

Signed 4-12-89

ORDINANCE AMENDING ORDINANCE AUTHORIZING THE ISSUANCE OF
\$450,000 CITY OF MAGNOLIA, TEXAS, COMBINATION TAX AND
REVENUE CERTIFICATES OF OBLIGATION, SERIES 1989

THE STATE OF TEXAS §
COUNTY OF MONTGOMERY §
CITY OF MAGNOLIA §

WHEREAS, the City Council of the CITY OF MAGNOLIA, TEXAS (the "City"), authorized the publication of a notice of intention to issue certificates of obligation to the effect that the City Council would meet on March 1, 1988, to adopt an ordinance and take such other action as may be deemed necessary to authorize the issuance of certificates of obligation, in the maximum aggregate principal amount of \$450,000, payable from City ad valorem taxes and from certain revenues of the City's waterworks system, for the purpose of evidencing the indebtedness of the City for all or any part of the cost of constructing public works for the City, to wit: waterworks system facilities, including the acquisition of sites and rights-of-way needed therefor; and the cost of professional services incurred in connection therewith; and

WHEREAS, such notice was published at the times and in the manner required by the Constitution and laws of the State of Texas and of the United States of America, respectively, particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C (Section 271.041, et seq.), Texas Local Government Code; and

WHEREAS, on or about February 29, 1988, a petition executed by at least five (5) percent of the registered voters of the City and protesting the issuance of said certificates was presented to the City Secretary of the City; and

WHEREAS, on March 8, 1988, the City Council of the City, in accordance with Section 271.049(c), Texas Local Government Code, adopted a resolution calling an election within the City to be held on May 7, 1988, to submit to the qualified voters of the City the proposition of whether the City Council should be authorized to issue said certificates; and

WHEREAS, said election was duly held on May 7, 1988, following notice as required by law, in strict conformity with the Constitution and laws of the State of Texas, and said election resulted favorably to the issuance of said certificates of obligation; and

WHEREAS, on March 14, 1989, the City Council of the City adopted an "ORDINANCE AUTHORIZING THE ISSUANCE OF \$450,000 CITY OF MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 1989" (the "Initial Ordinance"), and

WHEREAS, the City Council has determined to amend the Initial Ordinance as hereafter provided; Now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MAGNOLIA that, beginning with Section 1 thereof, the Initial Ordinance is hereby amended to read as follows:

"Section 1. Throughout this ordinance the following terms and expressions as used herein shall have the meanings set forth below:

The term "Certificates" or "Series 1989 Certificates" shall mean the \$450,000 City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1989, authorized in this Ordinance, unless the context clearly indicates otherwise.

The term "City" shall mean the City of Magnolia, Texas.

The term "Construction Fund" shall mean the Construction Fund established pursuant to Section 9 of this Ordinance.

The term "Interest and Sinking Fund" shall mean the interest and sinking fund maintained by the City pursuant to Section 7 of this Ordinance.

The term "Interest Payment Date", when used in connection with any Certificate, shall mean September 10, 1989, and each March 10 and September 10 thereafter until maturity or prior redemption.

The term "Issuance Date" shall mean the date on which the Certificates are issued and paid for by the Purchaser.

The term "Ordinance" as used herein and in the Certificates shall mean this ordinance authorizing the Certificates.

The term "Owner" shall mean any person who shall be the registered owner of any outstanding Certificates.

The term "Paying Agent" shall mean the Registrar.

The term "Purchaser" shall mean the Texas Water Development Board.

The term "Record Date" shall mean, for any Interest Payment Date, the last business day of the month next preceding such Interest Payment Date.

The term "Register" shall mean the books of registration kept by the Registrar in which are maintained the names and addresses of, and the principal amounts registered to, each Owner.

The term "Registrar" shall mean First City National Bank of Austin, Austin, Texas, and its successors in that capacity.

The term "Senior Lien Obligations" shall mean the City's outstanding Waterworks Warrant Notes, Series 1986, presently outstanding in the aggregate principal amount of \$755,516.

Section 2. The Certificates shall be issued in fully registered form, without coupons, in the total authorized aggregate amount of Four Hundred Fifty Thousand Dollars (\$450,000) for the purpose of evidencing the indebtedness of the City for all or any part of the cost of constructing public works for the City, to wit: waterworks system facilities, including the acquisition of sites and rights-of-way needed therefor; and the cost of professional services incurred in connection therewith.

