	February 10, 2010

Assured Guaranty Corp., a Maryland corporation ("AGC"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

AGC will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which AGC shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by AGC is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and AGC shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in AGC. Upon and to the extent of such disbursement, AGC shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by AGC to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of AGC under this Policy to the extent of such payment.

This Policy is non-cancelable by AGC for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of AGC, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Avoided Payment" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "Business Day" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or AGC are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "Due for Payment" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless AGC in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "Holder" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "Insured Payments" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "Nonpayment" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "Receipt" or "Received" means actual receipt or notice of or, if notice is given by

**Assured Guaranty Corp.**

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New York, NY 10019

main 212 974 0100  
fax 212 581 3268

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overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to AGC may be mailed by registered mail or personally delivered or telecopied to it at 31 West 52<sup>nd</sup> Street, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel at the same address and at [generalcounsel@assuredguaranty.com](mailto:generalcounsel@assuredguaranty.com) or at the following Facsimile Number: (212) 445-8705, or to such other address as shall be specified by AGC to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by AGC on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, AGC may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to AGC pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to AGC. All payments required to be made by AGC under this Policy may be made directly by AGC or by the Fiscal Agent on behalf of AGC. The Fiscal Agent is the agent of AGC only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of AGC to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

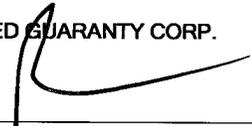
To the fullest extent permitted by applicable law, AGC hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to AGC to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and AGC expressly reserves, AGC's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by AGC of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of AGC with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, AGC has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon AGC by virtue of such signature.



ASSURED GUARANTY CORP.

By:   
Richard Cassata  
Managing Director

Signature attested to by:

  
Counsel

NOTICE OF NONPAYMENT

Assured Guaranty Corp.  
31 West 52<sup>nd</sup> Street  
New York, New York 10019  
Attention: Risk Management Department - Public Finance Surveillance and General Counsel

The undersigned, [a duly authorized officer of [TRUSTEE][PAYING AGENT]] (the "Trustee" or the "Paying Agent"), hereby certifies to Assured Guaranty Corp. ("AGC") with reference to Financial Guaranty Insurance Policy No. \_\_\_\_\_ (the "Policy"), that:

(i) The deficiency with respect to the Insured Payment that is Due for Payment and unpaid by reason of Nonpayment on [insert applicable payment date] is \$[insert applicable amount] (the "Deficiency Amount").

(ii) The [Trustee][Paying Agent] is making a claim under the Policy for the Deficiency Amount.

(iii) The [Trustee][Paying Agent] agrees that, following payment by AGC made with respect to the Deficiency Amount which is the subject of this Notice of Nonpayment, it will (a) cause such amounts to be applied directly to the payment of the applicable Insured Payment; (b) insure that such funds are not applied for any other purpose; and (c) cause an accurate record of such payment to be maintained with respect to the appropriate Insured Payment(s), the corresponding claim on the Policy, and the proceeds of such claim.

(iv) The [Trustee][Paying Agent], on behalf of the Holders, hereby assigns to AGC all rights of the [Trustee][Paying Agent] and the Holders with respect to the Obligations to the extent of any payments under the Policy, including without limitation any amounts due to the Holders in respect of securities law violations arising from the offer and/or sale of the Obligations; provided, that payments to AGC in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holders to receive all payments in respect of the Obligations. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to AGC in respect of such payments. The [Trustee][Paying Agent][Holder] shall take such action and deliver such instruments as may be reasonably requested or required by AGC to effectuate the purpose or provisions of this paragraph (iv).

(v) The [Trustee][Paying Agent], on its behalf and on behalf of the Holders, hereby appoints AGC as agent and attorney-in-fact for the [Trustee][Paying Agent] and each such Holder in any legal proceeding with respect to the Obligations. The [Trustee][Paying Agent] hereby agrees that, so long as AGC shall not be in default in its payment obligations under the Policy, AGC may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including, without limitation, (A) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a "Preference Amount"), (B) the direction of any appeal of any order relating to any Preference Amount at the expense of AGC but subject to reimbursement as provided in the documentation providing for the issuance of and securing the Obligations, if any, and (C) the posting of any surety, supersedeas or performance bond pending any appeal. In addition, the [Trustee][Paying Agent] hereby agrees that AGC shall be fully subrogated to, and the [Trustee][Paying Agent] on its behalf and on behalf of each Holder, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the [Trustee][Paying Agent] and each Holder in the conduct of any Insolvency Proceeding, including without limitation all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(vi) Payment should be made by credit to the following account:

\_\_\_\_\_  
\_\_\_\_\_

Capitalized terms used in this Notice of Nonpayment and not otherwise defined herein shall have the respective meanings ascribed thereto in the Policy.

This Notice of Nonpayment may be revoked at any time by written notice of such revocation by the [Trustee][Paying Agent][Holder] to the AGC.

**ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE OR STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION, OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME AND SHALL ALSO BE SUBJECT TO A CIVIL PENALTY NOT TO EXCEED FIVE THOUSAND DOLLARS AND THE STATED VALUE OF THE CLAIM FOR EACH SUCH VIOLATION.**

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Nonpayment as of the \_\_\_ day of \_\_\_\_\_ of \_\_\_\_\_.

[TRUSTEE/PAYING AGENT]

By: \_\_\_\_\_  
Name:  
Title:



Endorsement to Financial Guaranty Insurance Policy  
(Texas Governing Law)

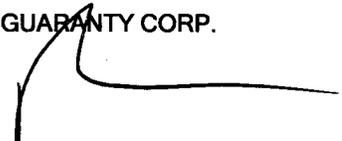
<b>Issuer:</b>	City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas)	<b>Policy No.:</b>	D-2010-30
<b>Obligations:</b>	\$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010	<b>Effective Date:</b>	February 10, 2010

Notwithstanding the terms and provisions contained in the Policy, it is further understood that the insurance provided by the Policy to which this endorsement is attached and of which it forms a part is governed by, and construed in accordance with, the laws of the State of Texas.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this endorsement shall supersede the Policy language.

IN WITNESS WHEREOF, AGC has caused this endorsement to be affixed with its corporate seal, to be signed by its duly authorized officer and to become effective and binding upon AGC on the Effective Date listed above by virtue of such signature.

ASSURED GUARANTY CORP.

By:   
Richard Cassata  
Managing Director

Signature attested to by:   
Counsel



## CERTIFICATE OF ASSURED GUARANTY CORP.

In connection with the issuance of \$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Obligations") by City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas) (the "Issuer"), Assured Guaranty Corp. ("AGC") is issuing financial guaranty insurance policy no. D-2010-30 (the "Policy") guaranteeing, when due, the scheduled payment of principal of and interest on the Obligations, all as set forth in the Policy.

