

ORDINANCE NO. 2010-66

**AN ORDINANCE CONSENTING TO A PROPOSED BOND RESOLUTION
AND CONTINUING DISCLOSURE AGREEMENT
TO BE ADOPTED BY THE
LA PORTE AREA WATER AUTHORITY**

WHEREAS, the Board of Directors of the La Porte Area Water Authority (the "Authority") has informed the City Council of the City of Shoreacres, Texas (the "City") that the Authority desires to issue and sell its Contract Revenue Refunding Bonds, Series 2010, in the aggregate principal amount not to exceed \$4,500,000 (the "Bonds") in order to refund and defease its Contract Revenue Refunding Bonds, Series 1998, for the purpose of achieving debt service savings; and,

WHEREAS, the City has entered into a Water Supply Contract, dated as of November 23, 1987, as amended July 24, 2000 (the "Contract") with the Authority which allows the City to purchase treated water from the Authority; and,

WHEREAS, the Authority has delivered to the City pursuant to Section 3.02 of the Contract the proposed bond resolution attached hereto as Exhibit A (the "Bond Resolution") and a schedule containing an estimate of the amounts described in such Section 3.02, attached hereto as Exhibit B;

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

Section 1. That the City Council of the City hereby consents, pursuant to Section 3.03 of the contract, to the adoption by the Authority of the Bond Resolution and the execution by the City of the Continuing Disclosure Agreement substantially in the form attached hereto as Exhibit C.

Section 2. That all filing, notice or time requirements or other conditions precedent to the adoption of this Ordinance and the approval of the Bond Resolution are hereby waived and the adoption of this Ordinance shall be all the action necessary for the City to consent and approve the issuance of the Bonds by the Authority.

Section 3. That if any section, sentence, phrase, clause or any part of any section, sentence, phrase or clause of this Ordinance shall for any reason be held invalid, such invalidity shall not affect the remaining portions of the Ordinance, and it is hereby declared to be the intention of the City Council to have passed each section, sentence, phrase or clause, or part thereof, irrespective of the fact that any other section, sentence, phrase or clause, or part thereof, may be declared invalid.

Section 4. That the City Council hereby officially finds, determines, recites and declares that sufficient written notice of the date, hour, place and subject matter of this meeting of the City Council was posted at a place convenient to the public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended, and that this meeting has been open to the public as required by law at all times during which this Ordinance and the subject matter thereof has

been discussed, considered and formally acted upon. The City Council further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 5. That this Ordinance shall take effect and be in full force immediately upon and after its adoption.

PASSED AND APPROVED THIS _____ day of _____, 2010.

CITY OF SHOREACRES, TEXAS

By: _____
Mayor

ATTEST:

By: _____
City Secretary

EXHIBIT A
BOND RESOLUTION

RESOLUTION AUTHORIZING ISSUANCE AND SALE OF

LA PORTE AREA WATER AUTHORITY
CONTRACT REVENUE REFUNDING BONDS,
SERIES 2010

Dated April 14, 2010

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Exhibit E — Financial Guaranty Agreement

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF LA PORTE
AREA WATER AUTHORITY CONTRACT REVENUE REFUNDING
BONDS, SERIES 2010; AND AUTHORIZING CERTAIN OTHER MATTERS
INCIDENTAL THERETO

WHEREAS, the La Porte Area Water Authority (herein referred to as the “*Authority*”) was organized pursuant to the provisions of Section 59 of Article XVI of the Constitution of the State of Texas and by special act Chapter 729, page 2,678 et seq. of the 67th Legislature of Texas, Regular Session, 1981 (the “*Act*”), and operates under the Act and Chapters 49 and 54 of the Texas Water Code, as amended; and

WHEREAS, the Act authorizes the Authority, with the approval of the City Council of the City of La Porte, Texas (the “*Authority*”), to issue its revenue bonds, which bonds may be secured by and payable from revenues received by the Authority pursuant to one or more contracts; and

WHEREAS, the Board of Directors (the “*Board*”) of the Authority has previously issued and there remain outstanding its Contract Revenue Refunding Bonds, Series 1999 (the “*Refunded Bonds*”); and

WHEREAS, the Authority is empowered by the Act and Chapter 1207, Texas Government Code, as amended, to issue its refunding bonds and to deposit the proceeds from the sale thereof, and any other available funds, directly with the paying agent for the Refunded Bonds for the discharge and final payment thereof; now, therefore,

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LA PORTE AREA WATER AUTHORITY THAT:

ARTICLE ONE

**DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION**

SECTION 1.1. Definitions.

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

A. The terms defined in this Section have the meanings assigned to them in this Section. If appropriate in the context of this Resolution, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

B. All references in this Resolution to designated “Articles,” “Sections,” “Exhibits,” and other subdivisions are to the designated Articles, Sections, Exhibits, and other subdivisions of this Resolution as originally passed and adopted.

C. The words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section, Exhibit, or other subdivision.

D. All accounting terms not otherwise defined herein have the meanings assigned to them, and all computations herein provided for shall be made, in accordance with generally accepted accounting principles applied on a consistent basis.

“Accountant” means an independent certified public accountant, or an independent firm of certified public accountants, in either case with demonstrative experience and competence in public accounting, appointed from time to time by the Board.

“Act” means Chapter 729, page 2,678 et seq. of the 67th of the Legislature of Texas, Regular Session, 1981.

“Additional Bonds” means the additional parity bonds which the Authority expressly reserves the right to issue in Section 7.2 of this Resolution which may be issued in the future. When used in the proper context, Additional Bonds may include refunding bonds.

“Amortization Installment” means, with respect to Parity Bonds, the amount of money which is required for mandatory redemption of such Parity Bonds (whether at maturity or by mandatory redemption calls and including redemption premium, if any), provided that the total amortization installments for such Parity Bonds shall be sufficient to provide for retirement of the aggregate principal amount of such Parity Bonds and redemption premium, if any.

“Authority” means the La Porte Area Water Authority and any other public entity succeeding to the powers, rights, privileges and functions of the Authority and, when appropriate, the Board of Directors of the Authority.

“Average Annual Principal and Interest Requirements” means that amount equal to the average annual principal and interest requirements (including Amortization Installments) of all Parity Bonds outstanding. With respect to Additional Bonds that bear interest at a rate which is not established at the time of issuance at a single numerical rate, Average Annual Principal and Interest Requirements shall be calculated assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the “Revenue Bonds Index” or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds.

“Board of Directors” or “Board” means the governing body of the Authority.

“Bond” or “Bonds” means any Bond or all Bonds, as the case may be, of the Authority’s Contract Revenue Refunding Bonds, Series 2010, dated as of May 1, 2010, authorized and issued pursuant to this Resolution.

“Bond Fund” means the Authority’s interest and sinking fund established by Section 4.3 of this Resolution.

“Bond Insurer” means [Assured Guaranty Corp.], or any successor thereto or assignee thereof.

“Bondholder” means the Holder of a Bond.

“Bond Register” has the meaning stated in Section 2.5 hereof.

“Capital Acquisition” means the acquisition of any existing waterworks system.

“Capital Additions” means a water reservoir or an interest therein, a water storage facility, a water treatment plant or an interest therein, regional oversized pipelines or an interest therein, and associated transmission facilities with respect to each, and any combination thereof, which shall become a part of the System.

“Capital Improvements” means any extensions, improvements, and additions to the System other than Capital Additions and Capital Acquisitions.

“City” means the Authority of La Porte, Texas.

“Defaulted Interest” means interest which is payable on, but is not punctually paid or duly provided for on or within 30 days after, any Interest Payment Date.

“Defeasance Obligations” means (i) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a Rating Agency 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 such an entity that have been refunded and that are rated as to investment quality by a Rating Agency not less than AAA or its equivalent.

“Definitive Bonds” means the Bonds issued in exchange for the Initial Bond.

“Distribution System” means those facilities used to transport treated surface water from the termination of the Transmission System to each Participant’s take point.

“Engineer of Record” means the independent engineer or firm at the time employed by the Board to perform and carry out the duties imposed on such engineer or firm by this Resolution and having a favorable reputation nationally for skill and experience in the engineering of waterworks systems of comparable size and character as those forming parts of the System.

“Gross Revenues” means all revenues and income of every nature derived or received by the Authority from the operation and ownership of the System, including all income, fees, and charges received by the Authority from the Participants pursuant to the Water Sales Contracts;

the interest income from the investment or deposit of money in any Fund created by this Resolution to the extent described in this Resolution; and revenues derived from the ownership or operation of other enterprises which the Authority may lawfully own or operation in the future.

“Holder” when used with respect to any Bond means the Person in whose name such Bond is registered in the Bond Register.

“Houston Contract” means that certain Amendment to Cost Sharing Agreement Southeast Water Purification Plant (Restated and Amended), by and between the Authority of Houston, Texas, the Participants and certain other entities named therein, as amended from time to time.

“Initial Bond” means the Bond initially delivered to the Purchaser.

“Interest Payment Date” means the Stated Maturity of an installment of interest on the Bonds.

“Maturity,” when used with respect to any Parity Bond, means the date on which the principal of such Parity Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or call for redemption.

“Net Revenues” means Gross Revenues less Operating Expenses.

“Operating Expenses” means the necessary and reasonable expenses of operation and maintenance of the System, including all costs incurred by the Authority in providing potable water to the Participants under the Water Sales Contracts; all operation and maintenance costs billed to the Authority by the Authority of Houston, Texas; all operating and maintenance costs incurred by the Authority related to the System; all administrative costs incurred by the Authority; the cost of all insurance maintained by the Authority; and all salaries, labor, materials, and payments under contracts for facilities shared with other entities; provided, however, that repairs and extensions, as in the judgment of the Board, reasonable and fairly exercised, that are necessary to keep the System in operation and render adequate service to the Authority and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Parity Bonds shall be considered Operating Expenses. Depreciation and payments into and out of the Bond Fund and the Reserve Fund shall never be considered as expenses of operation and maintenance.

“Outstanding,” when used with respect to Parity Bonds, means, as of the date of determination, all Parity Bonds theretofore authenticated and delivered under this Resolution or any resolution authorizing the issuance of Additional Bonds, *except*, without duplication:

(1) Parity Bonds theretofore cancelled or delivered to the Authority or any paying agent therefor for cancellation;

(2) Parity Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited with any paying agent therefor in trust for the registered owners of such Parity Bonds, *provided* that, if such Parity Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the resolution

authorizing such Parity Bond, irrevocably provided for to the satisfaction of the paying agent therefor, or waived;

(3) Parity Bonds in exchange for or in lieu of which other Parity Bonds have been authenticated and delivered under the resolution by which they are authorized;

(4) Parity Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 2.6 hereof or any comparable provision in the resolution by which they are authorized; and

(5) Parity Bonds the payment of the principal of (and premium, if any) and interest on which money or Defeasance Securities or both are held by the paying agent therefor with the effect specified in Section 8.1 hereof or any comparable provision in the resolution by which they are authorized;

provided that, when used with respect to the Parity Bonds secured by the pledge granted hereby, “Outstanding” Parity Bonds shall include all Parity Bonds, if any, alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in Section 2.6 hereof or any comparable provision in the resolution by which they are authorized but whose ownership and enforceability by the registered owner thereof have been established by a court of competent jurisdiction or other competent tribunal or otherwise established to the satisfaction of the Authority.

“Parity Bonds” means, collectively, the Bonds and any Additional Bonds.

“Parity Bonds Resolutions” means, collectively, this Resolution and any resolution authorizing Additional Bonds.

“Participants” means (a) the City, the City of Morgan’s Point, Texas, and the City of Shoreacres, Texas, all of which are located entirely within Harris County, Texas, and each of which has executed a Water Sales Contract with the Authority, and (b) any future customer that executes a Water Sales Contract with the Authority from and after the date of such contract.

“Paying Agent/Registrar” means The Bank of New York Mellon Trust Company, National Association.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Pledged Revenues” means the Net Revenues and any other revenues or assets specifically pledged by the Board, in its sole discretion, to the payment of the Parity Bonds.

“Purchaser” means the entity or entities awarded the sale of the Bonds and identified in Section 9.1 hereof.

“Refunded Bonds” means the Authority’s outstanding Contract Revenue Refunding Bonds, Series 1999, described on Schedule I hereto.

“Regular Record Date” for the interest payable on any Interest Payment Date means the first day (whether or not a business day) of the month in which each Interest Payment Date occurs.

“Reserve Fund” means the fund of the Authority so defined in Section 4.4 hereof.

“Reserve Requirement” means the least of (i) the Average Annual Principal and Interest Requirements on the outstanding Parity Bonds, (ii) 10% of the face amount of the Parity Bonds, and (iii) 100% of the maximum annual debt service for the Parity Bonds.

“Revenue Fund” means the fund or account created pursuant to Section 4.2 hereof and to be maintained pursuant to Section 4.2 hereof so long as the Parity Bonds are outstanding.

“Southeast Plant” means the project described in the Houston Contract generally, and specifically described in Exhibit B to the Houston Contract.

“Special Facilities Bonds” means special revenue obligations of the Authority which are not payable from or secured by any Net Revenues, but which are secured by and payable from liens on and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues, sources, or payments which shall not be considered as or constitute Gross Revenues, unless and to the extent otherwise provided in any resolution authorizing the issuance of such Special Facilities Bonds.

“Special Record Date” for the payment of Defaulted Interest means the date fixed by the Paying Agent/Registrar pursuant to Section 2.3 hereof.