Section 3. (a) The Certificates shall be designated as the "CITY OF MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE

CERTIFICATES OF OBLIGATION, SERIES 1989", and shall be dated March 1, 1989. The Certificates shall bear interest from the later of their Issuance Date, or the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360 day year of twelve 30 day months, with interest payable on September 10, 1989, and semiannually thereafter on March 10 and September 10 of each year until maturity or prior redemption.

(b) The Certificates shall be initially issued bearing the numbers, in the principal amounts, and bearing interest at the rates set forth in the following schedule, and may be transferred and exchanged as set out in this Ordinance. The Certificates shall mature on September 10 in each of the years and in the amounts set out in such schedule. Certificates delivered in transfer of or in exchange for other Certificates shall be numbered in order of their authentication by the Registrar, shall be in the denomination of \$5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Certificate or Certificates in lieu of which they are delivered.

<u>Certificate Number</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
R- 1	1990	\$ 20,000	5.20%
R- 2	1991	25,000	5.45%
R- 3	1992	25,000	5.65%
R- 4	1993	25,000	5.85%
R- 5	1994	25,000	6.05%
R- 6	1995	30,000	6.25%
R- 7	1996	30,000	6.45%
R- 8	1997	30,000	6.60%
R- 9	1998	35,000	6.75%
R-10	1999	35,000	6.90%
R-11	2000	40,000	7.00%
R-12	2001	40,000	7.10%
R-13	2002	45,000	7.20%
R-14	2003	45,000	7.30%

(c) The Certificates shall be signed by the Mayor of the City and countersigned by the City Secretary of the City, by their manual, lithographed, or facsimile signatures, and the official seal of the City shall be manually impressed, or

placed in facsimile, thereon. Such facsimile signatures on the Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates. If any officer of the City whose manual or facsimile signature shall appear on the Certificates shall cease to be such officer before the authentication of such Certificates or before the delivery of such Certificates, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

(d) Only such Certificates as shall bear thereon either (i) the manually executed registration certificate of the Comptroller of Public Accounts of Texas substantially in the form provided in Section 5(b) of this Ordinance or (ii) a certificate of authentication, substantially in the form provided in Section 5(c) of this Ordinance, manually executed by an authorized representative of the Registrar, shall be entitled to the benefits of this Ordinance or shall be valid or obligatory for any purpose. Such duly executed certificate of authentication shall be conclusive evidence that the Certificate so authenticated was delivered by the Registrar hereunder.

(e) The Registrar is hereby appointed as the paying agent for the Certificates. The principal of the Certificates shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they become due and payable, at the principal corporate trust office of the Registrar. The interest on each Certificate shall be payable by check or draft payable on the Interest Payment Date mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register, or by such other method of payment, acceptable to the Registrar, requested by, and at the risk and expense of, the registered owner.

(f) The City, the Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purpose of making and receiving payment of the principal thereof and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Certificate is overdue, and neither the City nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Certificate in accordance with this Section 3(f) shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Certificate to the extent of the sums paid. Amounts held by the Registrar which represent principal of or interest on the Certificates remaining unclaimed by the Owner after the expiration of three years from the date such amounts have become due and payable shall be reported and disposed of by the Registrar in accordance with the provisions of Title 6 of the Texas Property Code, as amended, to the extent that such provisions are applicable to such amounts.

(g) So long as any Certificates remain outstanding, the Registrar shall keep the Register at its principal corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Certificates in accordance with the terms of this Ordinance.

Each Certificate shall be transferable only upon the presentation and surrender thereof at the principal corporate trust office of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Certificate for transfer, the Registrar shall authenticate and deliver in exchange therefor, to the extent possible within three (3) business days after such presentation, a new Certificate or Certificates, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Certificate or Certificates so presented.

All Certificates shall be exchangeable upon presentation and surrender thereof at the principal corporate trust office of the Registrar for a Certificate or Certificates of the same maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Certificate or Certificates presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Certificates in accordance with the provisions of this Section 3(g). Each Certificate delivered in accordance with this Section 3(g) shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such Certificate is delivered.

The City or the Registrar may require the Owner of any Certificate to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Certificate. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the City.

Neither the City nor the Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation will not apply to the exchange by the Owner of the unredeemed balance of a Certificate called for redemption in part.