On behalf of AGC, the undersigned hereby certifies that:

- (i) the Policy is an unconditional and recourse obligation of AGC (enforceable on behalf of the holders of the Obligations) to pay the scheduled payments of interest and principal on the Obligations in the event of a Nonpayment (as defined in the Policy);
- (ii) the insurance premium of \$21,033.31 was determined in an arm's length negotiation in accordance with our standard procedure, and is required to be paid as a condition of the issuance of the Policy;
- (iii) no portion of such premium represents a payment for any direct or indirect services other than the transfer of credit risk;
- (iv) AGC is not a co-obligor on the Obligations and does not reasonably expect that it will be called upon to make any payment under the Policy;
- (v) the Issuer is not entitled to a refund of premium for the Policy in the event that the Obligations are retired prior to their stated maturity;
- (vi) there has not come to the attention of the undersigned any information which would cause the undersigned to believe that the description of AGC under the caption "BOND INSURANCE" in the official statement relating to the above referenced Obligations dated January 14, 2010 (the "Official Statement"), as of the date of the Official Statement or as of the date of this certificate, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;
- (vii) AGC is not currently in default nor has AGC ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation; and
- (viii) except for the insurance premium referred to in paragraph (ii) above, neither AGC nor any party related to AGC within the meaning of Section 1.150-1(b) of the Treasury Regulations will use any portion of the proceeds of the Obligations.

IN WITNESS WHEREOF, AGC has caused this certificate to be executed in its name on this 10th day of February, 2010, by one of its duly authorized officers.

ASSURED GUARANTY CORP.

By: \_\_\_\_\_

Richard Cassata  
Managing Director



February 10, 2010

To the Addressees listed on Annex A hereto

Re: Financial Guaranty Insurance Policy No. D-2010-30 (the "Policy") relating to \$2,000,000 City of Kennedale, Texas (A political subdivision of the State of Texas located in Tarrant County, Texas) Combination Tax and Revenue Certificates of Obligation, Series 2010

Ladies and Gentlemen:

This opinion letter has been requested of the undersigned, in the capacity of the undersigned as a Associate General Counsel of Assured Guaranty Corp., a Maryland corporation ("AGC"), in connection with the issuance by AGC of its Policy, effective as of the date hereof.

In connection with this opinion letter, I have examined an execution copy of the Policy and such documents, certificates, agreements and instruments and proceedings as I have considered necessary or appropriate under the circumstances to render the following opinion letter. As to all questions of fact material to this opinion letter, which have not been independently established by me, I have relied upon certificates or comparable documents of public officials or of officers and representatives of AGC. In addition, I have assumed the genuineness of all signatures other than those of representatives of AGC, the authenticity of all documents submitted to me as originals, the conformity to the original document of certified or photostatic copies thereof and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the limitations and qualifications hereinafter set forth, I am of the opinion that:

1. AGC is a corporation duly incorporated and validly existing under the laws of the State of Maryland and has all requisite corporate power and authority to issue and to perform its obligations under the Policy in accordance with the terms thereof.
2. The execution and delivery by AGC of the Policy, and the performance by AGC of its obligations thereunder, have been duly authorized by all necessary corporate action on the part of AGC.
3. The Policy has been validly executed and delivered by AGC, and constitutes the legal, valid and binding obligation of AGC, enforceable against AGC in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, liquidation, rehabilitation, moratorium, arrangement, fraudulent conveyance or similar laws or enactments now or hereafter enacted affecting the enforcement of creditors' rights generally, as well as to equitable principles of general application limiting the availability of equitable remedies and the discretion of the court before which any proceeding therefor may be brought (regardless, in each case, of whether enforcement is sought in a proceeding in equity or at law).

I am licensed to practice law in the State of New York, and do not purport to be an expert as to, or to express any opinion concerning the laws of any other jurisdiction other than the laws of the State of New York and the federal laws of the United States of America to the extent specifically referred to herein. To the extent that the opinions set forth herein purport to deal with matters of Maryland law, the statements made herein are based solely upon my review of the corporate documents of AGC, my reading of the Maryland General Corporation Law and, in respect of the opinion set forth in paragraph (1) above, my reading of the Maryland Insurance Code.

**Assured Guaranty Corp.**

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The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly set forth herein. The opinions expressed herein are based solely on factual matters in existence as of the date hereof and laws and regulations in effect on the date hereof. I assume no obligation to revise or supplement this opinion letter should such factual matters change or should such laws or regulations be changed by legislative or regulatory action, judicial decision or otherwise, and I hereby express no opinion as to the effect any such changes may have on the foregoing opinions.

This opinion letter is being delivered to you solely for your benefit in connection with the issuance of the Policy, and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose by any other person, in each case without my express prior written consent.

Very truly yours,

A handwritten signature in black ink, appearing to be 'M. J. H.', written in a cursive style.

City of Kennedale, as Issuer  
SAMCO Capital Markets, Inc., as Underwriter  
Wells Fargo Bank, N.A., as Paying Agent

## 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 2010 (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 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 SAMCO Capital Markets, Inc. (the "Underwriter") in Subsection 5.1 and by Southwest Securities, Inc. (the "Financial Advisor") in Subsection 5.2 of this Certificate.

### 2. The Purpose of the Certificates 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 pay all or a portion of the Issuer's contractual obligations for the purpose of (i) constructing improvements and extensions to the Issuer's waterworks, sewer and storm systems; (ii) constructing, improving and repairing Issuer streets, parking lots and sidewalks, together with drainage improvements, utility line construction, relocation and replacement, utilities improvements, traffic and street signalization, landscaping and lighting improvements; (iii) relocating and restoring historic section house and (iv) providing for street, sidewalk, landscaping, intersection and lighting improvements (the "Projects").

2.2. The Issuer expects that the aggregate useful lives of the Projects exceed 25 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. In no event will the proceeds of the Certificates or facilities financed therewith be used for private business use in an amount greater than \$15 million. 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 Subsection 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, other than as described herein, solely to pay the principal of and interest on the Bonds (the "Bona Fide Debt Service Portion"). The Bona Fide Debt Service Portion constitutes a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Such portion will be completely depleted at least once each year except for an amount not in excess of the greater of (a) one-twelfth of the debt service on the Bonds for the previous year, or (b) the previous year's earnings on such portion of the Interest and Sinking Fund. Amounts deposited in the Interest and Sinking Fund constituting the Bona Fide Debt Service Portion will be spent within a thirteen-month period beginning on the date of deposit, and any amount

received from the investment of money held in the Interest and Sinking Fund will be spent within a one-year period beginning on the date of receipt.

4.2. Any money deposited in the Interest and Sinking Fund and any amounts received from the investment thereof that accumulate and remain on hand therein 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 shall constitute a separate portion of the Interest and Sinking Fund. The yield on any investments allocable to the portion of the Interest and Sinking Fund exceeding the sum of (a) the Bona Fide Debt Service Portion and (b) an amount equal to the lesser of five percent of the sale and investment proceeds of the Bonds or \$100,000 will be restricted to a yield that does not exceed the yield on the Bonds.

5. Yield.

5.1. All of the Certificates were offered to members of the public in a bona fide initial offering. For purposes of this certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Underwriter or members of the Underwriter and selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group). Each maturity of the Certificates was offered to the public at a price which, on the date of such offering, was reasonably expected by the Underwriter to be equal to the fair market value of such maturity. The first price at which a substantial amount (i.e., at least 10 percent) of the principal amount of each maturity of the Certificates was sold to the public is set forth in the Official Statement. The Official Statement is included in the transcript for the Certificates and is incorporated herein by reference.

5.2. The premium paid for any bond insurance is solely for the transfer of credit risk for the payment of debt service on the Certificates. The Financial Advisor has represented, based on its experience, and the market conditions and other facts existing on the date of sale of the Bonds, that the present value of the premium paid for bond insurance for each obligation constituting the Certificates to which such premium is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The premium has been paid to a person which is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate.