“Stated Maturity,” when used with respect to any Bond or any installment of interest thereon, means the date specified in such Parity Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

“System” means (i) the Authority’s entire existing waterworks system, including its ownership interest in the Southeast Plant, the Transmission System and the Distribution System, together with all future Capital Acquisitions, Capital Additions and Capital Improvements, all replacements thereof, and the Authority’s interest in any shared facility and water supply source, and (ii) any other related facilities, all or any part of the revenues or income from which may, in the future, at the option of the Board, and in accordance with law, become Pledged Revenues; provided, however, that notwithstanding the foregoing , and to the extent now or hereafter authorized or permitted by law, the term System shall not mean any water or other facilities of any kind which are declared by the Board not to be a part of the System, and which are acquired or constructed by the Authority with proceeds from the issuance of Special Facilities Bonds.

“Transmission System” means those facilities, including pipelines, easements, pumping, and other devices to deliver treated surface water from the take point of the Southeast Plant to the points at which the water is delivered to the Distribution System, which includes necessary storage and pumping facilities to deliver water to each Participant.

“Water Sales Contracts” means the contracts between the Authority and each of the Participants, each dated as of November 23, 1987, amended from time to time.

“Year” or “fiscal year” means the regular fiscal year used by the Authority in connection with the operation of the System, which may be any 12 consecutive month period established by the Board, presently October 1 to September 30.

SECTION 1.2. Notices to Bondholders; Waiver.

Wherever this Resolution provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder at the address of such Bondholder as it appears in the Bond Register. Neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Bondholder shall affect the sufficiency of such notice with respect to all other Bondholders. Wherever this Resolution provides for notice to a Bondholder in any manner, such notice may be waived in writing by such Bondholder, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Bondholders shall be filed with the Authority, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 1.3. Effect of Headings and Table of Contents.

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

SECTION 1.4. Resolution a Contract; Amendments.

This Resolution shall constitute a contract with the Holders of the Bonds from time to time accepted by the initial purchase of Bonds, shall be binding on the Authority, and shall not be amended or repealed by the Authority so long as any Bond remains Outstanding except as permitted in this Section.

The Authority, may, without the consent of or notice to any Bondholders, from time to time and at any time amend this Resolution with notice to the Bond Insurer:

A. to correct or amplify the description of any revenues at any time subject to the lien and pledge granted hereby, or better to assure, pledge, and confirm any property subject or required to be subjected to such lien and pledge, or to subject to such lien and pledge additional property; or

B. to add to the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication, and delivery of Parity Bonds, as herein set forth, additional conditions, limitations, and restrictions thereafter to be observed; or

C. to add to the covenants of the Authority for the benefit of the Holders of the Bonds or to surrender any right or power herein conferred upon the Authority; or

D. to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions, with respect to matters or questions arising under this Resolution, which shall not be inconsistent with the

provisions of this Resolution, *provided* such action shall not adversely affect the interests of the Holders of the Bonds.

In addition, the Authority may, with the written consent of the Bond Insurer and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Resolution; *provided that*, without the consent of the Holders of all affected Outstanding Bonds, no such amendment, addition, or rescission shall (1) change the Stated Maturity of the Bonds or any installment of interest thereon, reduce the principal amount thereof, the Redemption Price therefor, or the rate of interest thereon, change the place or places at, or the coin or currency in, which any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, (3) reduce the percentage in principal amount of the Outstanding Bonds the consent of the Holders of which is required for any such amendment, addition, or rescission, or the consent of Holders of which is required for any waiver provided for in this Resolution of compliance with certain provisions of this Resolution or certain defaults hereunder and their consequences, (4) modify or alter the provisions of the proviso to the definition of the term “Outstanding,” (5) modify any of the provisions of this Section, except to increase any percentage provided hereby or to provide that certain other provisions of this Resolution cannot be modified or waived without the consent of the Holder of each Bond affected thereby, or (6) permit the creation of any lien ranking prior to or on a parity with the pledge granted hereby, or on or of the Gross Revenues, or deprive the Holder of any Bond of the security afforded by such pledge. It shall not be necessary for any consent of Bondholders except for the Bond Insurer under this Section to approve the particular form of any proposed amendment, addition, or rescission, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 1.5. Benefits of Resolution.

Nothing in this Resolution, expressed or implied, is intended or shall be construed to confer upon any Person other than the Authority, the Paying Agent, the Bond Insurer, and the Bondholders any right, remedy, or claim, legal or equitable, under or by reason of this Resolution or any provision hereof, this Resolution and all its provisions being intended to be and being for the sole and exclusive benefit of the Authority, the Paying Agent/Registrar, the Bond Insurer, and the Bondholders.

SECTION 1.6. Repealer.

All resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Resolution are hereby repealed and declared to be inapplicable to the extent of such conflict, and the provisions of this Resolution shall be and remain controlling as to the matters contained herein.

SECTION 1.7. Governing Law.

This Resolution shall be construed in accordance with and governed by the laws of the State of Texas and the United States of America.

SECTION 1.8. Severability.

If any provision of this Resolution or the application thereof to any Person or circumstance shall be held to be invalid, the remainder of this Resolution and the application thereof to other Persons and circumstances shall nevertheless be valid, and the Board hereby declares that this Resolution would have been enacted without such invalid provision.

SECTION 1.9. Limitations on Liability.

The Bonds and all other covenants and obligations of the Authority created hereby are special, limited obligations of the Authority payable and performable solely from and to the extent of the Pledged Revenues. Neither the Bondholders nor the Bond Insurer shall ever have the right to demand payment of the Bonds or such other obligations out of funds raised or to be raised by taxation or otherwise have any recourse against the Authority in respect thereof except as to such Pledged Revenues. The Authority has no taxing power.

ARTICLE TWO

THE BONDS

SECTION 2.1. Purpose, Title, Denomination, Amounts, and Terms of Bonds.

Revenue bonds of the Authority, bearing the terms herein provided, shall be and are hereby authorized to be issued in the aggregate principal amount of \$[4,070,000], for the purposes of (1) refunding and defeasing the Refunded Bonds, and (2) paying the costs of issuing the Bonds and refunding the Refunded Bonds.

The title of the Bonds shall be “La Porte Area Water Authority Contract Revenue Refunding Bonds, Series 2010.”

The Bonds shall be in the denominations of \$5,000 and any integral multiple thereof.

The Stated Maturities of the Bonds shall be March 15 of the years and in the principal amounts set forth below, the Dated Date of the Bonds shall be May 1, 2010, and interest on the Bonds shall accrue from the Dated Date or the most recent Interest Payment Date to which interest has been paid or duly provided for, until such Bonds have been paid or due provision therefor is made at the Maturity thereof, at the following rates, payable semiannually on each March 15 and September 15 until maturity, commencing September 15, 2010:

<u>Year of Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2011	\$570,000	
2012	590,000	
2013	620,000	
2014	640,000	
2015	660,000	
2016	690,000	
2017	300,000	

The principal of and, subject to Section 2.3 hereof, interest on the Bonds shall be payable at the principal office of the Paying Agent/Registrar in Dallas, Texas.

SECTION 2.2. Redemption.

The Bonds are not subject to optional or mandatory redemption prior to Stated Maturity.

SECTION 2.3. Payment of Interest; Interest Rights Preserved.

Interest on any Bond which is payable on any Interest Payment Date, unless Defaulted Interest, shall be paid to the Person in whose name that Bond is registered at the close of business on the Regular Record Date for such interest.

Defaulted Interest shall cease to be payable to the registered Holder on the relevant Regular Record Date by virtue of having been such Holder, but shall be paid to the Person in whose name the Bonds are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Authority shall notify the Paying Agent/Registrar in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment and shall simultaneously deposit with the Paying Agent/Registrar an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Paying Agent/Registrar for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Section provided. Thereupon the Paying Agent/Registrar shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Paying Agent/Registrar of the notice of the proposed payment. The Paying Agent/Registrar shall promptly notify the Authority of such Special Record Date and, in the name and at the expense of the Authority, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed to each Bondholder not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds are registered on such Special Record Date.

All payments of interest on the Bonds shall be paid by check or draft mailed by the Paying Agent/Registrar to the Person entitled to such payment, first-class postage prepaid, at the address of such Person as it appears in the Bond Register, or by such other customary banking arrangements to which such Person and the Paying Agent/Registrar may agree.

Subject to the foregoing provisions of this Section, each Bond delivered hereunder upon transfer or in lieu of or in exchange for any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond, and each such Bond shall bear interest from such date, that neither gain nor loss in interest shall result from such transfer, exchange, or substitution.

SECTION 2.4. Execution, Authentication, Delivery, and Dating.

The Bonds shall be executed on behalf of the Authority by the President under its seal reproduced or impressed thereon and countersigned by the Secretary. The signature of either or both such officers on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who were at the time of execution the proper officers of the Authority shall bind the Authority, notwithstanding that such individuals or either of them shall cease to hold such offices prior to the delivery thereof.

All Bonds authenticated and delivered by the Paying Agent/Registrar hereunder shall be dated the date of their authentication.

No Bond shall be entitled to any right or benefit under this Resolution, or be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Exhibit A hereto, manually executed by the Comptroller of Public Accounts of the State of Texas or his duly authorized agent, or a certificate of authentication substantially in the form provided in Exhibit A hereto, executed by the Paying Agent/Registrar by manual signature, and either such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified or authenticated and delivered.

SECTION 2.5. Registration, Transfer, and Exchange.

The Authority shall cause to be kept at the principal office of the Paying Agent/Registrar a register (herein referred to as the "Bond Register") in which, subject to such reasonable regulations as it may prescribe, registration of the Bonds and of transfers of the Bonds shall be made as provided herein.

Upon surrender for transfer of any Bond at the principal office of the Paying Agent/Registrar, the Authority shall execute and the Paying Agent/Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same Stated Maturity, of authorized denominations, and of a like aggregate principal amount.

At the option of the Holder, Bonds may be exchanged for other Bonds of the same Stated Maturity, of authorized denominations, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar. Whenever any Bonds are so surrendered for exchange, the Authority shall execute and the Paying Agent/Registrar shall authenticate and deliver the Bonds which the Holder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be valid obligations of the Authority evidencing the same obligation, and entitled to the same benefits under this Resolution, as the Bonds surrendered in such transfer or exchange.

All registrations, transfers, and exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Bondholder, but the Paying Agent/Registrar shall require payment by the Bondholder requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

Every Bond presented or surrendered for transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

SECTION 2.6. Mutilated, Destroyed, Lost, and Stolen Bonds.

If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the Authority and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the Authority and the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Authority or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the Authority shall execute and upon its request the Paying Agent/Registrar shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the Authority in its discretion may, instead of issuing a new Bond, pay such Bond.

As a condition to the issuance of any new Bond or payment in lieu thereof under this Section, the Bondholder shall pay to the Authority a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses or charges (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute an original additional contractual obligation of the Authority, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Resolution and the lien and pledge granted hereby equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

SECTION 2.7. Persons Deemed Owners.

The Authority, the Paying Agent/Registrar, and any agent of either of them may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of the principal of and (subject to Section 2.3 hereof) interest on such Bond and for all other purposes whatsoever, whether or not such Bond be overdue, and to the extent permitted by law none of the Authority, the Paying Agent/Registrar, and any agent of either of them shall be affected by notice to the contrary.

SECTION 2.8. Securities Depository, Appointment of DTC.

A. The Bonds may be registered under a Book Entry System maintained by a Securities Depository. Notwithstanding any inconsistent provisions of this Resolution to the contrary, the provisions of this section shall govern with respect to the Bonds at any time such Bonds are issued and Outstanding in Book Entry Form. When used in this Section 2.8, the following terms shall have the following meanings:

“Book Entry Form” or “Book Entry System” shall mean a form or system, as applicable, under which (1) the ownership of beneficial interests in the Bonds may be transferred only through a book entry and (2) physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as registered Owner, with the physical bond certificates held in the custody of the Securities Depository.

“Securities Depository” shall mean any securities depository that (1) is 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, as amended, operating and maintaining, with its participants or otherwise, a Book Entry System of record ownership of beneficial interests in the Bonds and (2) effects transfers of the Bonds, in Book Entry Form.

B. Under the Book Entry System, the Bonds shall be issued in the form of a single, fully registered, and immobilized bond certificate for each Stated Maturity of principal of the Bonds, the aggregate principal amount of which equals the aggregate principal amount of the Bonds. Upon adoption of the Book Entry System, the ownership of the Bonds shall be registered in the Bond Register in the name of any nominee of the Securities Depository and shall be held in the custody of the Securities Depository. The Bonds shall be issued under the Book Entry System, with the initial Bond registered in the name of the initial purchaser thereof and thereafter, except as provided herein, the ownership of the Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which shall serve as the initial Securities Depository for the Bonds. Ownership of beneficial interests in the Bonds shall be shown by book entry on the system maintained and operated by the Securities Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “Participants”), and transfers of ownership of beneficial interests shall be made only by the Securities Depository and its Participants by book entry, and the Authority and the Paying Agent shall have no responsibility therefor. The Securities Depository will be required to maintain records of the positions of Participants in the Bonds, and the Participants and persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Bonds (the “Beneficial Owners”). Except as provided in paragraph (I) of this section, the Bonds as such shall not be transferable or exchangeable, except for transfer to another Securities Depository or to another nominee of a Securities Depository. No person other than the Securities Depository or its nominee shall be entitled to receive from the Authority or the Paying Agent/Registrar any bond certificate or other evidence of ownership of the Bonds, or any payment in respect thereof, unless the initial Securities Depository or its nominee (or a successor Securities Depository or its nominee) shall transfer record ownership of all or any portion of the

Bonds on the Bond Register in connection with discontinuing the Book Entry System as provided in Subsection (I) of this section or otherwise.