(h) All Certificates paid in accordance with this Ordinance, and all Certificates in lieu of which exchange Certificates or replacement Certificates are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding such payment or redemption. The Registrar shall furnish the City with appropriate certificates of destruction of such Certificates.

(i) Upon the presentation and surrender to the Registrar of a mutilated Certificate, the Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. The City or the Registrar may require the Owner of such Certificate to pay a sum sufficient to cover any tax or other

governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

If any Certificate is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Certificate has been acquired by a bona fide purchaser, shall execute and the Registrar shall authenticate and deliver a replacement Certificate of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

- (1) furnished to the City and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Certificate;

- (2) furnished such security or indemnity as may be required by the Registrar and the City to save them harmless;

- (3) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and

- (4) met any other reasonable requirements of the City and the Registrar.

If, after the delivery of such replacement Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Certificate has become or is about to become due and payable, the City in its discretion may, instead of issuing a replacement Certificate, authorize the Registrar to pay such Certificate.

Each replacement Certificate delivered in accordance with this Section 3(i) shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such replacement Certificate is delivered.

Section 4. (a) The Certificates maturing on September 10 in the years 1990 through 1997, both inclusive, are not redeemable prior to their scheduled maturities, except with the consent of the registered owners thereof, and except as provided in the Ordinance for the return of excess proceeds of the Certificates to the Texas Water Development Board and the resultant cancellation of Certificates. The City reserves the right, at its option, to redeem the Certificates maturing on September 10, 1998, and thereafter, prior to maturity, in whole or from time to time in part, in inverse numerical order, on September 10, 1997, or on any interest payment date thereafter, at par plus accrued interest on the Certificates called for redemption to the date fixed for redemption. Certificates maturing on September 10, 1998, and thereafter are also subject to redemption as provided in the Ordinance for the return of excess proceeds of the Certificates to the Texas Water Development Board and the resultant cancellation of Certificates.

(b) Principal amounts may be redeemed only in integral multiples of \$5,000. If a Certificate subject to redemption is in a denomination larger than \$5,000, a portion of such Certificate may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Certificate for redemption in part, the Registrar, in accordance with Section 3(g) hereof, shall authenticate and deliver in exchange therefor a Certificate or Certificates of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered.

(c) Notice of any redemption identifying the Certificates to be redeemed in whole or in part shall be given by

the Registrar at least thirty (30) days prior to the date fixed for redemption by (i) sending written notice by United States mail, first class, postage prepaid to the Owner of each Certificate to be redeemed in whole or in part at the address shown on the Register and (ii) by publication in a financial journal or publication published in the City of New York, New York or in the City of Austin, Texas; provided, however, so long as the Certificates to be redeemed are held by the Texas Water Development Board, thirty (30) days' written notice to the Texas Water Development Board shall be deemed to be sufficient notice of redemption. Such notices shall state the redemption date, the redemption price, the place at which Certificates are to be surrendered for payment and, if only a portion of the Certificates outstanding within a maturity are to be redeemed, the numbers of the Certificates or portions thereof within such maturity to be redeemed. Any notice given as provided in this Section 4(c) shall be conclusively presumed to have been duly given, whether or not the owner receives such notice; provided, however, with respect to written notice given to the Texas Water Development Board, the Texas Water Development Board must actually receive such notice for the same to be effective. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Certificates or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Certificates have been called for redemption in whole or in part and due provision has been made to redeem same as herein provided, the Certificates or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Certificate or portion thereof called for redemption shall terminate on the date fixed for redemption.

Section 5. (a) The Certificates shall be in substantially the following form, with such additions, deletions and variations as may be necessary or desirable and permitted by this Ordinance:

(Face of Certificate)

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF MONTGOMERY

NUMBER
R-
REGISTERED

DENOMINATION
\$
REGISTERED

CITY OF MAGNOLIA, TEXAS
Combination Tax and Revenue
Certificate of Obligation, Series 1989

INTEREST RATE: MATURITY DATE: ISSUANCE DATE: CUSIP:

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

THE CITY OF MAGNOLIA, TEXAS (the "City") promises to pay to the Registered Owner identified above, or registered assigns, on the maturity date specified above, upon presentation and surrender of this Certificate at the principal corporate trust office of First City National Bank of Austin, Austin, Texas (the "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 the United States of America, and to pay interest thereon at the rate shown above, calculated on the basis of a 360 day year of twelve 30 day months, from the later of the Issuance Date specified above or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this Certificate is payable by check or draft payable on September 10, 1989, and semiannually thereafter on each March 10 and September 10, mailed by the Registrar to the registered owner as shown on the books of registration kept by the Registrar as of the last business day of the month next preceding each interest payment date, or by such other method of payment, acceptable to the Registrar, requested by, and at the risk and expense of, the registered owner.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS CERTIFICATE SET FORTH ON THE REVERSE HEREOF, WHICH PROVISIONS SHALL HAVE THE SAME FORCE AND EFFECT AS IF SET FORTH AT THIS PLACE.

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

(AUTHENTICATION CERTIFICATE)

CITY OF MAGNOLIA, TEXAS

(SEAL)

Mayor

City Secretary

(Back Panel of Certificate)

THIS CERTIFICATE is one of a duly authorized issue of Certificates, dated March 1, 1989, aggregating \$450,000 (the "Certificates"), issued in accordance with the Constitution and laws of the State of Texas, particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C (Section 271.041, et seq.) Texas Local Government Code, and pursuant to an election held within the City on May 7, 1988, in accordance with the provisions of Chapter 1, Title 22, Revised Civil Statutes of Texas, as amended, for the purpose of evidencing the indebtedness of the City for all or any part of the cost of constructing public works for the City, to wit: waterworks system facilities, including the acquisition of sites and rights-of-way needed therefor; and the cost of professional services incurred in connection therewith; and further pursuant to an ordinance as amended duly adopted by the City Council of the City (the "Ordinance"), which Ordinance is of record in the official minutes of said City Council.

THE CERTIFICATES maturing on September 10 in the years 1990 through 1997, both inclusive, are not redeemable prior to their scheduled maturities, except with the consent of the registered owners thereof, and except as provided in the Ordinance for the return of excess proceeds of the Certificates to the Texas Water Development Board and the resultant cancellation of Certificates. The City reserves the right, at its option, to redeem the Certificates maturing on September 10, 1998, and thereafter, prior to their scheduled maturities, in whole or from time to time in part, in inverse numerical order, in integral multiples of \$5,000, on September 10, 1997, or on any interest payment date thereafter, at par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. The Certificates maturing on September 10, 1998, and thereafter, are also subject to redemption as provided in the Ordinance for the return of excess proceeds of the Certificates to the Texas Water Development Board and the resultant cancellation of Certificates. Reference is made to the Ordinance for complete details concerning the manner of redeeming the Certificates.

NOTICE OF ANY REDEMPTION shall be given at least thirty (30) days prior to the date fixed for redemption by United States mail, first class, postage prepaid, addressed to the registered owner of each Certificate to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar and by publication in a financial journal or publication published in the City of New York, New York or in the City of Austin, Texas; provided, however, that so long as the Certificates to be redeemed are held by the Texas Water Development Board, thirty (30) days' written notice to the Texas Water Development Board of such redemption shall be deemed to be sufficient notice of redemption. When Certificates or portions thereof have been called for redemption, and due provision has been made to redeem the same, the principal amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the amounts called for redemption shall terminate on the date fixed for redemption.

THIS CERTIFICATE is transferable only upon presentation and surrender at the principal corporate trust office of the

Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THE CERTIFICATES are exchangeable at the principal corporate trust office of the Registrar in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

NEITHER THE CITY nor the Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation will not apply to the exchange by the Owner of the unredeemed balance of a Certificate called for redemption in part.

THIS CERTIFICATE shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this Certificate either (i) is registered by the Comptroller of Public Accounts of the State of Texas by registration certificate endorsed hereon or (ii) is authenticated by the Registrar by due execution of the authentication certificate endorsed hereon.

IT IS HEREBY certified, recited and covenanted that this Certificate has been duly and validly issued and delivered; that all acts, conditions and things required or proper to be performed, to exist and to be done precedent to or in the issuance and delivery of this Certificate have been performed, exist and have been done in accordance with law; and that annual ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Certificate, as such interest comes due and such principal matures, have been levied and ordered to be levied against all taxable property in the City within the limits prescribed by the Constitution and laws of the State of Texas, and have been pledged irrevocably for such payment; that this Certificate shall be a debt of the City within the meaning of Article XI, Sections 5 and 7 of the Constitution of Texas; and that, when delivered, this Certificate shall be deemed and construed (i) to be a "Security" within the meaning of Chapter 8, Business and Commerce Code, and (ii) to be a general obligation of the City within the meaning of Chapter 784, Acts of the 61st

Legislature of Texas, Regular Session, 1969 (Article 717k-3, Vernon's Texas Civil Statutes).