5.3. Other than the qualified guarantee referred to in Subsection 5.2 above, the Issuer has not entered into any qualified guarantee or qualified hedge with respect to the Certificates. The yield on the Certificates will not be affected by subsequent unexpected events, except to the extent provided in section 1.148-4(h)(3) of the Treasury Regulations when and if the Issuer enters into a qualified hedge or into any transaction transferring, waiving or modifying any right that is part of the terms of any Certificate. The Issuer will consult with nationally recognized bond counsel prior to entering into any of the foregoing transactions.

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 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.

DATED as of February 10, 2010.

CITY OF KENNEDALE, TEXAS

By: Bryan Lankhorst  
Mayor

City of Kennedale, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2010

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Subsection 5.1 of this Federal Tax Certificate are, as of February 10, 2010, accurate and complete.

SAMCO CAPITAL MARKETS, INC.

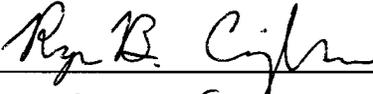
By:  \_\_\_\_\_

Name: Chris Whitlock

Title: Managing Director

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Subsection 5.2 of this Federal Tax Certificate are, as of February 10, 2010, accurate and complete.

SOUTHWEST SECURITIES, INC.

By:   
Name: Ryan B. Cunningham  
Title: Vice President

City of Kennedale, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2010

## Exhibit "A"

LAW OFFICES

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January 1, 2006

### **ARBITRAGE REBATE REGULATIONS**<sup>©</sup>

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.

#### **Effective Dates**

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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.

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)	<u>(1,229)</u>
Rebate amount (01/01/1999)		<u><u>\$878,664"</u></u>

### **General Method for Computing Yield on Bonds**

In general, the term "yield," with respect to a bond, means the discount rate that when used in computing the present value of all unconditionally due payments of principal and interest and all of the payments for a qualified guarantee produces an amount equal to the 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 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

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<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.

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 Stefano Taverna at (214) 754-9200.

Exhibit "B"

LAW OFFICES  
**McCALL, 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

January 14, 2010

Mr. Bob Hart  
City Manager  
City of Kennedale, Texas  
405 Municipal Drive  
Kennedale, Texas 76060

Re: City of Kennedale, Texas  
Combination Tax and Revenue Certificates of Obligation, Series 2010

Dear Mr. Hart:

As you know, the City of Kennedale, Texas (the "Issuer") will issue the captioned bonds 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 and the reserve fund for the captioned bonds. 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 bonds. 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 bonds. Please note that the Form 8038-G has been prepared based on the information provided by or on your behalf by either your financial advisor or the underwriter. Accordingly, while we believe that the information is correct you may wish to have the yield confirmed before your rebate consultant or the paying agent attempt to rely on it.

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 and the reserve fund must be invested in obligations the combined yield on which does not exceed the yield on the bonds. Importantly, for purposes of administrative convenience, the bonds, 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 new money 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

Exhibit "C"

CERTIFICATE OF ELECTION PURSUANT TO SECTION 148(f)(4)(C)  
OF THE INTERNAL REVENUE CODE OF 1986

I, the undersigned, being the duly authorized representative of the City of Kennedale, Texas (the "Issuer") hereby state that the Issuer elects the provisions of section 148(f)(4)(C) of the Internal Revenue Code of 1986 (the "Code"), relating to the exception to arbitrage rebate for temporary investments, as more specifically designated below, with respect to the Issuer's Combination Tax and Revenue Certificates of Obligation, Series 2010 (the "Certificates") which are being issued on the date of delivery of the Certificates in a face amount equal to \$2,000,000. The CUSIP Number for the Certificates is stated on the Form 8038-G filed in connection with the Certificates. The Issuer intends to take action to comply with the two-year temporary investments exception to rebate afforded construction certificates under section 148(f)(4)(C) of the Code. Capitalized terms have the same meaning as defined in the Federal Tax Certificate.

1. PENALTY ELECTION. In the event that the Issuer should fail to expend the "available construction proceeds" of the Certificates in accordance with the provisions of section 148(f)(4)(C) of the Code, the Issuer elects, in lieu of rebate, the penalty provisions of section 148(f)(4)(C)(vii)(I) of the Code.

2. RESERVE FUND ELECTION. The Issuer elects to exclude from "available construction proceeds," within the meaning of section 148(f)(4)(C)(vi) of the Code, of the Certificates, earnings on the Reserve Fund in accordance with section 148(f)(4)(C)(vi)(IV) of the Code.

3. MULTIPURPOSE ELECTION. The Issuer elects to treat that portion of the Certificates the proceeds of which are to be used for the payment of expenditures for construction, reconstruction or rehabilitation of the Projects, as defined in the instrument authorizing the issuance of the Certificates, in an amount which is currently expected to be equal to \$ \_\_\_\_\_ as a separate issue in accordance with the provisions of section 148(f)(4)(C)(v)(II) of the Code. *(Note: This election is not necessary unless less than 75 percent of the proceeds of the Certificates will be used for construction, reconstruction or renovation.)*

4. ACTUAL FACTS. For purposes of determining compliance with section 148(f)(c) of the Code (other than qualification of the Certificates as a qualified construction issue), the Issuer elects to use actual facts rather than reasonable expectations.

5. NO ELECTION.

The Issuer understands that the elections which are adopted as evidenced by the check in the box adjacent to the applicable provision are irrevocable. Further, the Issuer understands that qualification of the Certificates for eligibility for the exclusion from the rebate requirement set forth in section 148(f) of the Code is based on subsequent events and is unaffected by the Issuer's expectations of such events as of the date of delivery of the Certificates. Accordingly, while failure to execute this certificate and to designate the intended election does not preclude qualification, it would preclude the Issuer from the relief afforded by such election.

DATED: FEB 10 2010



Mayor  
City of Kennedale, Texas  
405 Municipal Drive  
Kennedale, Texas 76060  
Employer I.D. Number: 75-6003070

LAW OFFICES

McCALL, 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

February 11, 2010

CERTIFIED MAIL RRR: 7008 3230 0002 3160 9998

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 2010

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 10, 2010.

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 01</b>
7 Name of issue <b>COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010</b>	6 Date of issue <b>2-10-2010</b>
9 Name and title of officer or legal representative whom the IRS may call for more information <b>BOB HART, CITY MANAGER</b>	8 CUSIP number <b>489332 GU4</b>
	10 Telephone number of officer or legal representative <b>( 817 ) 985-2100</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 type="checkbox"/> Utilities	17
18 <input checked="" type="checkbox"/> Other. Describe ► <b>VARIOUS MUNICIPAL PROJECTS (see attached)</b>	18 <b>2,085,419</b>
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	5-01-2030	\$ 2,085,419	\$ 2,000,000	12.082 years	3.8641 %

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

22 Proceeds used for accrued interest	22	8,625
23 Issue price of entire issue (enter amount from line 21, column (b))	23	2,085,419
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	66,376
25 Proceeds used for credit enhancement	25	21,033
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	87,409
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	1,998,010

**Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)** N/A

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-

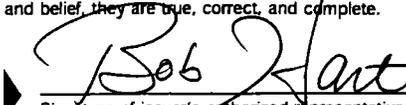
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box  and enter the name of the issuer  and the date of the issue  N/A

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**  **Bob Hart**  
 Signature of issuer's authorized representative Date Type or print name and title

Attachment to Form 8038-G

**City of Kennedale, Texas**  
**Combination Tax and Revenue Certificates of Obligation**  
**Series 2010**

Part II: Type of Issue  
Item 18: Other

Name of Organization: Kennedale Economic Development Corporation  
EIN: 01-1907393

**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 2010*” in the aggregate principal amount of \$2,000,000 (the “Certificates”), dated as of January 1, 2010, and authorized by an ordinance passed by the City Council of the City on January 14, 2010.