C. With respect to Bonds registered in the Bond Register in the name of the Securities Depository or its nominee, the Authority and the Paying Agent/Registrar shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Bonds. NEITHER THE AUTHORITY NOR THE PAYING AGENT/REGISTRAR SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE SECURITIES DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE SECURITIES DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS; (iii) THE DELIVERY BY THE SECURITIES DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THIS ORDINANCE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE SECURITIES DEPOSITORY AS HOLDER OF THE BONDS. NEITHER THE CITY NOR THE PAYING AGENT HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

D. So long as the Bonds or any portions thereof are registered in the name of a Securities Depository or any nominee thereof, all payments of principal of and interest on or redemption price of or the purchase price of such Bonds shall be made only to or upon the order of such Securities Depository on the dates and at the times provided for such payment under this Resolution and at the address indicated for such Securities Depository in the Bond Register kept by the Paying Agent/Registrar by transfer of immediately available funds; provided that the Paying Agent/Registrar has received sufficient funds from the sources described in the Resolution to make such payment. Each such payment to the Securities Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Authority or the Paying Agent/Registrar with respect to the payment of principal of and interest on, and the purchase price of, and the redemption price of the Bonds so registered, to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds outstanding, the Paying Agent/Registrar shall not require surrender by the Securities Depository or its nominee of the Bonds so redeemed and the Securities Depository may retain such Bonds. In the event of partial redemptions of the Bonds, the Securities Depository shall make an appropriate notation on the Bonds as to the amount of such partial redemption; provided that the Securities Depository shall deliver to the Paying Agent/Registrar, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Paying Agent/Registrar shall be conclusive as to the amount of the Bonds which have been redeemed. The Authority and the Paying Agent/Registrar shall not be liable for the failure of the Securities Depository to properly indicate on the Bonds the payment of such principal or redemption price.

E. All transfers of beneficial ownership interests in the Bonds when issued in Book Entry Form shall be effected by procedures promulgated by the Securities Depository with its

Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

F. The Authority and the Paying Agent/Registrar may treat the Securities Depository (or its nominee) as the sole and exclusive registered owner of the Bonds registered in its name for the purposes of payment of the principal of and interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners under this Resolution, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners and for all other purposes whatsoever; and the Authority and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

G. So long as the Bonds or any portion thereof are registered in the name of the Securities Depository or any nominee thereof, all notices required or permitted to be given to the Registered Owners of such Bonds under this Resolution shall be given to the Securities Depository. In connection with any notice or other communication to be provided to Registered Owners pursuant to this Resolution by the Authority and the Paying Agent/Registrar with respect to any consent or other action to be taken by Registered Owners, the Securities Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Authority or the Paying Agent/Registrar may establish a Special Record Date for such consent or other action. The Authority or the Paying Agent/Registrar shall give the Securities Depository notice of such Special Record Date not less than 15 calendar days in advance of such Special Record Date to the extent possible.

H. Any successor Paying Agent/Registrar, in its written acceptance of its duties under this Resolution, shall agree to take any actions necessary from time to time to comply with the requirements of such Securities Depository.

I. The Authority may elect to replace The Depository Trust Company as the Securities Depository. The Securities Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Paying Agent/Registrar and the Authority and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor Securities Depository), bond certificates will be delivered to the Beneficial Owners as described in this Resolution and the provisions of this Resolution with regard to issuance, transfer, and exchange of bond certificates shall apply. The Authority in its sole discretion and without the consent of any other person, may terminate the services of the Securities Depository with respect to the Bonds if the Authority determines that: (1) the Securities Depository is unable to discharge its responsibilities with respect to the Bonds; or (2) a continuation of the requirement that all of the Bonds be registered in the Bond Register in the name of the Securities Depository (or its nominee) is not in the best interest of the Beneficial Owners. In the event that no substitute Securities Depository is found by the Authority or restricted registration is no longer in effect, bond certificates will be delivered, and the transfer and exchange thereof shall be governed, as described in this Resolution. Upon the termination of the services of the Securities Depository with respect to the Bonds pursuant to this Subparagraph (I), after which no successor Securities Depository willing to undertake in the functions of the Securities Depository hereunder can be found which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and

customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the Securities Depository (or its nominee), but may be registered in the name or names and in such maturities and principal amounts as the Securities Depository (directly or through any Participant) shall designate in writing to the Paying Agent/Registrar in accordance with the provisions of this Resolution, but without any liability on the part of the Authority or the Paying Agent/Registrar for the accuracy of such designation. Upon the termination of the services of the Securities Depository with respect to the Bonds for any reason and the appointment of a successor Securities Depository, all references in this Resolution to the Securities Depository shall refer to such successor Securities Depository. Whenever the Securities Depository requests the Authority and the Paying Agent/Registrar to do so, the Authority and the Paying Agent/Registrar shall cooperate with the Securities Depository in taking appropriate action after reasonable notice to arrange for another Securities Depository to maintain custody of certificates evidencing the Bonds.

J. So long as any of the Bonds are registered in the name of the Securities Depository (or its nominee), a legend prescribed by the Securities Depository to that effect may be printed on such bond certificate.

ARTICLE THREE

FORM OF BONDS

SECTION 3.1. Form of Bonds.

The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be reproduced on the initial Bond, the Certificate of Authentication to be reproduced on Bonds subsequently delivered, and the form of Assignment to be reproduced on each of the Bonds shall be substantially in the forms set forth in Exhibit A hereto, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Resolution and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel or notice of insurance) thereon as may, consistently herewith, be established by the Authority or determined by the officers executing such Bonds as evidenced by their execution thereof. Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond. A Statement of Insurance or other appropriate language provided by the Bond Insurer may also be reproduced on the Bonds.

The definitive Bonds shall be numbered consecutively from R-1 and upward and shall be printed, lithographed, typewritten, photocopied, or engraved, produced by any combination of these methods, or produced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof. The initial Bond submitted to the Attorney General of Texas shall be numbered T-1 and may be typewritten or photocopied or otherwise reproduced.

ARTICLE FOUR

REVENUES AND FUNDS

SECTION 4.1. Creation of Funds.

All Pledged Revenues shall be kept separate and apart from all other funds of the Authority, and the special funds described in this Article Four shall be established and maintained in an official depository bank or depository banks of the Authority so long as any of the Parity Bonds, or interest thereon, are outstanding and unpaid.

SECTION 4.2. Revenue Fund.

All Pledged Revenues are and shall be credited to the Revenue Fund immediately upon receipt. Payments from the Revenue Fund shall be made in the priority specified in Section 4.8 hereof.

SECTION 4.3. Bond Fund.

The Bond Fund is created for the sole purpose of paying the principal of, redemption premium, if any, and interest on the Parity Bonds, as the same come due. Payments into the Bond Fund shall be made in substantially equal monthly payments (commencing with respect to the Bonds and any Additional Bonds on the date of delivery to the initial purchaser thereof) during each year in which any of the Parity Bonds are outstanding in an aggregate amount equal to the amounts required to meet the interest and principal payments falling due on or before the next maturity date or mandatory redemption date of the Parity Bonds. The Authority shall, at least five days prior to September 15, 2010, and each March 15 and September 15 thereafter, deposit into the Bond Fund any additional Pledged Revenues available in the Revenue Fund which may be necessary to pay in full the interest on and principal, if any, coming due on such March 15 or September 15. In no event shall any amount in excess of the amounts stated above be retained in the Bond Fund, and any such excess amount may be withdrawn by the Authority and replaced in the Revenue Fund.

SECTION 4.4. Reserve Fund.

The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds when and to the extent the amounts in the Bond Fund available for such payment are insufficient for such purpose, and may be used for the purpose of finally retiring the last of the Bonds. Funds for the Reserve Fund are hereby appropriated from the reserve fund for the Refunded Bonds and shall be deposited in the Reserve Fund. Notwithstanding any provision hereof to the contrary, no deposits shall be made into the Reserve Fund at any time when there is a deficiency in the amount on deposit in to the Bond Fund nor shall any deposits be made into the Reserve Fund at any time it contains an amount equal to or greater than the Reserve Requirement. If and whenever the balance in the Reserve Fund is reduced below the Reserve Requirement, the Authority shall, from the first available and unallocated Pledged Revenues of the following month or months, cause amounts equal in the aggregate to any such deficiency to be set apart and transferred into the Reserve Fund from the Revenue Fund; provided, however, that in any event amounts on deposit in the Reserve Fund shall be restored to the Reserve Requirement within

twenty four months of such reduction. If at the end of any fiscal year surplus funds remain in the Reserve Fund resulting from any reduction of the Reserve Requirement or otherwise, they shall be promptly transferred from the Reserve Fund into the Bond Fund and payments into the Bond Fund from the Revenue Fund shall be reduced accordingly.

SECTION 4.5. Deficiencies.

If in any month the Authority shall fail to deposit into any fund provided for by this Resolution the full amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said funds from the first available and unallocated Pledged Revenues of the following month or months, and such payment shall be in addition to the amounts otherwise required to be paid into said funds during such month or months. To the extent necessary, the Authority shall increase the rates and charges for its services to make up for any such deficiencies.

SECTION 4.6. Surplus Money.

Notwithstanding the provisions of Section 7.1 hereof, Pledged Revenues in excess of those necessary to establish and maintain the funds required in this Resolution may be used for any purpose now or hereafter authorized by law.

SECTION 4.7. Investments; Security for Deposits.

Money held for the credit of any fund established pursuant to this Resolution may, at the option of the Authority, be invested as permitted by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

All money held for the credit of any fund created by this Resolution shall, to the extent not invested, be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

SECTION 4.8. Priority of Deposits and Payments from Revenue Fund.

The Board shall make the deposits and payments from Pledged Revenues in the Revenue Fund when and as required by any Parity Bonds Resolution or any resolution authorizing subordinate lien bonds, and, after payment of Operating Expenses, such deposits shall be made in the following order and with the following irrevocable priorities, respectively:

First: to the Bond Fund, when and in the amounts required by any Parity Bonds Resolution;

Second: to the Reserve Fund, when and in the amounts required by any Parity Bonds Resolution;

Third: to the payment of principal, interest and reserve fund requirements for any obligations which may be issued by the Board from time to time that are payable from and secured by a lien on and pledge of the Pledged Revenues which is subordinate to the liens of the Parity Bonds, when and

in the amounts required by any resolution authorizing the issuance of such subordinate lien obligations; and

Fourth: for any lawful purpose.

ARTICLE FIVE

CONCERNING THE PAYING AGENT/REGISTRAR

SECTION 5.1. Acceptance.

The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, is hereby appointed as the initial Paying Agent/Registrar for the Bonds pursuant to the terms and provisions of the Paying Agent/Registrar Agreement by and between the City and the Paying Agent/Registrar. The Paying Agent/Registrar Agreement shall be substantially in the form attached hereto as Exhibit B, the terms and provisions of which are hereby approved, and the Mayor is hereby authorized to execute and deliver such Paying Agent/Registrar Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto and affix the City's seal. Such initial Paying Agent/Registrar and any successor Paying Agent/Registrar, by undertaking the performance of the duties of the Paying Agent/Registrar hereunder, and in consideration of the payment of any fees pursuant to the terms of any contract between the Paying Agent/Registrar and the City and/or the deposits of money pursuant to this Ordinance, shall be deemed to accept and agree to abide by the terms of this Ordinance.

SECTION 5.2. Trust Funds.

All money transferred to the Paying Agent/Registrar in its capacity as Paying Agent/Registrar for the Bonds under this Ordinance (except any sums representing Paying Agent/Registrar's fees) shall be held in trust for the benefit of the City, shall be the property of the City and shall be disbursed in accordance with this Ordinance.

SECTION 5.3. Bonds Presented.

Subject to the provisions of Section 5.4, all matured Bonds presented to the Paying Agent/Registrar for payment shall be paid without the necessity of further instructions from the City. Such Bonds shall be canceled as provided herein.

SECTION 5.4. Unclaimed Funds Held by the Paying Agent/Registrar.

Funds held by the Paying Agent/Registrar that represent principal of and interest on the Bonds remaining unclaimed by the registered Holder thereof after the expiration of three years from the date such funds have become due and payable (a) shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Title 6 of the Texas Property Code, as amended, to the extent such provisions are applicable to such funds, or (b) to the extent such provisions do not apply to the funds, such funds shall be paid by the Paying Agent/Registrar to the Authority upon receipt by the Paying Agent/Registrar of a written request therefor from the Authority.

The Paying Agent/Registrar shall have no liability to the Registered Owners of the Bonds by virtue of actions taken in compliance with this Section.

SECTION 5.5. Paying Agent/Registrar May Own Bonds.

The Paying Agent/Registrar in its individual or any other capacity, may become the owner or pledgee of Bonds with the same rights it would have if it were not the Paying Agent/Registrar.

SECTION 5.6. Successor Paying Agents/Registrars.

The Authority covenants that at all times while any Bonds are Outstanding it will provide a legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar for the Bonds. The Authority reserves the right to change the Paying Agent/Registrar for the Bonds on not less than sixty (60) days' written notice to the Paying Agent/Registrar, as long as any such notice is effective not less than 60 days prior to the next succeeding principal or interest payment date on the Bonds. Promptly upon the appointment of any successor Paying Agent/Registrar, the previous Paying Agent/Registrar shall deliver the Bond Register or a copy thereof to the new Paying Agent/Registrar, and the new Paying Agent/Registrar shall notify each registered Holder, by United States mail, first class, postage prepaid, of such change and of the address of the new Paying Agent/Registrar. Each Paying Agent/Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Resolution.

ARTICLE SIX

COVENANTS

SECTION 6.1. General Covenants.

The Authority covenants, warrants and agrees that, in accordance with and to the extent required or permitted by law while the Parity Bonds are Outstanding:

A. Rates. The Authority will (a) subject to any restrictions in the Water Sales Contracts, fix and maintain rates and collect charges for the facilities and services afforded by the System which will provide revenues sufficient at all times (i) to pay all Operating Expenses; (ii) to establish and maintain the Bond Fund; and (iii) to pay all indebtedness outstanding against the System, other than the Parity Bonds, as and when the same become due; and (b) deposit as collected all Pledged Revenues into the Revenue Fund.

B. Performance. The Authority will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in each Parity Bonds Resolution, and in each and every Parity Bond. It will promptly pay or cause to be paid the principal of and interest on every Parity Bond, on the dates and in the places and manner prescribed in the Parity Bonds Resolutions. It will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Bond Fund and the Reserve Fund. Any

Holder of a Parity Bond may require the Authority, its officials and employees to carry out, respect, or enforce the covenants and obligations of the Parity Bonds Resolutions by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Authority, its officials and employees.

C. Legal Authority. The Authority is a duly created and existing political subdivision of the State of Texas and is duly authorized under the laws of the State of Texas to create and issue the Parity Bonds. It has the lawful power to pledge the Pledge Revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including powers existing under the Act. The Bonds issued hereunder shall be ratably secured by Pledged Revenues, in such manner that one Bond shall have no preference over any other Bond. All action on the part of the Authority for the creation and issuance of the Bonds has been duly and effectively taken. Bonds in the hands of the Holders thereof are and will be valid and enforceable special obligations of the Authority in accordance with their terms.

D. Title. The Authority has or will obtain lawful title to the lands, buildings, structures and facilities constituting the System. It will defend the title to all of the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of the Holders of the Parity Bonds, against the claims and demands of all Persons.

E. Liens. The Authority will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it or the System. It will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein. It will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge with might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge shall be required to be paid so long as the validity of the same shall be contested in good faith by the Authority.

F. Operation of System; No Free Service. The Authority shall continuously and efficiently operate the System and maintain the System in good condition, repair and working order, all at reasonable cost. No free service of the System shall be allowed, and should the Authority or any of its agencies or instrumentalities, lessees or concessionaires make use of the services and facilities of the System, payment monthly of the standard retail price of the services provided shall be made by such Person out of funds from sources other than the Pledged Revenues of the System, unless made from surplus Net Revenues.

G. Further Encumbrance. The rents, revenues and income of the system have not in any manner been pledged to the payment of any debt or obligations of the Authority or of the System and it shall not sell or encumber the Pledged Revenues in any manner, except as permitted in the Parity Bonds Resolutions in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and

agreements of the Parity Bonds Resolutions. The right of the Authority to issue revenue bonds payable from a subordinate lien on the surplus Net Revenues is specifically recognized and retained.

H. Insurance. The Board shall cause to be insured for such parts of the System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably attainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless legal counsel for the Board gives a written opinion to the effect that the Authority and the Board are not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an Operating Expense. At any time while any contractor engaged in construction work shall be fully responsible therefore, the Board shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the Board shall make due proof of loss and shall do all things necessary or desirable to cause the insurance companies to make payment in fully directly to the Board. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the Board for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at an official depository of the Authority, to be designated the Insurance Account. The Insurance Account shall be held until such time as other funds become available which, together with the funds on deposit in the Insurance Account, will be sufficient to make the repairs or replacements originally required.

The annual audit hereinafter required may contain a section commenting on whether or not the Board has complied with the requirements of this Section with respect to the maintenance of insurance, and shall state whether or not all insurance premiums upon the insurance policies to which reference is made have been paid.

I. Records. The Board shall keep proper books of record and account in which full, true, proper and correct entries will be made of all dealings, activities and transactions relating to the System, the Pledged Revenues, and the funds created pursuant to this Resolution, and all books, documents and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any Bondholder or customer of the Authority. To the extent consistent with the provisions of this Resolution, the Board shall keep its books and records in a manner conforming to standard accounting practices usually would be followed by private corporations owning and operating a system similar to the System, with appropriate recognition being given to essential differences between municipal and corporate accounting practices.

J. Audits. After the close of each fiscal year, an audit shall be made of the books and accounts relating to the System and the Pledged Revenues by an Accountant. The audit shall include a schedule of the deposits made to the various funds created by this Resolution. The

annual audit reports shall be open to the inspection of the Bondholders and their agents and representatives at all reasonable times.

K. Governmental Agencies. The Authority will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency. The Board has or will obtain and keep in full force and effect all franchises, permits authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

L. No Competition. The Authority will not operate, or grant any franchise or permit for the acquisition, construction or operation of, any facilities which would be in competition with the System, and to the extent that it legally may, the Authority will prohibit any such competing facilities.

SECTION 6.2. Covenants to Maintain Tax Exempt Status.

The Authority intends that the interest on the Bonds shall be excludable from gross income of the owners thereof for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended, (the “Code”) and all applicable temporary, proposed and final regulations (the “Regulations”) and procedures promulgated thereunder and applicable to the Bonds. For this purpose, the Authority covenants that it will monitor and control the receipt, investment, expenditure and use of all gross proceeds of the Bonds (including all property, the acquisition, construction or improvement of which is to be financed directly or indirectly with the proceeds of the Bonds) and take or omit to take such other and further actions as may be required by Sections 103 and 141 through 150 of the Code and the Regulations to cause the interest on the Bonds to be and remain excludable from the gross income, as defined in Section 61 of the Code, of the owners of the Bonds for federal income tax purposes. Without limiting the generality of the foregoing, the Authority shall comply with each of the following covenants:

A. The Authority shall not use, permit the use of or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority shall have received a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the Authority shall comply with each of the specific covenants in this Section.

B. Except as permitted by Section 141 of the Code and the regulations and rulings thereunder, the Authority shall, at all times prior to the last stated maturity of the Bonds,

(1) exclusively own, operate, and possess all property the acquisition, construction, or improvement of which is to be financed directly or indirectly with Gross

Proceeds of such series of the Bonds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds and not use or permit the use of such Gross Proceeds or any property acquired, constructed, or improved with such Gross Proceeds in any activity carried on by any person or entity other than a state or local government, unless such use is solely as a member of the general public, or

(2) not directly or indirectly impose or accept any charge or other payment for use of Gross Proceeds of such series of the Bonds or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds other than taxes of general application and interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

C. Except to the extent permitted by Section 141 of the Code and the regulations and rulings thereunder, the Authority shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be “loaned” to a person or entity if (1) property acquired, constructed or improved with Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes, (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output, or similar contract or arrangement, or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or such property are otherwise transferred in a transaction which is the economic equivalent of a loan.

D. Except to the extent permitted by Section 148 of the Code and the regulations and rulings thereunder, the Authority shall not, at any time prior to the earlier of the final stated maturity or final payment of the Refunded Obligations, directly or indirectly invest Gross Proceeds of such Bonds in any Investment (or use such Gross Proceeds to replace money so invested), if as a result of such investment the Yield of all Investments allocated to such Gross Proceeds whether then held or previously disposed of, exceeds the Yield on the Refunded Bonds.

E. Based on all of the facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered, the Authority reasonably expects that the proceeds of the Bonds and the Refunded Bonds (to the extent any of such proceeds remain unexpended) will not be used in a manner that would cause the Bonds or the Refunded Bonds or any portion thereof to be “arbitrage bonds” within the meaning of Section 148 of the Code.

F. At all times while the Bonds are outstanding, the Authority will identify and properly account for all amounts constituting gross proceeds of the Bonds in accordance with the Regulations. The Authority will monitor the yield on the investments of the proceeds of the Bonds and, to the extent required by the Code and the Regulations, will restrict the yield on such investments to a yield which is not materially higher than the yield on the Bonds. To the extent necessary to prevent the Bonds from constituting “arbitrage bonds,” the Authority will make such payments as are necessary to cause the yield on all yield-restricted nonpurpose investments

allocable to the Bonds to be less than the yield that is materially higher than the yield on the Bonds;

G. The Authority will not take any action or knowingly omit to take any action, if taken or omitted, would cause the Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code;

H. The Authority represents that not more than fifty percent (50%) of the proceeds of any new money portion of the Bonds or any new money issue refunded by the Refunded Bonds was invested in nonpurpose investments (as defined in Section 148(f)(b)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Authority reasonably expected at the time each issue of the Refunded Bonds was issued that at least eighty-five percent (85%) of the spendable proceeds of the Bonds or the Refunded Bonds would be used to carry out the governmental purpose of such Bonds within the corresponding three-year period beginning on the respective dates of the Bonds or the Refunded Bonds.

I. The Authority will take all necessary steps to comply with the requirement that certain amounts earned by the Authority on the investment of the gross proceeds of the Bonds, if any, be rebated to the federal government. Specifically, the Authority will (i) maintain records regarding the receipt, investment and expenditure of the gross proceeds of the Bonds as may be required to calculate such excess arbitrage profits separately from records of amounts on deposit in the funds and accounts of the Authority allocable to other obligations of the Authority or moneys which do not represent gross proceeds of any obligations of the Authority and retain such records for at least six years after the day on which the last outstanding Bond is discharged, (ii) account for all gross proceeds under a reasonable, consistently applied method of accounting, not employed as an artifice or device to avoid, in whole or in part, the requirements of Section 148 of the Code, including any specified method of accounting required by applicable Regulations to be used for all or a portion of the gross proceeds, (iii) calculate, at such times as are required by applicable Regulations, the amount of excess arbitrage profits, if any, earned from the investment of the gross proceeds of the Bonds and (iv) timely pay, as required by applicable Regulations, all amounts required to be rebated to the federal government. In addition, the Authority will exercise reasonable diligence to assure that no errors are made in the calculations required by the preceding sentence and, if such an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter, including payment to the federal government of any delinquent amounts owed to it, including interest thereon and penalty.

J. The Authority will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in smaller profit or a larger loss than would have resulted if such arrangement had been at arm’s length and had the yield on the issue not been relevant to either party

K. The Authority will timely file or cause to be filed with the Secretary of the Treasury of the United States the information required by Section 149(e) of the Code with respect to the Bonds on such form and in such place as the Secretary may prescribe.

L. The Authority will not issue or use the Bonds as part of an “abusive arbitrage device” (as defined in Section 1.148-10(a) of the Regulations). Without limiting the foregoing, the Bonds are not and will not be a part of a transaction or series of transactions that attempts to circumvent the provisions of Section 148 of the Code and the Regulations, by (i) enabling the Authority to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, or (ii) increasing the burden on the market for tax-exempt obligations.

M. Proper officers of the Authority charged with the responsibility for issuing the Bonds are hereby directed to make, execute and deliver certifications as to facts, estimates or circumstances in existence as of the Issue Date and stating whether there are facts, estimates or circumstances that would materially change the Authority’s expectations. On or after the Issue Date, the Authority will take such actions as are necessary and appropriate to assure the continuous accuracy of the representations contained in such certificates.

N. The covenants and representations made or required by this Section are for the benefit of the Bond holders and any subsequent Bond holder, and may be relied upon by the Bond holder and any subsequent Bond holder and bond counsel to the Authority.

O. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

"Computation Date" has the meaning stated in section 1.148-1(b) of the Regulations.

"Gross Proceeds" has the meaning stated in section 1.148-1(b) of the Regulations.

"Investment" has the meaning stated in section 1.148-1(b) of the Regulations.

"Issue Date" for each series or sub-series of the Bonds or other obligations of the Authority is the respective date on which such series or sub-series of the Bonds or other obligations of the Authority is delivered against payment therefor.

"Net Sale Proceeds" has the meaning stated in section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" has the meaning stated in section 1.148-1(b) of the Regulations.

"Proceeds" has the meaning stated in section 1.148-1(b) of the Regulations.

"Rebate Amount" has the meaning stated in section 1.148-3 of the Regulations.

"Regulations" means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to sections 141 through 150 of the Code and applicable to the Bonds.

"Yield" of

(1) any Investment shall be computed in accordance with section 1.148-5 of the Regulations, and

(2) Bonds shall be computed in accordance with section 1.148-4 of the Regulations.

In complying with the foregoing covenants, the Authority may rely upon an unqualified opinion issued to the Authority by nationally recognized bond counsel that any action by the Authority or reliance upon any interpretation of the Code or Regulations contained in such opinion will not cause interest on the Bonds to be includable in gross income for federal income tax purposes under existing law.

Notwithstanding any other provision of this Resolution, the Authority's representations and obligations under the covenants and provisions of this Section 6.2 shall survive the defeasance and discharge of the Bonds for as long as such matters are relevant to the exclusion of interest on the Bonds from the gross income of the owners for federal income tax purposes.

SECTION 6.3. Qualified Tax-Exempt Obligations.

The Authority hereby designates the Bonds as "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. With respect to such designation, the Authority represents the following: (a) that during the calendar year 2010, the Authority (including all entities which issue obligations on behalf of the Authority) has not designated nor will designate obligations, which when aggregated with the Bonds, will result in more than \$30,000,000 of "qualified tax-exempt obligations" being issued and (b) that the Authority has examined its financing needs for the calendar year 2010 and reasonably anticipates that the amount of bonds, leases, loans or other obligations, together with the Bonds and any other tax-exempt obligations heretofore issued by the Authority (plus those of all entities which issue obligations on behalf of the Authority) during the calendar year 2010, when the higher of the face amount or the issue price of each such tax-exempt obligation issued for the calendar year 2010 by the Authority is taken into account, will not exceed \$30,000,000.

ARTICLE SEVEN

PLEDGE OF PLEDGED REVENUES; PARITY BONDS

SECTION 7.1. Pledge of Pledged Revenues.