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 2009, 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 \$541,265,513.

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	Brian Johnson, Councilmember, Place 3
John Clark, Councilmember, Place 1	Kelly Turner, Councilmember, Place 4
David Green, Councilmember, Place 2	Jerry Miller, Councilmember, Place 5

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

City Manager	Bob Hart
City Secretary	Kathy Turner
Director of Finance	Sakura Moten-Dedrick

13. Sufficient funds have been budgeted and appropriated to pay the interest on the Certificates coming due on May 1, 2010 and the City shall transfer on or before such interest payment date available funds to the Interest and Sinking Fund in an amount sufficient to pay the interest coming due on such date.

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

SIGNED AND SEALED this 14<sup>th</sup> day of January, 2010.

*Bryan Lankhorst*

---

Mayor  
City of Kennedale Texas

*Nancy Seever*

---

City Secretary  
City of Kennedale Texas



## **EXHIBIT A**

### **THE PROPOSED CERTIFICATES:**

Combination Tax and Revenue Certificates of Obligation, Series 2010, dated January 1, 2010, to be outstanding in the aggregate principal amount of \$2,000,000, bearing interest and maturing as set forth in the Ordinance authorizing such Certificates of Obligation.

### **ALL PRESENTLY OUTSTANDING TAX INDEBTEDNESS:**

Combination Tax and Revenue Certificates of Obligation, Series 2005, dated February 1, 2005, presently outstanding in the principal amount of \$760,000.

Tax Notes, Series 2006, dated September 15, 2006, presently outstanding in the principal amount of \$225,000.

Combination Tax and Revenue Certificates of Obligation, Series 2007, dated February 1, 2007, presently outstanding in the principal amount of \$2,805,000.

General Obligation Refunding Bonds, Series 2007, dated February 1, 2007, presently outstanding in the principal amount of \$4,165,000.

Combination Tax and Revenue Certificates of Obligation, Series 2007A, dated October 1, 2007, presently outstanding in the principal amount of \$2,510,000.

Combination Tax and Revenue Certificates of Obligation, Series 2008, dated August 15, 2008, presently outstanding in the principal amount of \$4,500,000.

## EXHIBIT B

### COMBINED DEBT SERVICE SCHEDULE

#### ESTIMATED GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Current Total Outstanding Debt <sup>(1)</sup>	The Certificates			Combined Debt Service	Less: Self-Supporting Debt	Total Net Debt Service
		Principal	Interest	Principal & Interest			
2010	\$1,203,148		\$26,540	\$26,540	\$1,229,687	\$495,904	\$733,783
2011	1,167,889	\$75,000	79,619	154,619	1,322,507	624,609	697,898
2012	1,206,496	75,000	78,119	153,119	1,359,615	624,440	735,175
2013	1,198,276	75,000	76,619	151,619	1,349,895	615,855	734,040
2014	1,169,660	80,000	75,119	155,119	1,324,779	621,902	702,876
2015	1,185,205	80,000	73,519	153,519	1,338,724	615,506	723,217
2016	1,208,724	80,000	71,919	151,919	1,360,643	617,466	743,177
2017	1,244,528	85,000	69,819	154,819	1,399,347	628,165	771,182
2018	1,238,165	85,000	67,588	152,588	1,390,753	621,211	769,542
2019	1,240,922	90,000	64,825	154,825	1,395,747	625,318	770,429
2020	1,242,622	90,000	61,900	151,900	1,394,522	621,930	772,592
2021	1,237,487	95,000	58,300	153,300	1,390,787	624,082	766,704
2022	1,083,521	100,000	54,500	154,500	1,238,021	563,434	674,588
2023	1,085,719	105,000	49,500	154,500	1,240,219	563,363	676,856
2024	1,086,034	110,000	44,250	154,250	1,240,284	565,424	674,859
2025	638,578	115,000	38,750	153,750	792,328	476,090	316,238
2026	643,540	120,000	33,000	153,000	796,540	477,958	318,583
2027	573,601	125,000	27,000	152,000	725,601	478,861	246,740
2028	363,254	130,000	20,750	150,750	514,004	263,308	250,696
2029		140,000	14,250	154,250	154,250	154,250	0
2030		<u>145,000</u>	<u>7,250</u>	<u>152,250</u>	<u>152,250</u>	<u>152,250</u>	<u>0</u>
Total	<u>\$20,017,365</u>	<u>\$2,000,000</u>	<u>\$1,093,133</u>	<u>\$3,093,133</u>	<u>\$23,110,498</u>	<u>\$11,031,325</u>	<u>\$12,079,174</u>

<sup>(1)</sup> Includes self-supporting debt.

**EXHIBIT C**

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

	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Revenues	\$2,720,996	\$2,774,862	\$3,302,498	\$2,533,131	\$2,126,907
Expenses	<u>\$1,935,911</u>	<u>\$1,803,788</u>	<u>\$2,167,583</u>	<u>\$1,759,069</u>	<u>\$1,747,971</u>
	\$ 785,085	\$ 971,074	\$1,134,915	\$ 774,062	\$ 378,936

**EXHIBIT D**

**WATER AND SEWER RATES**

**WATER RATES***[Based on Monthly Billing]*

(Effective October 8, 2009)

**Inside the City Limits**

Meter Size	Residential/Commercial Base Rate	Senior/Disabled Base Rate	Multiple Residential Units on Single Meter Base Rate
.75"	\$11.69	\$6.43	\$11.69/ Per Unit
1.0"	19.52	10.73	\$11.69/ Per Unit
1.5"	38.92	21.40	\$11.69/ Per Unit
2.0"	62.29	34.26	\$11.69/ Per Unit
3.0"	136.40	75.02	\$11.69/ Per Unit
4.0"	245.45	135.00	\$11.69/ Per Unit

Volume	Residential/Commercial Rate	Senior/Disabled
First 5,000 Gallons*	\$2.35 Per 1,000 Gallons	\$1.29 Per 1,000 Gallons
Over 5,000 Gallons	\$4.44 Per 1,000 Gallons	\$4.44 Per 1,000 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.

**Outside the City Limits**

Meter Size	Residential/Commercial Base Rate	Multiple Residential Units on Single Meter Base Rate
.75"	\$23.39	\$23.39/Per Unit
1.0"	39.04	\$23.39/Per Unit
1.5"	77.83	\$23.39/Per Unit
2.0"	124.58	\$23.39/Per Unit
3.0"	272.79	\$23.39/Per Unit
4.0"	490.91	\$23.39/Per Unit

For gas well drilling, the base rate charge shall be double the Residential/Commercial Base Rate for service outside the City Limits for the appropriate meter size.