In consideration of the purchase of the Bonds by the Bondholders, the sufficiency of which is hereby acknowledged, the Authority does hereby pledge the Pledged Revenues and all money and investments held for the credit of the Bond Fund and the Reserve Fund to the payment of and security for the principal of (and premium, if any) and interest on the Bonds and such other Parity Bonds as hereafter may be issued and the deposits to the Bond Fund and Reserve Fund required hereby and by the Parity Bonds Resolutions, without priority of any Parity Bond over any other Parity Bond, *provided* that the Authority reserves the right to make such further inferior and subordinate pledges of the Net Revenues from time to time as it shall elect. The pledge granted hereby shall constitute a lien on the Pledged Revenues and be valid and binding without any physical delivery of such Pledged Revenues or further act by the Authority, and the lien created hereby on the Pledged Revenues for the payment and security of the Parity Bonds shall be prior in right and claim as to any other indebtedness, liability, or obligation of the Authority or the System, except as provided in this Section.

The Parity Bonds are not and will not be secured by or payable from a mortgage or deed of trust on any real, personal or mixed properties constituting the System. The Holders of the Parity Bonds shall never have the right to demand payment of such obligations out of any funds raised or to be raised by taxation by the Authority, the Participants, the State of Texas, or any subdivision of any of them, or from any source whatsoever other than the Pledged Revenues. The Authority has no taxing power. This Resolution shall not be construed as requiring the Authority to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the Authority from doing so.

SECTION 7.2. Issuance of Additional Bonds.

In addition to inferior lien bonds permitted to be issued hereunder, the Authority expressly reserves the right hereafter to issue Additional Bonds, and the Additional Bonds, when issued, may be secured by and payable from a lien on and pledge of the Pledged Revenues in the same manner and to the same extent as the outstanding Parity Bonds but subject to the remaining provisions hereof, and the Bonds and the Additional Bonds may be in all respects of equal dignity. The Additional Bonds may be issued to provide funds for Capital Acquisitions, Capital Additions and Capital Improvements and for any lawful purpose. It is provided, however, that no Additional Bonds shall be issued unless such Additional Bonds are made to mature on March 15 in each of the years in which they are scheduled to mature and the following requirements are met:

A. *General.* The officer of the Authority then having primary responsibility for the financial affairs of the Authority shall have executed a certificate stating that (1) to the best of his knowledge and belief, the Authority is not then in default as to any covenant, obligation, or agreement contained in any proceeding relating to any obligations of the Authority payable from and secured by a lien on and pledge of the Pledged Revenues and (2) all payments into all funds

or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a pledge of the Pledged Revenues have been made in full and that the amounts on deposit in such funds are the amounts then required to be on deposit therein. Such certificate shall be dated as of the date of such Additional Bonds.

B. *Capital Acquisitions, Capital Improvements and any Lawful Purpose except Capital Additions or refunding.* No Additional Bonds will be issued for the purpose of financing Capital Acquisitions, Capital Improvements or any other lawful purpose (except for Capital Additional or for refunding, which are to be issued in accordance with the provisions of paragraph C, D or E) unless and until the conditions precedent in paragraph A have been satisfied and, in addition thereto, the Authority has secured a certificate or opinion of an Accountant to the effect that, according to the books and records of the Authority, the Pledged Revenues for the preceding fiscal year or any consecutive 12 month period ending within 120 days of the date of such certificate or opinion equals or exceeds 125% of the Average Annual Principal and Interest Requirements for the outstanding Parity Bonds and for the proposed Additional Bonds. In making a determination of the Pledged Revenues, the Accountant may (i) take into consideration a change in the rates and charged for services and facilities afforded by the System that became effective at least 60 days prior to the last day of the period for which Pledged Revenues are determined, and (ii) for purposes of satisfying the above Pledged Revenue test, make a pro forma determination of the Pledged Revenues for the period of time covered by the certification or opinion based on such change in rates and charges being in effect for the entire period covered by the certificate or opinion. In addition, the revenues and expenses of any Capital Acquisition may be added to the Pledged Revenues of the Authority for determinations made under this paragraph.

C. *Capital Additions – Initial Issue.* Additional Bonds shall be issued for the purpose of financing Capital Additions unless the conditions in paragraphs A and B above have been satisfied or, in the alternative, the Authority shall have obtained:

(1) from the Engineer of Record a comprehensive report for each Capital Addition to be financed, which report shall (a) contain (I) detailed estimates of the cost of acquiring and constructing the Capital Addition, (II) the estimated date the acquisition and construction of the Capital Addition will be completed and commercially operative, and (III) a detailed analysis of the impact of the Capital Addition on the financial operations of the System during the construction thereof and for at least five Years after the date the Capital Addition becomes commercially operative, and (b) conclude that (I) the Capital Addition will substantially increase the capacity, or is needed to replace existing facilities, to meet current and projected demands for the service or product to be provided thereby, and (II) the estimated cost of providing the service or product from the Capital Addition will be reasonable in comparison with projected costs for furnishing such service or product from other reasonably available sources; and

(2) a certificate of the Engineer of Record to the effect that, based on the report prepared for each Capital Addition, the projected Pledged Revenues for each of the five Years subsequent to the date the Capital Addition becomes commercially operative (as estimated in such report) will be equal to at least 125% of the Average Annual Principal and Interest Requirements for Parity Bonds then outstanding or incurred and all

Parity Bonds estimated to be issued, if any, for all Capital Acquisitions, Capital Improvements and Capital Additions then in progress or then being initiated during the period from the date the first series of obligations for the Capital Additions is to be delivered through the fifth Year subsequent to the date the Capital Addition is estimated to become commercially operative.

The Board covenants that it will adopt on or before the closing date for the proposed Additional Bonds and enforce any periodic rate increases described in the report of the Engineer of Record; provided, however, that if such rate increases are not actually needed for any Year, the Board may by subsequent resolution delay such increase until it becomes actually necessary to comply with its covenants in this Section.

D. *Capital Additions – Subsequent Issues.* Once the initial Parity Bonds have been delivered for a Capital Addition pursuant to paragraph C, the Authority may issue Additional Bonds to finance the remaining costs of such Capital Addition in such amounts as may be necessary to complete the acquisition and construction thereof and make the same commercially operative without satisfaction of any condition precedent under paragraph B or C, but subject to satisfaction of the following conditions precedent:

(1) The Board makes a forecast (the “Forecast”) of the operations of the System demonstrating the System’s ability to pay all obligations payable from Pledged Revenues to be outstanding after the issuance of the Parity Bonds then being issued for the period (the “Forecast Period”) of each ensuing Year through the fifth Year subsequent to the latest estimated date such Capital Addition is expected to be commercially operative; and

(2) The Engineer of Record reviews the Forecast and executes a certificate to the effect that the Forecast is reasonable, and that based thereon (and such other factors deemed to be relevant), the Pledged Revenues will be adequate for the Forecast Period to pay all the obligations payable from the Pledged Revenues to be outstanding after the issuance of the Parity Bonds then being issued.

E. *Refunding Bonds.* The Authority may issued refunding bonds to refund all or any part of the outstanding Parity Bonds (pursuant to any law then available), upon such terms and conditions as the Board may deem to be in the best interest of the Authority and its inhabitants, and if less than all such outstanding Parity Bonds are refunded, the conditions precedent for the issuance of Additional Bonds in paragraphs A and B shall be satisfied and the Accountant’s certificate or opinion required by paragraph B shall give effect to the issuance of the proposed refunding bonds and shall not give effect to the obligations being refunded following their cancellation or provision being made for their payment. No Accountant’s certificate otherwise required by paragraph B will be required for refunding bonds if, after giving effect to such proposed refunding, there is no increase in debt service for any Year in which there will be debt service on Parity Bonds outstanding both before and after such refunding and any such refunding bond does not have a lien on Pledged Revenues superior to the obligation which it refunds.

F. *Determination of Average Annual Principal and Interest Requirements.* With respect to Additional Bonds anticipated and estimated to be issued or incurred, the Average

Annual Principal and Interest Requirements therefor shall be those reasonably estimated and computed by the officer of the Authority then having the primary responsibility for the financial affairs of the Authority. In the preparation of the report required by paragraph C(1) above, the Engineer of Record may rely on other experts or professionals, including those in the employment of the Authority, provided such reports disclose the extent of such reliance and conclude that it is reasonable to so rely. In connection with the issuance of Additional Bonds for Capital Additions, the certificate of the Authority's officer and the Engineer of Record, together with the appropriate report for the initial issue and the Forecast for a subsequent issue, shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this Section.

G. *Combined Issues.* Parity Bonds for Capital Additions may be combined in a single issue with Parity Bonds for Capital Acquisitions or Capital Improvements, or for any lawful purpose, provided the conditions precedent set forth in paragraphs B through E are complied with as the same relate to the appropriate purpose.

H. *Reserve Fund.* The Authority shall increase the Reserve Fund for such Additional Bonds by (a) providing cash from the proceeds of the sale of the Additional Bonds or any other lawfully available source, (b) a surety bond in lieu thereof, (c) a combination of cash and a surety bond, or (d) making equal monthly installment payments to the Reserve Fund over the 24-month period following the issuance of such Additional Bonds, all as the Authority deems reasonable and appropriate; provided, however, that (I) the sum of the amount of any such cash, surety bond and monthly installment payments shall be not less than the Reserve Requirement; (II) any such surety bond provided in lieu of cash shall be issued by an insurance company or association of companies whose insured obligations are rated by a nationally recognized rating agency in its highest rating category; and (III) any such surety bond may be written or amended to provide coverage not only for such Additional Bonds, but also pro rata for the Parity Bonds then outstanding, provided any cash or surety fund in lieu thereof which secures any such outstanding Parity Bonds is extended ratably to secure the Additional Bonds then being issued. It is the Authority's intention hereby to provide maximum flexibility with respect to the Reserve Fund to be provided for any Additional Bonds which may be issued hereafter and the foregoing provisions shall be liberally construed in order to achieve that objective without materially prejudicing the rights and interests of the owners of any Parity Bonds at the time outstanding.

I. *Subordinate Obligations.* The Authority may, at any time and from time to time, for any lawful purpose, issue obligations the principal of and redemption premium, if any, and interest on which are payable from and secured by a pledge of and lien on the Pledged Revenues junior and subordinate to the lien and pledge created hereby for the security of the Parity Bonds, the payments required to be made hereunder into the Interest and Sinking Fund and the Reserve Fund; provided, however, that any such pledge and lien securing such subordinate obligations shall be, and shall be expressed to be, subordinate in all respects to the pledge of and lien on the Pledged Revenues as security for the Parity Bonds.

ARTICLE EIGHT

DEFEASANCE

SECTION 8.1. Defeasance.

The Authority may defease the provisions of this Resolution and discharge its obligations to the Holders of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Paying Agent/Registrar or with the Comptroller of Public Accounts of the State of Texas either:

A. cash in an amount equal to the principal amount of such Bonds plus interest thereon to the date of maturity; or

B. pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations, which may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity.

Upon such deposit, such Bonds shall no longer be regarded to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the Authority.

ARTICLE NINE

SALE AND ISSUANCE OF BONDS; OTHER COVENANTS

SECTION 9.1. Sale of the Bonds.

The sale of the Bonds to _____ (the "Purchaser") at a price of the par value thereof, plus a cash premium of \$ _____ plus accrued interest on the Bonds, is hereby approved, and delivery of the Bonds to the Purchaser shall be made upon payment therefor in accordance with the terms of sale and the terms and conditions of the Purchaser's bid, attached hereto as Exhibit C. It is hereby officially found, determined and declared that the Purchaser is the highest bidder for the Bonds as a result of invitations for competitive bids. It is further officially found, determined and declared that the Bonds have been sold at public sale to the bidder offering the lowest interest cost, which is hereby determined to be a net effective interest rate of _____%, after receiving sealed bids pursuant to an Official Notice of Sale and Preliminary Official Statement prepared and distributed in connection with the sale of the Bonds.

The President, Vice President and Secretary of the Authority, or any of them, are hereby authorized and directed to furnish such information, execute such instruments, and take such action as is necessary to comply with the terms, conditions, and agreements specified in the Official Notice of Sale or the Purchaser's Bid or to effect issuance of the Bonds.

SECTION 9.2. Official Statement.

The Authority hereby ratifies distribution and use of the Preliminary Official Statement, dated March __, 2010, and the Official Notice of Sale relating to the Bonds, in the form submitted at the meeting at which this Resolution is adopted in all respects for the purposes intended.

The Authority hereby approves and authorizes distribution of the Official Statement, dated the date hereof, substantially in the form of such Preliminary Official Statement, but completed and modified to reflect the terms of sale of the Bonds and such other changes as the President shall approve. The President and Secretary are authorized and directed to execute and deliver for and on behalf of the Authority sufficient copies of such Official Statement in final form. Such Official Statement in the form and content manually executed by said officials of the Authority shall be deemed approved by the Board and constitute the Official Statement duly authorized for distribution.

SECTION 9.3. Control and Custody of the Bonds.

Initially one Bond in the aggregate principal amount of the Bonds in the name of the Purchaser or their designee shall be executed and submitted to the Attorney General of Texas for approval and thereupon certified by the Comptroller of Public Accounts of the State of Texas by manual signature of a Bond Clerk in such office. At any time thereafter the Authority may deliver such Bond to the Paying Agent/Registrar for transfer or exchange, accompanied by instructions from the Purchaser or their designee designating the Persons, maturities, and principal amounts to and in which such Bonds are to be transferred and the addresses of such Persons, and the Paying Agent/Registrar shall thereupon, within not more than three business days, authenticate and deliver such Bonds upon authorization of the Authority as provided in such instructions.

The President shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, and shall take and have charge and control of the Bonds pending their approval by the Attorney General, their registration by the Comptroller of Public Accounts, and their registration with and initial exchange or transfer by the Paying Agent/Registrar.

The President, Vice President and the Secretary of the Authority, or any of them, are hereby authorized and directed to furnish and execute such documents relating to the Authority and its financial affairs as may be necessary for the issuance of the Bonds, their approval by the Attorney General, and their registration by the Comptroller of Public Accounts and, together with the financial advisor and bond counsel to the Authority and the Paying Agent/Registrar, make the necessary arrangements for the initial delivery of the initial Bond and the initial exchange thereof for the Definitive Bonds.

SECTION 9.4. Application of Proceeds of Bonds.

Proceeds from the sale of the Bonds shall be applied as follows:

- A. Accrued interest shall be deposited into the Bond Fund;

B. A portion of the proceeds shall be deposited with the paying agent for the Refunded Bonds for the purpose of refunding and defeasing the Refunded Bonds;

C. A portion of the proceeds shall be applied to pay expenses arising in connection with the issuance of the Bonds and the refunding of the Refunded Bonds; and

D. Any proceeds remaining after making all such deposits and payments shall be deposited to the Bond Fund.

SECTION 9.5. Bond Insurance.

The Authority hereby acknowledges that the Purchaser's bid is contingent upon the issuance of a policy of a bond insurance policy from the Bond Insurer insuring the timely payment of principal of and interest on the Bonds. The terms and conditions of the bond insurance policy, as set out in Exhibit E hereto, are incorporated herein for all purposes for so long as such policy remains in effect. Such bond insurance policy is to be obtained at the Purchaser's expense. The appropriate officials and representatives of the Authority are hereby authorized and directed to execute such documents and certificates and to do any and all things necessary or desirable to obtain such insurance, and the printing on the Bonds of an appropriate legend or statement regarding such insurance, as provided by the Bond Insurer, is hereby approved.

SECTION 9.6. Continuing Disclosure Undertaking.

A. Annual Reports. The Authority shall enter into a continuing disclosure agreement with each of the Participants. The Authority also covenants to provide annually to the MSRB, within six months after the end of each fiscal year, annual financial statements, being the financial statements of the Authority included in Appendix B of the Official Statement, but for the most recently concluded fiscal year of the Authority, and financial information and operating data with respect to the Authority of the general type included in the final Official Statement authorized by Section 8.2 hereof, being the information described in Exhibit D hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Appendix B thereto and (2) audited, if the Authority commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the Authority shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available but if such audited financial statements are unavailable, the Authority will provide such financial statements on an unaudited basis within the above-described six-month period.

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

The financial information and operating data to be provided pursuant to this Section 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 or filed with the SEC, or may be provided in any other manner consistent with the Rule.

B. Material Event Notices. The Authority shall notify the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- (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 Bonds;
 - (7) Modifications to rights of holders of the Bonds;
 - (8) Bond calls;
 - (9) Defeasances;
 - (10) Release, substitution, or sale of property securing repayment of the Bonds;
- and
- (11) Rating changes.

The Authority shall notify the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data in accordance with this Section by the time required by such Section.

C. Limitations Disclaimers and Amendments. The Authority shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Authority remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the Authority in any event will give the notice required by this Section of any Bond calls and defeasance that cause the Authority to be no longer such an “obligated person.”

The provisions of this Section are for the sole benefit of the registered Holders of the Bonds, 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 Authority 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 Authority'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 Authority does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND 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 Authority in observing or performing its obligations under this Section shall constitute a breach of or default under this Resolution for purposes of any other provision of this Resolution.

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

The provisions of this Section may be amended by the Authority 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 Authority, but only if (i) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 (ii) either (A) the registered Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (B) a person or entity that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered Holders of the Bonds. If the Authority so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Authority may also amend or repeal the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Authority also may amend the provisions of this Section 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 have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule.

D. Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

“*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.

SECTION 9.7. Redemption Prior to Maturity of Refunded Bonds.

To minimize the Authority’s costs of refunding, the Authority hereby authorizes and directs that the Refunded Bonds shall be called for redemption prior to maturity in the amounts, at the dates and at the redemption prices set forth in Schedule I hereto, and the President, Vice President and Secretary of the Authority are hereby authorized and directed to take all necessary and appropriate action to give or cause to be given a notice of redemption and/or a notice of defeasance to the holders or paying agents, as appropriate, of the Refunded Bonds and, if required, to publish such notices, all in the manner required by the resolution authorizing the issuance of the Refunded Bonds.

SECTION 9.8. Legal Holidays.

In any case where the date interest accrues and becomes payable on the Bonds or principal of the Bonds matures shall be in the City of Dallas, Texas, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal need not be made on such date, but payment may be made on the next succeeding day which is not in the City of Dallas, Texas, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized by law to close with the same force and effect as if made on the date of Stated Maturity and no interest shall accrue for the period from the date of Stated Maturity to the date of actual payment.

SECTION 9.9. No Recourse Against Authority Officials.

No recourse shall be had for the payment of principal of or interest on any Bonds or for any claim based thereon or on this Resolution against any official of the Authority or any person executing any Bonds.

SECTION 9.10. Further Proceedings.

The President, Vice President and Secretary and other appropriate officials of the Authority are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Resolution. The President, Vice President and Secretary and other appropriate officials of the Authority are each hereby authorized to execute, attest and impress the Authority’s seal to such other agreements, assignments, bonds, certificates, contracts, documents, licenses, instruments, releases, financing statements, letters of instruction, notices of acceptance, notices of final payment, written requests and other documents, and to take all

actions and to do all things whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution and the Bonds.

SECTION 9.11. Power to Revise Form of Documents.

Notwithstanding any other provision of this Resolution, the President, Vice President and Secretary and other appropriate officials of the Authority are each hereby authorized to make or approve such revisions, additions, deletions and variations in the form of the documents attached hereto as exhibits as, in the judgment of the President, Vice President and Secretary and other appropriate officials of the Authority, and in the opinion of Bond Counsel to the Authority, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution, the Preliminary Official Statement, and the final Official Statement; provided, however, that any changes to such documents resulting in substantive amendments to the terms and conditions of the Bonds or such documents shall be subject to the prior approval of the Board.

SECTION 9.12. Incorporation of Findings and Determinations.

The findings and determinations of the Board contained in the preamble hereof are hereby incorporated by reference and made a part of this Resolution for all purposes as if the same were restated in full in this Section.

SECTION 9.13. Severability.

If any provision of this Resolution or the application thereof to any circumstance shall be held to be invalid, the remainder of this Resolution and the application thereof to other circumstances shall nevertheless be valid, and the Board hereby declares that this Resolution would have been enacted without such invalid provision.

SECTION 9.14. Public Meeting.

It is officially found, determined, and declared that the meeting at which this Resolution is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Resolution, was given, all as required by, the Texas Government Code, Chapter 551, as amended.

SECTION 9.15. Effective Date.

This Resolution shall be in force and effect from and after its passage on the date shown below.

SECTION 9.16. Engagement of Bond Counsel.

The engagement letter of Andrews Kurth LLP, Bond Counsel, attached hereto as Exhibit F, is hereby approved.

PASSED AND ADOPTED this 14th day of April, 2010.

LA PORTE AREA WATER AUTHORITY

ATTEST:

President

Secretary

(Authority Seal)

EXHIBITS:

- A – Form of Bond
- B – Paying Agent/Registrar Agreement
- C – Winning Bid
- D – Description of Annual Financial Information and Operating Data
- E – Financial Guaranty Agreement
- F – Engagement Letter of Bond Counsel

SCHEDULE I
REFUNDED BONDS

Series	Maturity (March 15)	Principal Amount	Redemption Date	Price
Contract Revenue	2011	\$550,000	05/17/2010	100%
Refunding Bonds,	2012	580,000	05/17/2010	100
Series 1998	2013	615,000	05/17/2010	100
	2014	640,000	05/17/2010	100
	2015	670,000	05/17/2010	100
	2016	705,000	05/17/2010	100
	2017	320,000	05/17/2010	100

EXHIBIT A

FORM OF BOND

NUMBER
R-¹
REGISTERED

PRINCIPAL AMOUNT
\$ _____
REGISTERED

UNITED STATES OF AMERICA
STATE OF TEXAS

LA PORTE AREA WATER AUTHORITY
CONTRACT REVENUE REFUNDING BOND
SERIES 2010

INTEREST RATE:² _____ DATED DATE: May 1, 2010 MATURITY DATE:² _____ CUSIP NO.:² _____

REGISTERED OWNER:

PRINCIPAL AMOUNT:

THE LA PORTE AREA WATER AUTHORITY, a conservation and reclamation district of the State of Texas (the "Authority"), for value received, hereby promises to pay to the Registered Owner identified above or its registered assigns, on the maturity date specified above, upon presentation and surrender of this Bond at the principal corporate trust office of The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, or its successor (the "Paying Agent/Registrar"), the principal amount identified above, payable in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due to the United States of America, and to pay interest thereon at the rate shown above, calculated on a basis of a 360-day year composed of twelve 30-day months, from the later of the Dated Date identified above or the most recent interest payment date to which interest has been paid or duly provided for.³

¹ Initial Bond shall be numbered T-1.

² To be omitted from initial Bond.

³ The first sentence of the initial Bond shall read as follows:

"THE LA PORTE AREA WATER AUTHORITY, a conservation and reclamation district of the State of Texas (the "Authority"), for value received, hereby promises to pay to the Registered Owner identified above or its registered assigns, on March 15 of each of the years and in the principal amounts set forth in the following schedule: [Insert information regarding years of maturity, principal amounts and interest rates from Section 2.1 of the Resolution] upon presentation and surrender of this Bond at the principal corporate trust office of The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, or its successor (the "Paying Agent/Registrar"), payable in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of

The principal of this Bond is payable at corporate trust office of the Paying Agent/Registrar, upon presentation and surrender of this Bond. Interest on this Bond is payable on September 15, 2010, and each March 15 and September 15 thereafter until maturity (each an "Interest Payment Date") of this Bond, by check sent by United States mail, first class, postage prepaid, by the Paying Agent/Registrar to the Person in whose name this Bond is registered at the close of business on the Regular Record Date, which shall be the first day (whether or not a business day) of the calendar month in which such Interest Payment Date occurs. Any accrued interest payable at maturity shall be paid upon presentation and surrender of this Bond at the office of the Paying Agent/Registrar.

Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Registered Owner on such Regular Record Date, and shall be paid to the Person in whose name this Bond is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Paying Agent/Registrar, notice whereof being given to Bondholders not less than 10 days prior to such Special Record Date. All such interest shall be payable at the principal office of the Paying Agent/Registrar, and shall be paid by check or draft mailed to such Registered Owner at the address of such Registered Owner as the same appears on the Bond Register of the Authority kept by the Paying Agent/Registrar or in accordance with other customary arrangements acceptable to the Paying Agent/Registrar made by the Registered Owner. All payments hereon shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

In any case where the date interest accrues and becomes payable on the Bonds or principal of the Bonds matures shall be in the City of Dallas, Texas, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal need not be made on such date, but payment may be made on the next succeeding day which is not in the City of Dallas, Texas, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized by law to close with the same force and effect as if made on the due date and no interest shall accrue for the period from such due date to the date of actual payment.

This Bond is one of the series specified in its title issued in the aggregate principal amount of \$[4,070,000] (herein referred to as the "Bonds") pursuant to a Resolution adopted by the Board of Directors of the Authority on April 14, 2010 (herein referred to as the "Resolution"), for the purposes of providing funds for the refunding and defeasance of certain of the Authority's outstanding obligations (the "Refunded Bonds"), and paying costs of issuing the Bonds and refunding the Refunded bonds, under and in strict conformity with the Constitution and laws of the State of Texas, including particularly (but not by way of limitation) Chapter 1207, Texas Government Code, as amended.

This Bond is not subject to optional or mandatory redemption prior to maturity.

debts due to the United States of America, and to pay interest thereon at the rates shown above, calculated on a basis of a 360-day year composed of twelve 30-day months, from the later of the Dated Date identified above or the most recent interest payment date to which interest has been paid or duly provided for."

The Bonds are special, limited obligations of the Authority, payable solely from and to the extent of, and equally and ratably secured (together with such other parity revenue obligations as are now outstanding or hereafter may be issued by the Authority in accordance with the provisions of the Resolution) by a pledge of the Pledged Revenues (as defined in the Resolution) of the waterworks system (the "System") of the Authority. The Bonds do not constitute a legal or equitable pledge of, charge against, or lien or encumbrance upon the System or any other property of the Authority, except the Pledged Revenues. The Holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or otherwise have any recourse against the Authority in respect thereof except as to such Pledged Revenues. Notwithstanding any other provision hereof to the contrary, the limited obligation of the Authority to make money available to pay this Bond may be defeased by the deposit of money and/or certain debt obligations sufficient for such purpose as provided in the Resolution.

Reference is hereby made to the Resolution, a copy of which is on file in the principal office of the Paying Agent/Registrar, for a description of the Pledged Revenues thereby pledged and the nature and extent of the security for the Bonds, the terms and conditions for the issuance of parity revenue obligations, and the respective rights thereunder of the Holders of the Bonds, the Authority, and the Paying Agent/Registrar.

The Resolution permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Authority and the rights of the Holders of the Bonds under the Resolution at any time by the Authority with the written consent of [Assured Guaranty Corp.] and the consent of the Holders of a majority in aggregate principal amount of the Bonds at the time Outstanding (as defined in the Resolution) affected by such modification. Any such consent by the Holder of this Bond shall be conclusive and binding upon such Holder and all future Holders of this Bond and of any Bond issued upon the transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent is made upon this Bond.