Volume	Residential/Commercial Rate	Gas Well Drilling Rate
First 5,000 Gallons*	\$2.35 Per 1,000 Gallons	\$7.24 Per 1,000 Gallons
Over 5,000 Gallons	\$4.44 Per 1,000 Gallons	\$7.24 Per 1,000 Gallons

**SEWER RATES****TABLE 14***[Based on Monthly Billing]*

(Effective October 8, 2009)

**Inside the City Limits**

	Residential Rate	Commercial Rate	Senior/Disabled Rate
Minimum	\$16.28	\$27.13	\$8.95
Volume Per 1,000 Gallons	3.87	4.24	2.13

**Outside the City Limits**

Double the charge for service within the City for the appropriate category user.

## **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 2010*", dated January 1, 2010, in the aggregate principal amount of **\$2,000,000**, authorized by an ordinance passed by the City Council of the City on January 14, 2010 (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.

EXECUTED and delivered this FEB 10 2010.

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.

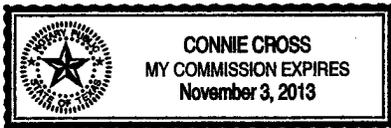
Given under my hand and seal of office this JAN 14 2010.

Connie Cross  
Notary Public

Typed Name Connie Cross

(My Commission Expires 3 November 2013)

(Notary Seal)



**RULE 15c2-12 CERTIFICATE**

The undersigned authorized representative of the City of Kennedale, Texas (the *City*) certifies as follows that:

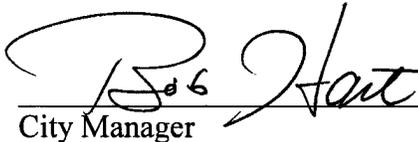
1. The City Council of the City has authorized the undersigned to execute a certificate pertaining to the distribution of a preliminary official statement pertaining to the issuance and sale of the City's obligations designated as "City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010", dated January 1, 2010, in the aggregate principal amount of approximately \$1,850,000 (the *Certificates*).

2. The preliminary official statement, dated January 7, 2010, has been reviewed by the undersigned and is deemed final as of its date (subject to the permissible omissions described in Rule 15c2-12) within the meaning of the provisions of 17 C.F.R. §240.15c2-12(b)(1).

3. Based upon this review, SAMCO Capital Markets, Inc. is authorized to distribute the preliminary official statement in its offering and sale of the Certificates.

4. The undersigned has executed this certificate in the capacity hereinafter shown for and on behalf of the City.

EXECUTED AND DELIVERED, this JAN 14 2010

  
\_\_\_\_\_  
City Manager

**CERTIFICATE OF MAYOR AND CITY MANAGER**

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

The undersigned, Mayor and City Manager of the City of Kennedale, Texas (the *City*), in conformity with the requirements of the Purchase Contract dated January 14, 2010 (the *Purchase Contract*) between the City and SAMCO Capital Markets, Inc. (the *Underwriter*), HEREBY CERTIFY, in relation to the issuance and delivery of obligations designated as “City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010”, in the aggregate principal amount of \$2,000,000 (the *Certificates*), and the Official Statement dated January 14, 2010 (the *Official Statement*) used by the Underwriter in connection with the offering and sale of the Certificates, as follows:

1. except to the extent disclosed in the Official Statement, no suit, action, investigation, or legal or administrative proceeding is pending or, to the knowledge of the undersigned, threatened, before any court or governmental agency (A) to restrain, enjoin, prohibit, or obtain damages or other relief in connection with the issuance or delivery of the Certificates, the consummation of the transactions described herein, or the levy, collection, or application of the taxes pledged to pay the principal of and interest on the Certificates, or the pledge thereof, or the lien on and pledge of the Surplus Revenues (as defined in the Certificate Ordinance) to pay the principal of and interest on the Certificates, or the pledge thereof, or that would otherwise adversely affect in a material manner the City’s financial condition, its ability to pay the principal of and interest on the Certificates, or its ability to consummate the transactions described in the Purchase Contract; (B) contesting or questioning the corporate existence or boundaries of the City or the right to hold office of any member of the governing body of the City or any other elected or appointed official of the City or (C) in any way contesting or affecting the validity of the Certificates, the Certificate Ordinance or this Purchase Contract, the powers of the City to issue the Certificates, the authorization of the Certificates or the Certificate Ordinance, or the accuracy, completeness, or fairness of the Preliminary Official Statement (to the extent not modified by the Official Statement) or the Official Statement;

2. to the best of the knowledge of the undersigned, no event affecting the City has occurred since the date of the Official Statement which should be disclosed therein for the purpose for which it is to be used or which it is necessary to be disclosed therein in order to make the statements and information therein not misleading in any respect;

3. the representations and warranties of the City contained in the Purchase Contract, or in any certificate or document delivered by the City

pursuant to the provisions thereof, are true and correct on and as of the date of the Closing as though such representations and warranties were made on and as the date of the Closing;

4. all agreements or conditions to be performed or complied with by the City under the Purchase Contract to effect delivery of the Certificates on or prior to the date of Closing have been performed or complied with; and

5. there has not been any materially adverse change or any development involving a prospective change in the financial condition or any development involving a prospective change in the condition financial or otherwise of the City since September 30, 2008, the latest date as of which audited financial information is available.

Capitalized terms used in this certificate and not defined herein shall have the meanings assigned to them in the Purchase Contract.

TO CERTIFY WHICH, witness our hands and the seal of the City this  
FEB 10 2010.

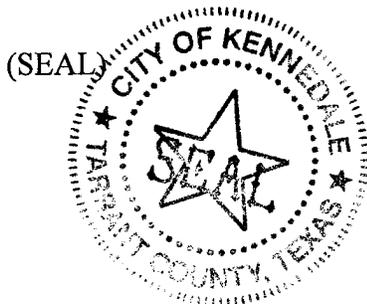
CITY OF KENNEDALE, TEXAS

*Bryan Lankhorst*

Mayor

*Bob Hart*

City Manager



January 14, 2010

The Attorney General of Texas  
Public Finance Division  
300 W. 15 Street, 12<sup>th</sup> Floor  
Austin, Texas 78701

**RE: \$2,000,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2010**

Ladies and Gentlemen:

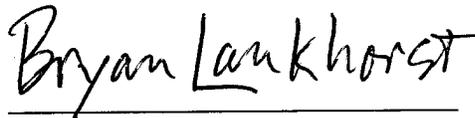
It is requested that you examine the above issues of obligations and the proceedings authorizing their issuance.

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

Handwritten signature of Bryan Lankhorst in black ink, written in a cursive style. The signature is positioned above a horizontal line.

Mayor

cc: Comptroller of Public Accounts

January 14, 2010

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: \$2,000,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2010**

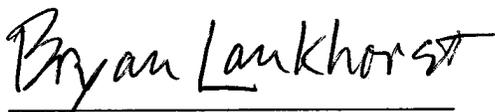
Ladies and Gentlemen:

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

A handwritten signature in black ink that reads "Bryan Lankhorst". The signature is written in a cursive style with a horizontal line underneath the name.

Mayor

cc: Attorney General of Texas



**CLOSING MEMORANDUM**

**\$2,000,000**  
**City of Kennedale, Texas**  
**Combination Tax and Revenue Certificates of Obligation, Series 2010**

Date: February 3, 2010  
To: Attached Distribution List  
From: Mark M. McLiney, Southwest Securities, (210) 226-8677

1. The closing time and date for the above-referenced issue (the "Certificates") is Wednesday, February 10, 2010 at 10:00 A.M., Central Time. A final debt service schedule is attached as Exhibit "A".
2. **SAMCO Capital Markets, Inc.** (the "Underwriter") shall wire \$2,077,413.40 to **Wells Fargo Bank, N.A., Austin, Texas** (the "Paying Agent/Registrar"), ABA #121000248, Account Number #0001038377, CTS Clearing, FFC: 99990909, Re: City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010, Attn: Mr. Jose A. Gaytan, (512) 344-7306, calculated as follows:

Par Amount of the Certificates	\$ 2,000,000.00
Plus: Net Original Issue Premium	85,418.65
Plus: Accrued Interest (1/1/10-2/10/10)	8,625.36
Less: Underwriter's Discount	<u>(16,630.61)</u>
<b>TOTAL AMOUNT TO BE WIRED</b>	<b><u>\$2,077,413.40</u></b>

3. The **Paying Agent/Registrar** shall retain \$400.00 for the first year's fees and expenses on the Certificates.
4. The **Paying Agent/Registrar** shall wire \$21,033.31, representing the Assured Guaranty Corp.'s bond insurance premium, to JPMorgan Chase New York, ABA# 021-000-021, Account # 323-355919, Account Name: Assured Guaranty Corp., Reference Name: Kennedale, TX, COO 2010 Policy # D-201030, Attn: Ms. Audrey Udit, (212) 339-3548.
5. The **Paying Agent/Registrar** shall wire \$1,998,009.73 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: 449-2208000002, Account Name: \$2.00M 2010 CO Bond, Participant Name: City of Kennedale, Texas, Attn: Dianne Parker, (866) 839-7665.

6. The **Paying Agent/Registrar** shall wire \$8,625.36 (representing the accrued interest) to the **City** for deposit at the **Depository Bank**, ABA #011000028, BNF: Attn: TexPool # 67573774, RFB: Location ID# 78238, OBI: 449-2208000002, Account Name: \$2.00M 2010 CO Bond, Participant Name: City of Kennedale, Texas, Attn: Dianne Parker, (866) 839-7665.
7. The **Paying Agent/Registrar** shall wire \$49,345.00 from the proceeds of the Certificates 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 2010 (#94-9030-119175), Attention: Ms. Donna Bush, (214) 859-6353.
8. Upon receipt of funds from the **Underwriter**, the good faith check in the amount of \$18,500.00 shall be returned uncashed to:

Steve Sledge  
SAMCO Capital Markets, Inc.  
1700 Pacific Avenue, Suite 2000  
Dallas, Texas 75201  
(214) 765-1442

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

Receipts

Par Amount of the Certificates	\$2,000,000.00
Plus: Net Original Issue Premium	85,418.65
Plus: Accrued Interest (1/1/10-2/10/10)	8,625.36
Less: Underwriter's Discount	<u>(16,630.61)</u>
<b>Total Receipts</b>	<b><u>\$2,077,413.40</u></b>

Disbursements

City of Kennedale C.O. Construction Account	\$1,998,009.73
City of Kennedale C.O. I & S Account	8,625.36
Paying Agent/Registrar Fees	400.00
Assured Guaranty Corp.'s Bond Insurance Premium	21,033.31
Costs of Issuance	<u>49,345.00</u>
<b>Total Disbursements</b>	<b><u>\$2,077,413.40</u></b>

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

## DISTRIBUTION LIST

\$2,000,000

City of Kennedale, Texas

Combination Tax and Revenue Certificates of Obligation, Series 2010

### Issuer

Mr. Bob Hart, City Manager  
Ms. Sakura Dedrick, Finance Director  
City of Kennedale  
405 Municipal Drive  
Kennedale, Texas 76060

Phone: (817) 478-5418  
Facsimile: (817) 478-7169  
[bhart@cityofkennedale.com](mailto:bhart@cityofkennedale.com)  
[sdedrick@cityofkennedale.com](mailto:sdedrick@cityofkennedale.com)

### Underwriter

Mr. Steve Sledge  
SAMCO Capital Markets, Inc.  
1700 Pacific Avenue, Suite 2000  
Dallas, Texas 75201

Phone: (214) 765-1442  
Facsimile: (214) 765-1433  
[ssledge@samcocapital.com](mailto:ssledge@samcocapital.com)

### Underwriter's Counsel

Mr. W. Jeffrey Kuhn  
Mr. Clay Binford  
Fulbright & Jaworski L.L.P.  
300 Convent Street, Suite 2200  
San Antonio, Texas 78205

Telephone: (210) 270-7131  
Facsimile: (210) 270-7205  
[wkuhn@fulbright.com](mailto:wkuhn@fulbright.com)  
[cbinford@fulbright.com](mailto:cbinford@fulbright.com)

### Depository Bank

TexPool Participant Services  
c/o Federated Investors  
1001 Texas Avenue, Suite 1400  
Houston, Texas 77002

Phone: (866) 839-7665  
Facsimile: (866) 839-3291  
[dparker@federatedinv.com](mailto:dparker@federatedinv.com)

### Financial Advisor

Mr. Mark M. McLiney  
Ryan B. Cunningham  
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)  
[rcunningham@swst.com](mailto:rcunningham@swst.com)

### Bond Counsel

Mr. Noel Valdez  
Mr. Thomas K. Spurgeon  
McCall, Parkhurst & Horton, L.L.P.  
1525 One Riverwalk Place  
San Antonio, Texas 78205

Telephone: (210) 225-2800  
Facsimile: (210) 225-2984  
[nvaldez@mphlegal.com](mailto:nvaldez@mphlegal.com)  
[tspurgeon@mphlegal.com](mailto:tspurgeon@mphlegal.com)

### Paying Agent/Registrar

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

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

### Insurer

Ms. Audrey Udit  
Assured Guaranty Corp.  
31 West 52<sup>nd</sup> Street, 27<sup>th</sup> Floor  
New York, New York 10019

Phone: (212) 339-3548  
Facsimile: (212) 857-0560  
[AUdit@assuredguaranty.com](mailto:AUdit@assuredguaranty.com)



February 3, 2010

Mr. Bob Hart, City Manager  
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  
**\$2,000,000 City of Kennedale, Texas Combination Tax and Revenue  
Certificates of Obligation, Series 2010.**

\$49,345.00

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MMMc/rbc

BOND DEBT SERVICE

City of Kennedale, Texas  
 Certificates of Obligation, Series 2010  
 Exhibit 'A'