As provided in the Resolution and subject to certain limitations therein set forth, this Bond is transferable on the Bond Register of the Authority, upon surrender of this Bond for transfer at the principal office of the Paying Agent/Registrar in Dallas, Texas, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the registered Holder hereof or his attorney duly authorized in writing, and thereupon one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

The Bonds are issuable only as fully registered Bonds without coupons in the denominations of \$5,000 and any integral multiple thereof. Upon surrender of this Bond for exchange at the principal office of the Paying Agent/Registrar in Dallas, Texas, and subject to certain limitations set forth in the Resolution, one or more new fully registered Bonds of the same Stated Maturity, of designated authorized denominations, and for the same aggregate principal amount will be issued to the registered Holder of this Bond.

No service charge shall be made for any transfer or exchange hereinabove referred to, but the Paying Agent shall require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

The Authority, the Paying Agent/Registrar, and any agent of either of them may treat the Person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and none of the Authority, the Paying Agent/Registrar and any such agent shall be affected by notice to the contrary.

It is hereby certified, recited, represented, and covenanted that the Authority is a duly organized and legally existing conservation and reclamation district under and by virtue of the Constitution and laws of the State of Texas; that the issuance of the Bonds is duly authorized by law; that all acts, conditions, and things required to exist and be done precedent to and in the issuance of the Bonds to render the same lawful and valid obligations of the Authority have been properly done, have happened, and have been performed in regular and due time, form, and manner as required by the Constitution and laws of the State of Texas and the Resolution; that the Bonds do not exceed any constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of the Pledged Revenues as aforestated. In case any provision in this Bond or any application thereof to any Person or circumstance shall nevertheless be held to be invalid, the remaining provisions of this Bond and the application thereof to other Persons and circumstances shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Resolution shall be construed in accordance with and governed by the laws of the State of Texas and the United States of America.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Resolution unless this Bond is authenticated by the Paying Agent/Registrar by due execution of the authentication certificate endorsed hereon.⁴

IN WITNESS WHEREOF, the Authority has caused this Bond to be duly executed under its official seal.

⁴ In the initial Bond, this paragraph shall read:

“THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Resolution unless this Bond is registered by the Comptroller of Public Accounts of the State of Texas by due execution of the registration certificate endorsed hereon.”

LA PORTE AREA WATER AUTHORITY

By _____
President

COUNTERSIGNED:

Secretary

(SEAL)

* * * *

[Form of Registration Certificate of Comptroller of Public Accounts]

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER §
OF PUBLIC ACCOUNTS §
THE STATE OF TEXAS §

REGISTER NO. _____

I HEREBY CERTIFY THAT there is on file and of record in my office a certificate to the effect that the Attorney General of the State of Texas has examined and finds that this Bond has been issued in conformity with the Constitution and laws of the State of Texas and is a valid and binding special, limited obligation of the Authority of Pasadena, Texas, and further that this Bond has been registered this day, by me.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

* * * *

[Form of Certificate of Authentication]

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds referred to in the within-mentioned Resolution, a Predecessor Bond for which has been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

[Name of Paying Agent]
as Paying Agent

By _____
Authorized Signature

Date: _____

* * * *

[Form of Assignment]

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee:)

(Social Security or other identifying number:)

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

Dated:

Signature Guaranteed:

NOTICE: The signature(s) on this assignment must correspond with the name(s) of the registered owner(s) appearing on the face of the within Bond in every particular.

The following abbreviations, when used in the inscription on the face of the within Bond or above Assignment, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT
Custodian
(Cust.) (Minor)
under Uniform Gifts to Minors Act

State

Additional abbreviations may also be used though not in the above list.

[Form of Statement of Insurance]

[TO COME]

EXHIBIT B
PAYING AGENT/REGISTRAR AGREEMENT

EXHIBIT C
WINNING BID

EXHIBIT D

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION AND OPERATING DATA

The following information is referred to in Section 9.6 of this Resolution.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the Authority 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 audited financial statements of the Authority, but for the most recently concluded fiscal year, and, to the extent that such statements are not completed and available, unaudited financial statements for such fiscal year.
2. The quantitative and financial information and operating data with respect to the Authority of the general type included under the headings “INVESTMENT AUTHORITY AND OBJECTIVES OF THE AUTHORITY – Current Investments,” “THE AUTHORITY,” “DEBT SERVICE SCHEDULE” and “SELECTED FINANCIAL DATA” and in Appendix B.

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 E
FINANCIAL GUARANTY AGREEMENT

EXHIBIT F
ENGAGEMENT LETTER OF BOND COUNSEL

EXHIBIT B
ESTIMATE OF AMOUNTS PAYABLE

La Porte Area Water Authority
Refunding Effects
Preliminary Refunding Numbers - Upfront Savings

Year Ending 09/30	Less: Debt Service		Plus: Contract Rev Rfdg Bds, Series			Post Rfndg Debt Service	Post Rfndg Savings (2)
	Current Total Debt Service	on Refunded Bonds(1)	Current Interest Bonds		Capital Appr Bonds		
			Principal	Interest			
2010	740,456	100,181		60,374		700,649	25,213
2011	735,513	735,513	560,000	151,000		711,000	24,513
2012	736,163	736,163	585,000	128,100		713,100	23,062
2013	741,288	741,288	615,000	104,100		719,100	22,188
2014	735,713	735,713	635,000	79,100		714,100	21,613
2015	734,600	734,600	655,000	53,300		708,300	26,300
2016	736,944	736,944	685,000	26,500		711,500	25,444
2017	327,600	327,600	320,000	6,400		326,400	1,200
Totals	\$5,488,277	\$4,848,002	\$4,055,000	\$608,874		\$5,304,149	\$169,532

- (1) - This column only reflects debt payments scheduled after the closing date of 05/13/2010.
(2) - Savings are reduced by fund transfers at closing totaling \$20,000.00 (see Sources of funds report).
(2) - First year savings include \$5,406.67 of accrued interest received at delivery.

La Porte Area Water Authority
Sources & Uses Report
Preliminary Refunding Numbers - Upfront Savings

Sources of Funds:

Principal Amount of Current Interest Bonds (CIBs)	4,055,000.00
CIB Premium	168,434.45
Issuer Contribution	20,000.00
Accrued Interest	5,406.67
Total SOURCES of Funds	\$4,248,841.12

Uses of Funds:

SLG Escrow Cost	4,114,507.88
Bond Insurance	18,655.50
Accrued Interest Deposit to D/S Fund	5,406.67
Issuance Expenses: (\$105,675.75)	
Underwriter's Discount	29,398.75
Rating Agency	10,000.00
Bond Counsel	28,500.00
Printing	10,000.00
Trustee	800.00
Financial Advisor	19,422.00
Attorney General	4,055.00
Verification Agent	3,500.00
Rounding Amount	4,595.32
Total USES of Funds	\$4,248,841.12

Miscellaneous Bond Issuance Information:

Delivery Date:	05/13/2010
Principal Amount of Bonds Being Refunded	4,080,000.00
Principal Amount of the Refunding Bonds	4,055,000.00
Proceeds of "The (new) Bonds"	4,223,434.45
Rate/Yield on the Refunded Bonds	4.81792736%
"All Costs Included" TIC on the New Issue is	3.68005125%
Federal Arbitrage Yield on the New Issue is	2.93148160%
Yield on Escrow	-
Total Debt Service Savings	169,532.23
Present Value Savings @ 2.93148160%	154,980.70
Total Debt Service Savings as a Percent of Total Debt Service of Refunded Bonds	3.49695194%
Present Value Savings as a Percent of Principal Amount of Bonds Being Refunded	3.79854690%

La Porte Area Water Authority
Refunding Analysis Savings Report
Preliminary Refunding Numbers - Upfront Savings

Dates	Maturing Amount	Proceeds @ Issue Date	Coupon	Yield	Interest Amount	Total Debt Service	Escrowed Debt	FY Begins 10/01 Savings	Cumulative Savings(1)	PV of Savings 2.93148160%
05/13/2010								-20,000.00	-20,000.00	-20,000.00
09/15/2010					60,374.44	60,374.44	100,181.25	39,806.81	19,806.81	39,416.15
03/15/2011	560,000	572,230.40	4.000	1.370000	81,100.00	641,100.00	650,181.25	9,081.25	28,888.06	8,862.23
09/15/2011					69,900.00	69,900.00	85,331.25	15,431.25	44,319.31	14,841.54
03/15/2012	585,000	610,114.05	4.000	1.620000	69,900.00	654,900.00	665,331.25	10,431.25	54,750.56	9,887.69
09/15/2012					58,200.00	58,200.00	70,831.25	12,631.25	67,381.81	11,800.09
03/15/2013	615,000	647,545.80	4.000	2.070000	58,200.00	673,200.00	685,831.25	12,631.25	80,013.06	11,629.63
09/15/2013					45,900.00	45,900.00	55,456.25	9,556.25	89,569.31	8,671.37
03/15/2014	635,000	670,356.80	4.000	2.470000	45,900.00	680,900.00	695,456.25	14,556.25	104,125.56	13,017.58
09/15/2014					33,200.00	33,200.00	40,256.25	7,056.25	111,181.81	6,219.21
03/15/2015	655,000	690,009.75	4.000	2.810000	33,200.00	688,200.00	710,256.25	22,056.25	133,238.06	19,159.04
09/15/2015					20,100.00	20,100.00	24,343.75	4,243.75	137,481.81	3,633.06
03/15/2016	685,000	708,406.45	4.000	3.350000	20,100.00	705,100.00	729,343.75	24,243.75	161,725.56	20,455.16
09/15/2016					6,400.00	6,400.00	7,600.00	1,200.00	162,925.56	997.85
03/15/2017	320,000	324,771.20	4.000	3.750000	6,400.00	326,400.00	327,600.00	1,200.00	164,125.56	983.43
	\$4,055,000	\$4,223,434.45			\$608,874.44	\$4,663,874.44	\$4,848,000.00	\$164,125.56		\$149,574.03
Acc Int					-5,406.67	-5,406.67		\$5,406.67		\$5,406.67
Grnd Total	\$4,055,000	\$4,223,434.45			\$603,467.77	\$4,658,467.77	\$4,848,000.00	\$169,532.23		\$154,980.70

(1) Includes: -20,000.00 Transfer. and \$0.00 New Funds.

La Porte Area Water Authority
Preliminary Refunding Numbers - Upfront Savings

Dated Date = 09/15/2009

Contract Rev Rfdg Bds, Series 1999

Delivery Date = 09/15/2009

Dates	Term Bond Maturities	Bond Redemptions	Proceeds	Coupon Rate	Yield	Price	Interest Amount	Total Debt Service	Fiscal Year Debt Service	Debt Service to Call
03/15/2010	-	525,000.00	525,000.00	5.750	5.750000	100.000000	115,275.00	640,275.00	-	640,275.00
05/14/2010	-	-	-	-	-	-	-	-	-	4,112,837.19
09/15/2010	-	-	-	-	-	-	100,181.25	100,181.25	740,456.25	-
03/15/2011	-	550,000.00 *	550,000.00	5.400	5.400000	100.000000	100,181.25	650,181.25	-	-
09/15/2011	-	-	-	-	-	-	85,331.25	85,331.25	735,512.50	-
03/15/2012	-	580,000.00 *	580,000.00	5.000	5.000000	100.000000	85,331.25	665,331.25	-	-
09/15/2012	-	-	-	-	-	-	70,831.25	70,831.25	736,162.50	-
03/15/2013	-	615,000.00 *	615,000.00	5.000	5.000000	100.000000	70,831.25	685,831.25	-	-
09/15/2013	-	-	-	-	-	-	55,456.25	55,456.25	741,287.50	-
03/15/2014	-	640,000.00 *	640,000.00	4.750	4.750000	100.000000	55,456.25	695,456.25	-	-
09/15/2014	-	-	-	-	-	-	40,256.25	40,256.25	735,712.50	-
03/15/2015	-	670,000.00 *	670,000.00	4.750	4.750000	100.000000	40,256.25	710,256.25	-	-
09/15/2015	-	-	-	-	-	-	24,343.75	24,343.75	734,600.00	-
03/15/2016	-	705,000.00 *	705,000.00	4.750	4.750000	100.000000	24,343.75	729,343.75	-	-
09/15/2016	-	-	-	-	-	-	7,600.00	7,600.00	736,943.75	-
03/15/2017	-	320,000.00 *	320,000.00	4.750	4.750000	100.000000	7,600.00	327,600.00	327,600.00	-
Total	-	4,605,000.00	4,605,000.00				883,275.00	5,488,275.00	5,488,275.00	4,753,112.19
Acc Int	-	-	-				-	-	-	-
Grand Ttls	-	4,605,000.00	4,605,000.00				883,275.00	5,488,275.00	5,488,275.00	4,753,112.19

* - Bonds callable ... 05/14/2010@100.000

TIC (Incl. all expenses) 4.84969941%	Average Coupon 4.84318026%	Net Eff. Int. Rate (Texas Vernon's) = 4.843180% (with Adjstmnt of \$0.00).
TIC (Arbitrage TIC) 4.84969941%	Average Life (yrs) ... 3.96	IRS Form 8038-G NIC = 4.843180% (with Adjstmnt of \$0.00).
Bond Years 18,237.50	WAM (yrs) 3.960369	NIC = 4.843180% (with Adjstmnt of \$0.00).