Dated Date 01/01/2010  
 Delivery Date 02/10/2010

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/01/2010			26,539.58	26,539.58	
09/30/2010					26,539.58
11/01/2010			39,809.38	39,809.38	
05/01/2011	75,000	2.000%	39,809.38	114,809.38	
09/30/2011					154,618.76
11/01/2011			39,059.38	39,059.38	
05/01/2012	75,000	2.000%	39,059.38	114,059.38	
09/30/2012					153,118.76
11/01/2012			38,309.38	38,309.38	
05/01/2013	75,000	2.000%	38,309.38	113,309.38	
09/30/2013					151,618.76
11/01/2013			37,559.38	37,559.38	
05/01/2014	80,000	2.000%	37,559.38	117,559.38	
09/30/2014					155,118.76
11/01/2014			36,759.38	36,759.38	
05/01/2015	80,000	2.000%	36,759.38	116,759.38	
09/30/2015					153,518.76
11/01/2015			35,959.38	35,959.38	
05/01/2016	80,000	2.625%	35,959.38	115,959.38	
09/30/2016					151,918.76
11/01/2016			34,909.38	34,909.38	
05/01/2017	85,000	2.625%	34,909.38	119,909.38	
09/30/2017					154,818.76
11/01/2017			33,793.75	33,793.75	
05/01/2018	85,000	3.250%	33,793.75	118,793.75	
09/30/2018					152,587.50
11/01/2018			32,412.50	32,412.50	
05/01/2019	90,000	3.250%	32,412.50	122,412.50	
09/30/2019					154,825.00
11/01/2019			30,950.00	30,950.00	
05/01/2020	90,000	4.000%	30,950.00	120,950.00	
09/30/2020					151,900.00
11/01/2020			29,150.00	29,150.00	
05/01/2021	95,000	4.000%	29,150.00	124,150.00	
09/30/2021					153,300.00
11/01/2021			27,250.00	27,250.00	
05/01/2022	100,000	5.000%	27,250.00	127,250.00	
09/30/2022					154,500.00
11/01/2022			24,750.00	24,750.00	
05/01/2023	105,000	5.000%	24,750.00	129,750.00	
09/30/2023					154,500.00
11/01/2023			22,125.00	22,125.00	
05/01/2024	110,000	5.000%	22,125.00	132,125.00	
09/30/2024					154,250.00
11/01/2024			19,375.00	19,375.00	
05/01/2025	115,000	5.000%	19,375.00	134,375.00	
09/30/2025					153,750.00
11/01/2025			16,500.00	16,500.00	
05/01/2026	120,000	5.000%	16,500.00	136,500.00	
09/30/2026					153,000.00
11/01/2026			13,500.00	13,500.00	
05/01/2027	125,000	5.000%	13,500.00	138,500.00	
09/30/2027					152,000.00
11/01/2027			10,375.00	10,375.00	
05/01/2028	130,000	5.000%	10,375.00	140,375.00	
09/30/2028					150,750.00
11/01/2028			7,125.00	7,125.00	
05/01/2029	140,000	5.000%	7,125.00	147,125.00	

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BOND DEBT SERVICE

City of Kennedale, Texas  
Certificates of Obligation, Series 2010  
Exhibit 'A'

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
09/30/2029					154,250.00
11/01/2029			3,625.00	3,625.00	
05/01/2030	145,000	5.000%	3,625.00	148,625.00	
09/30/2030					152,250.00
	2,000,000		1,093,133.40	3,093,133.40	3,093,133.40

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**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 2010** (the "**Certificates**"), dated January 1, 2010, in the aggregate principal amount of **\$2,000,000**, authorized by an ordinance passed by the City Council of the **CITY OF KENNEDALE, TEXAS** (the "**City**") on January 14, 2010.

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

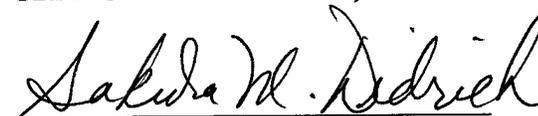
(c) The Certificates have been duly delivered to the initial purchaser thereof, namely

**SAMCO CAPITAL MARKETS, INC.**  
(as Representative of the Underwriters)

(d) The Certificates have been paid for in full by said purchaser 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 **\$2,068,788.04** (which amount is equal to par, plus a net original issue premium of **\$85,418.65**, and less Underwriter's discount of **\$16,630.61**) plus accrued interest from the dated date to the date of delivery of the Certificates.

EXECUTED and delivered this       FEB 10 2010      .

**CITY OF KENNEDALE, TEXAS**



Sakura Moten-Dedrick  
Director of Finance

**STANDARD  
& POOR'S**

55 Water Street, 38th Floor  
New York, NY 10041-0003  
tel 212 438-2074  
reference no.: 10998196

February 8, 2010

Assured Guaranty Corp.  
31 West 52nd Street  
New York, NY 10019  
Attention: Mr. William Hogan, Senior Managing Director

Re: *\$2,000,000 City of Kennedale, Texas (A political Subdivision of the State of Texas located in Tarrant County, Texas), Combination Tax and Revenue Certificates of Obligation, Series 2010, dated: January 1, 2010, due: May 1, 2011-2013, Term Bonds due: May 1, 2015, May 1, 2017, May 1, 2019, May 1, 2021, May 1, 2023, May 1, 2025, May 1, 2027, May 1, 2030, (POLICY #D-2010-30)*

Dear Mr. Hogan:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have changed the rating to "AAA" from "A+". The rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing. Therefore, rating adjustments may result from changes in the financial position of your company or from alterations in the documents governing the issue.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Mr. William Hogan

Page 2

February 8, 2010

Standard & Poor's is pleased to be of service to you. For more information please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services  
a Standard & Poor's Financial Services LLC business

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ATTORNEY GENERAL OF TEXAS  
GREG ABBOTT

February 8, 2010

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 2010 (the "Certificate") in the principal amount of \$2,000,000 for approval. The Certificate is dated January 1, 2010, numbered T-1, and was authorized by an Ordinance of the Issuer passed on January 14, 2010 (the "Ordinance").

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

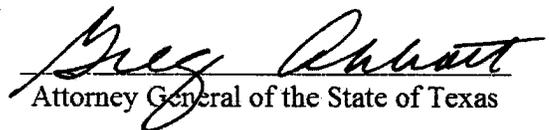
As to questions of fact material to my opinion, I have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigation.

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 ad valorem tax levied, within the limits prescribed by law, against all taxable property in the Issuer and is additionally secured by a lien on and pledge of Surplus Revenues received by the Issuer from the ownership and operation of the Issuer's waterworks and sanitary sewer system.

Therefore, the Certificate is approved.

  
Attorney General of the State of Texas

No. 50116  
Book No. 2010-A  
MA

OFFICE OF COMPTROLLER  
OF THE STATE OF TEXAS

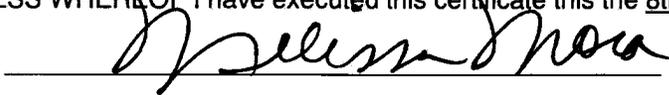
I, Melissa Mora,  Bond Clerk  Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 8th day of February 2010, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

City of Kennedale, Texas, Combination Tax and Revenue Certificate of Obligation, Series 2010,

numbered T-1, dated January 1, 2010, 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 2010.



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 76529.

GIVEN under my hand and seal of office at Austin, Texas, this the 8th day of February 2010.



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 2010

numbered T-1, of the denomination of \$ 2,000,000, dated January 1, 2010, as authorized by issuer, interest various percent, under and by authority of which said bonds/certificates were registered electronically in the office of the Comptroller, on the 8th day of February 2010, under Registration Number 76529.

Given under my hand and seal of office, at Austin, Texas, the 8th day of February 2010.