La Porte Area Water Authority
Escrow Sufficiency & Balance Report
Preliminary Refunding Numbers - Upfront Savings
Escrow Settlement Date Is 05/13/2010

Dates	Proceeds from Original Restricted Esc	Less Amts to be Invested in 0% SLGs	Plus Maturing Amts Invested in 0% SLGs	Adjusted Proceeds from Rstrct'd Esc	Present Value @ 0.00000000%	Proceeds from 'Other' Investments	Old D/S Requirement	Escrow New Balance	Escrow Old Balance
05/13/2010	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,114,507.88	4,114,507.88
05/17/2010	0.00	0.00	0.00	0.00	0.00	0.00	4,114,506.88	1.00	1.00
Totals	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,114,506.88		
Cost of SLG Securities			\$0.00	Escrow Arbitrage YLD after Reinvestment in 0% SLGs = 0.00000000%					
Cost of 'Other' Restricted Investments			\$0.00						
Escrow Starting Balance			\$4,114,507.88						
Total Escrow Cost ...			\$4,114,507.88	SLG Rates Were Taken From SLG Table Dated 03/10/2010					

La Porte Area Water Authority
Preliminary Refunding Numbers - Upfront Savings
Contract Rev Rfdg Bds, Series 1999
(Bonds to be Refunded)

Dated Date = 03/15/2010

Delivery Date = 03/15/2010

Dates	Term Bond Maturities	Bond Redemptions	Proceeds	Coupon Rate	Yield	Price	Interest Amount	Total Debt Service	Fiscal Year Debt Service	Debt Service to Call
05/17/2010	-	-	-	-	-	-	-	-	-	4,114,506.88
09/15/2010	-	-	-	-	-	-	100,181.25	100,181.25	100,181.25	-
03/15/2011	-	550,000.00 *	550,000.00	5.400	5.400000	100.000000	100,181.25	650,181.25	-	-
09/15/2011	-	-	-	-	-	-	85,331.25	85,331.25	735,512.50	-
03/15/2012	-	580,000.00 *	580,000.00	5.000	5.000000	100.000000	85,331.25	665,331.25	-	-
09/15/2012	-	-	-	-	-	-	70,831.25	70,831.25	736,162.50	-
03/15/2013	-	615,000.00 *	615,000.00	5.000	5.000000	100.000000	70,831.25	685,831.25	-	-
09/15/2013	-	-	-	-	-	-	55,456.25	55,456.25	741,287.50	-
03/15/2014	-	640,000.00 *	640,000.00	4.750	4.750000	100.000000	55,456.25	695,456.25	-	-
09/15/2014	-	-	-	-	-	-	40,256.25	40,256.25	735,712.50	-
03/15/2015	-	670,000.00 *	670,000.00	4.750	4.750000	100.000000	40,256.25	710,256.25	-	-
09/15/2015	-	-	-	-	-	-	24,343.75	24,343.75	734,600.00	-
03/15/2016	-	705,000.00 *	705,000.00	4.750	4.750000	100.000000	24,343.75	729,343.75	-	-
09/15/2016	-	-	-	-	-	-	7,600.00	7,600.00	736,943.75	-
03/15/2017	-	320,000.00 *	320,000.00	4.750	4.750000	100.000000	7,600.00	327,600.00	327,600.00	-
Total	-	4,080,000.00	4,080,000.00				768,000.00	4,848,000.00	4,848,000.00	4,114,506.88
Acc Int	-	-	-				-	-	-	-
Grand Ttls	-	4,080,000.00	4,080,000.00				768,000.00	4,848,000.00	4,848,000.00	4,114,506.88

* - Bonds callable ... 05/17/2010@100.000

TIC (Incl. all expenses) 4.82403124%	Average Coupon 4.81957954%	Net Eff. Int. Rate (Texas Vernon's) = 4.819580% (with Adjstmnt of \$0.00).
TIC (Arbitrage TIC) 4.82403124%	Average Life (yrs) ... 3.91	IRS Form 8038-G NIC = 4.819580% (with Adjstmnt of \$0.00).
Bond Years 15,935.00	WAM (yrs) 3.905637	NIC = 4.819580% (with Adjstmnt of \$0.00).

La Porte Area Water Authority
Proof of Federal Arbitrage Yield
Preliminary Refunding Numbers - Upfront Savings

Dated Date 05/01/2010

Contract Rev Rfdg Bds, Series 2010

Delivery Date 05/13/2010

Dates	Face Amounts	Proceeds to: Bondholder(+) Issuer(-)	Interest to: Bondholder(+) Issuer(-)	Recoverable, Recurring Fees	Total Debt Service	Disc Term Bond Adjstmt for Yld Calc	BAB "Direct Pymt" Adjustment	Total Adjusted Cash Flow	PV of Adj D/S to 05/13/2010 @ 2.93148160%
05/13/2010	0.00	-4,223,434.45	-5,406.67	0.00	0.00	0.00	0.00	-4,228,841.12	-4,228,841.12
09/15/2010	0.00	0.00	60,374.44	0.00	60,374.44	0.00	0.00	60,374.44	59,781.93
03/15/2011	560,000.00	572,230.40	81,100.00	0.00	641,100.00	0.00	0.00	641,100.00	625,638.08
09/15/2011	0.00	0.00	69,900.00	0.00	69,900.00	0.00	0.00	69,900.00	67,228.77
03/15/2012	585,000.00	610,114.05	69,900.00	0.00	654,900.00	0.00	0.00	654,900.00	620,774.01
09/15/2012	0.00	0.00	58,200.00	0.00	58,200.00	0.00	0.00	58,200.00	54,370.35
03/15/2013	615,000.00	647,545.80	58,200.00	0.00	673,200.00	0.00	0.00	673,200.00	619,817.43
09/15/2013	0.00	0.00	45,900.00	0.00	45,900.00	0.00	0.00	45,900.00	41,649.80
03/15/2014	635,000.00	670,356.80	45,900.00	0.00	680,900.00	0.00	0.00	680,900.00	608,925.49
09/15/2014	0.00	0.00	33,200.00	0.00	33,200.00	0.00	0.00	33,200.00	29,261.69
03/15/2015	655,000.00	690,009.75	33,200.00	0.00	688,200.00	0.00	0.00	688,200.00	597,800.98
09/15/2015	0.00	0.00	20,100.00	0.00	20,100.00	0.00	0.00	20,100.00	17,207.53
03/15/2016	685,000.00	708,406.45	20,100.00	0.00	705,100.00	0.00	0.00	705,100.00	594,913.48
09/15/2016	0.00	0.00	6,400.00	0.00	6,400.00	0.00	0.00	6,400.00	5,321.86
03/15/2017	320,000.00	324,771.20	6,400.00	0.00	326,400.00	0.00	0.00	326,400.00	267,494.21
Totals	4,055,000.00	0.00	603,467.77	0.00	4,663,874.44	0.00	0.00	435,033.32	-18,655.50
							<i>Plus PV of Bond Insurance</i>		18,655.50
									0.00

La Porte Area Water Authority
Partial Form 8038-G Report (Rev. 11-2000)
Preliminary Refunding Numbers - Upfront Savings
Contract Rev Rfdg Bds, Series 2010

Dated Date = 05/01/2010

Delivery Date = 05/13/2010

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	03/15/2017	\$4,223,434.45	\$4,055,000.00	3.720 years	2.931482%

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

22	Proceeds used for accrued interest			22	5,406.67
23	Issue price of entire issue (enter amount from line 21, column (b))			23	4,223,434.45
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	105,675.75	##	
25	Proceeds used for credit enhancement	25	18,655.50	##	
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0.00	##	
27	Proceeds used to currently refund prior issues	27	4,094,507.88	##	
28	Proceeds used to advance refund prior issues	28	0.00	##	
29	Total (add lines 24 through 28)			29	4,218,839.13
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	4,595.32

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31	Enter the remaining weighted average maturity of the bonds to be currently refunded	=>	3.7445 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded	=>	0.0000 years
33	Enter the last date on which the refunded bonds will be called	=>	05/17/2010
34	Enter the date(s) the refunded bonds were issued		See each Issue's O/S

Note: \$20,000.00 in transerred dollars were allocated to adjust downward the amounts reflected in lines 27 & 28.

La Porte Area Water Authority
Issuance Expenses for NEW10REF
Preliminary Refunding Numbers - Upfront Savings
Expenses for NEW10REF

Expense Title	Type	Units	Expense Raises Arb Yield	Exp has no Affect on Arb Yield	Total
Underwriter's Discount	V	7.250000	0.00	29,398.75	29,398.75
Rating Agency	F	10,000.00	0.00	10,000.00	10,000.00
Bond Counsel	F	28,500.00	0.00	28,500.00	28,500.00
Accountant/CPA	F	0.00	0.00	0.00	0.00
Printing	F	10,000.00	0.00	10,000.00	10,000.00
Trustee	F	800.00	0.00	800.00	800.00
Bond Insurance	D	4.000000	18,655.50	0.00	18,655.50
Financial Advisor	F	19,422.00	0.00	19,422.00	19,422.00
Attorney General	V	1.000000	0.00	4,055.00	4,055.00
Verification Agent	F	3,500.00	0.00	3,500.00	3,500.00
Totals			\$18,655.50	\$105,675.75	\$124,331.25
<i>Type: F - Fixed Expense V - Variable Expense Based on Issue Size D - Variable Expense Based on Total Debt Service E - Variable Expense Based on Total Debt Service Less Accrued Interest R - Variable Expense Based on Reserve Fund Requirement</i>					



EXHIBIT C
CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE AGREEMENT

La Porte Area Water Authority Contract Revenue Refunding Bonds Series 2010

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”), dated as of May 13, 2010 (this “Disclosure Agreement”), is executed and delivered by the City of Shoreacres, Texas (the “City”), and the La Porte Area Water Authority (the “Authority”) in connection with the issuance by the Authority of its Contract Revenue Refunding Bonds, Series 2010. The City, the Dissemination Agent and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with, and constitutes the written undertaking of the City for the benefit of the Bondholders required by, Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. § 240.15c2-12) (the “Rule”).

The City, as an “obligated person” within the meaning of the Rule, undertakes to provide the following information as provided in this Disclosure Agreement:

- (1) Annual Financial Information.

Section 2. Definitions. In addition to the definitions set forth in the Trust Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means, in the case of the City, the financial information or operating data, provided at least annually, of the type included in Exhibit A hereto, which Annual Financial Information may, but is not required to, be audited. Annual Financial Information shall be prepared in accordance with Generally Accepted Accounting Principals.

“*Beneficial Owners*” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

“*Holders*” means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

“*Material Event*” means any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies;

- (ii) Non-payment related Events of Default under and as defined in the Trust Indenture;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) Modifications to rights of Bondholders;
- (viii) Bond calls (other than mandatory sinking fund redemptions);
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) Rating changes.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriters” means the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Report Date” has the meaning set forth in Section 3(a) hereof.

Section 3. Provision of Annual Reports.

(a) While any Bonds are outstanding, the City shall provide the Annual Financial Information on or before December 31 of each year (the “Report Date”), beginning on or before December 31, 2010, to the MSRB. In addition, not later than 15 Business Days prior to said date, the City shall provide the Annual Financial Information to the Authority. In each case, the Annual Financial Information may be submitted as a single document or as a set of documents, and all or any part of such Annual Financial Information may be provided by specific cross-reference to other documents previously provided to the MSRB or filed with the Securities and Exchange Commission.

The City shall also provide notice to the MSRB of any failure to provide Annual Financial Information by the applicable Report Date.

Section 4. Reporting of Material Events. The City and the Authority hereby acknowledge and agree that any reporting of Material Events in connection with the Bonds as required by the Rule will be undertaken by the Authority by separate agreement.

Section 5. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall automatically terminate once the Bonds are no longer outstanding.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Authority may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived by the parties hereto, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, acceptable to the City and the Authority, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, provided that the Authority shall have provided notice of such delivery and of the amendment to the MSRB. Any such amendment shall satisfy, unless otherwise permitted by the Rule, the following conditions:

(i) The amendment may only be made in connection with a change in circumstances that arises from, a change in legal requirements, change in law or change in the identity, nature or status of the obligated person or type of business conducted;

(ii) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment does not materially impair the interests of Beneficial Owners and Holders of any of the Bonds, as determined either by parties unaffiliated with the City and the Authority (such as counsel expert in federal securities laws), or by approving vote of Bondholders pursuant to the terms of the Bond Resolution at the time of the amendment. The initial Annual Financial Information after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change, if any, in the type of operating data or financial information being provided.

Section 7. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Financial Information in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information.

Section 8. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, the Authority may and, at the written direction of the Participating Underwriter or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall, or any Beneficial Owner or Holder of any of the Bonds may, seek mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement; provided that the City shall be liable for monetary damages or any other monetary penalty or payment for breach of any of its obligations under this Section. The sole remedy under this Disclosure Agreement in the event of any failure of the City to comply with this Disclosure Agreement shall be an action to compel performance.

Section 9. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, Authority, the Participating Underwriters and the Beneficial Owners and Holders of any Bonds and shall create no rights in any other person or entity.

Section 10. Interpretation. It being the intention of the City and the Authority that there be full and complete compliance with the Rule, this Disclosure Agreement shall be construed in accordance with the written guidance and no-action letters published from time to time by the Securities and Exchange Commission and its staff with respect to the Rule.

Section 11. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Texas.

Section 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the City and the Authority have each caused their duly authorized officers to execute this Disclosure Agreement as of the day and year first written above.

CITY OF SHOREACRES, TEXAS

By: _____
Its: Mayor

LA PORTE AREA WATER AUTHORITY

By: _____
Its: President

EXHIBIT A

ANNUAL DISCLOSURE REPORT

**La Porte Area Water Authority
Contract Revenue Refunding Bonds
Series 2010**

Report For Period Ending _____

TOP TEN WATER CUSTOMERS

The following table sets forth the top ten water customers of the City for fiscal year ended _____, as derived from the City's [un]audited financial statements.

	<u>Customer</u>	<u>Type of Business</u>	<u>20__ Consumption in Gallons</u>
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			