SUSAN COMBS  
Comptroller of Public Accounts  
of the State of Texas

# FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP  
300 CONVENT STREET, SUITE 2200  
SAN ANTONIO, TEXAS 78205-3792  
WWW.FULBRIGHT.COM

TELEPHONE: (210) 224-5575

FACSIMILE: (210) 270-7205

**FINAL**

February 10, 2010

SAMCO Capital Markets, Inc.  
1700 Pacific Avenue, Suite 2000  
Dallas, Texas 75201

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by you on this date of "City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010" issued in the aggregate original principal amount of \$2,000,000 (the "*Certificates*") pursuant to a Purchase Contract dated January 14, 2010 (the "*Purchase Contract*") between you and the City of Kennedale, Texas (the "*City*"). This opinion is being furnished to you pursuant to Section 8(h)(3) of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used in this opinion shall have the meanings ascribed to them in the Purchase Contract.

We have examined a printed copy of the Preliminary Official Statement and the Official Statement and executed copies of the Certificate Ordinance and the Paying Agent/Registrar Agreement, and we have examined and rely upon the certificates and opinions referred to in Section 8(h) of the Purchase Contract.

In our examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents, and the accuracy of the statements contained in such certificates.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are exempted securities within the meaning of the Securities Act of 1933, as amended, and it is not necessary in connection with the offer and sale of the Certificates to the public to register the Certificates under the Securities Act of 1933, as amended, or to qualify the Certificates, the Certificate Ordinance, or any other instrument or document under the Trust Indenture Act of 1939, as amended. We express no opinion as to any

requirements as to the registration of any other security or qualification of any other instrument under such Acts.

2. We have not verified the information contained in the Official Statement. However, as your counsel we have participated in discussions with respect to the Official Statement with representatives of the City, McCall, Parkhurst & Horton, L.L.P., bond counsel to the City, Southwest Securities, Inc., as financial advisors to the City, and you, and, as stated above, we have reviewed the Official Statement. In the course of such discussions and review, nothing has come to our attention which leads us to believe that the Official Statement [except with respect to the financial statements and other financial and statistical data included therein, information relating to the Depository Trust Company and its Book-Entry-Only System, information concerning the bond insurer and its municipal bond insurance policy, and in the Appendices thereto, including but not limited to the financial statements appearing in Appendix D thereto (as to which we have not been requested to express a view and as to which we express no view)] contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

In addition, based upon (i) our understanding of Rule 15c2-12 of the United States Securities and Exchange Commission (the "*Rule*") and interpretive guidance published by the Securities and Exchange Commission relating thereto; (ii) our review of the continuing disclosure undertaking of the City contained in the Certificate Ordinance; and (iii) the inclusion in the Official Statement of a description of the specifics of such undertaking, and in reliance on the opinion of Bond Counsel that the Certificate Ordinance has been duly adopted by the City and constitutes a valid and legally binding obligation of the City enforceable in accordance with its terms, we have no reason to believe that such undertaking does not meet the requirements of paragraph (b)(5)(i) of the Rule and, accordingly, we advise you that such undertaking provides a suitable basis for you, as the Underwriter and any other broker, dealer, or municipal securities dealer acting as a Participating Underwriter (as defined in the Rule) in connection with the offering of the Certificates, to make a reasonable determination that the City has met the qualifications of paragraph (b)(5)(i) of the Rule.

In addition to the limitations set forth in the preceding paragraphs, we have not been requested to review, nor have we reviewed, any records or contracts of the City or the basis for any representations made by representatives of the City, and the foregoing is subject to the material, statements, and other data contained in the records or contracts of the City and any such representations, to the extent they are reflected in the Official Statement, not containing any untrue statement of a material fact or omitting to state a material fact necessary to make the statements contained in the Official Statement, in light of the circumstances under which they were made, not misleading.

We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates.

February 10, 2010

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This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed herein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction; nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Very truly yours,

A handwritten signature in black ink, appearing to be "The Firm" or similar, written in a cursive style.

LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

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FACSIMILE: 512 472-0871

February 10, 2010

**CITY OF KENNEDALE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2010  
DATED AS OF JANUARY 1, 2010  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,000,000**

*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 dates specified in the text of the Certificates until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Certificates, and which are subject to 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 principal of the Certificates, 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, under the statutes, regulations, published rulings and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Certificates (i) is excludable from the gross income of the owners thereof, and (ii) is not includable in an owner's alternative minimum taxable income under section 55 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 EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

**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, if any, 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 role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

**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, if any, as includable in gross income for federal income tax purposes.

Respectfully,

*Michael Robert J. Adams, C.F.P.*

LAW OFFICES

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TELEPHONE: 512 478-3805  
FACSIMILE: 512 472-0871

February 10, 2010

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

SAMCO Capital Markets, Inc.  
8700 Crownhill Blvd., Suite 601  
San Antonio, Texas 78209

**RE: \$2,000,000 CITY OF KENNEDALE, TEXAS COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2010**

Ladies and Gentlemen:

We have served as bond counsel to the City of Kennedale, Texas (the "*City*") in connection with the issuance of an aggregate of \$2,000,000 original principal amount of "City of Kennedale, Texas Combination Tax and Revenue Certificates of Obligation, Series 2010" (the "*Obligations*") pursuant to the provisions of an ordinance duly adopted by the City Council of the City on January 14, 2010 (the "*Ordinance*"). Capitalized terms not otherwise defined in this opinion shall have the meanings assigned in the hereinafter defined Purchase Contract.

In our capacity as bond counsel to the City, we have reviewed the following:

- (a) a certified copy of the Ordinance;
- (b) an executed counterpart of the Purchase Contract dated January 14, 2010 (the "*Purchase Contract*") between the City and the Underwriter named in such Purchase Contract;
- (c) an executed counterpart of the Paying Agent/Registrar Agreement dated as of January 1, 2010 (the "*Agreement*") between the City and Wells Fargo Bank, N.A., Austin, Texas;
- (d) a copy of the Official Statement dated January 14, 2010;
- (e) such other agreements, documents, certificates, opinions, letters, and other papers as we have deemed necessary or appropriate in rendering the opinions set forth below;  
and

- (f) Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Act"), and such other provisions of the Constitution and laws of the State of Texas and the United States of America as we believe necessary to enable us to render the opinions herein contained.

In making our review, we have assumed the authenticity of all documents and agreements submitted to us as originals, conformity to the originals of all documents and agreements submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents and agreements, and the accuracy of the statements contained in such documents.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Ordinance has been duly adopted and is in full force and effect.
2. The Obligations are exempted securities that do not require registration under the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offering and sale of the Obligations, to register the Obligations under the 1933 Act or to qualify the Ordinance under the Trust Indenture Act.
3. The statements and information contained in the Official Statement under the captions "THE CERTIFICATES" (except under the subcaption "Payment Record", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" (except for the last sentence of the first paragraph thereof to which no opinion is expressed), "LEGAL MATTERS - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION - Registration and Qualification of Certificates for Sale" fairly and accurately summarize the matters purported to be summarized therein and are correct as to matter of law, and the descriptions of the Ordinance and the Obligations in the Official Statement present a fair description for the purposes intended.

Reference is hereby made to our approving Bond Counsel Opinion dated of even date herewith and delivered with respect to the Bonds. Please be advised that you are entitled to rely on said Bond Counsel Opinion as if the same had been addressed to you.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Respectfully,

*McCall, Robert J. Hester c.c.p.*