IT IS FURTHER certified, recited and represented that the revenues to be derived from the operation of the waterworks system of the City, after the payment of all operation and maintenance expenses thereof, are pledged to the payment of the principal of and interest on this Certificate and the series of Certificates of which it is a part to the extent that said taxes may ever be insufficient or unavailable for said purpose; provided, however, that such pledge of said revenues is and shall be junior and subordinate in all respects to the pledge of said revenues to the payment of the City's outstanding Senior Lien Obligations (as defined in the Ordinance) and any bonds or obligations issued on a parity therewith and any other obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of said revenues to the payment of this Certificate and the series of Certificates of which it is a part, and the City also reserves the right to issue, for any lawful purpose at any time in one or more installments, bonds, certificates of obligation and other obligations of any kind payable in whole or in part from all or any part of the revenues of the City's waterworks system, secured by a pledge of said revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of said revenues securing this Certificate and the series of Certificates of which it is a part.

(b) Certificates No. R-1 through R-14 shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. The registration certificate of the Comptroller of Public Accounts shall be affixed to or printed on Certificates R-1 through R-14 and shall be in substantially the following form:

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

I HEREBY CERTIFY THAT this certificate has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this certificate has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY SIGNATURE AND SEAL this _____.

(SEAL)

XXXXXXXXXXXX
Comptroller of Public Accounts
of the State of Texas

(c) The following form of authentication certificate shall be printed on the face of each of the Certificates:

AUTHENTICATION CERTIFICATE

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

First City National Bank of Austin,
Austin, Texas

By _____
Authorized Signature

Date of Authentication _____

(d) The following form of assignment shall be printed on the back of each of the Certificates:

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 certificate and all rights thereunder, and hereby irrevocably constitutes and appoints

_____ attorney to
transfer said certificate on the books kept for registration
thereof, with full power of substitution in the premises.

DATED: _____

Signature Guaranteed: _____

Registered Owner

NOTICE: This signature
must be guaranteed by a
member firm of the New
York Stock Exchange or
a commercial bank or
trust company.

NOTICE: The signature on this
assignment must correspond with
the name of the registered
owner as it appears on the
face of the within certificate
in every particular.

Section 6. The approving opinion of Vinson & Elkins,
Houston, Texas, and CUSIP Numbers may be printed on the
Certificates, but errors or omissions in the printing of such
opinion or such numbers shall have no effect on the validity
of the Certificates.

Section 7. The proceeds from all taxes levied, assessed
and collected for and on account of the Certificates autho-
rized by this Ordinance shall be deposited, as collected, in
a special fund designated "City of Magnolia, Texas, Combina-
tion Tax and Revenue Certificates of Obligation, Series 1989,
Interest and Sinking Fund" hereby created pursuant to this
Ordinance. While said Certificates or any part of the
principal thereof or interest thereon remain outstanding and
unpaid, there is hereby levied, and there shall be annually
assessed and collected in due time, form and manner, and at
the same time other City taxes are levied, assessed and
collected, in each year, beginning with the current year, a
continuing direct annual ad valorem tax upon all taxable
property in said City, within the limits prescribed by law,
sufficient to pay the current interest on said Certificates
as the same becomes due, and to provide and maintain a
sinking fund of not less than two percent (2%) of the
original principal amount of the Certificates or the amount
required to pay each installment of principal of the
Certificates as the same matures, whichever is greater, full

allowance being made for delinquencies and costs of collection, and said taxes when collected shall be applied to the payment of the interest on and principal of said Certificates and to no other purpose. The City hereby appropriates from lawfully available funds on hand, sufficient funds to pay interest coming due on the Certificates on September 10, 1989. Money in the Interest and Sinking Fund may, at the option of the City, be invested as permitted by state law; provided that all such deposits and investments shall be made in such a manner that money required to be expended from the Interest and Sinking Fund will be available at the proper time or times. All interest and income derived from such deposits and investments of the Interest Sinking Fund shall remain in the Interest and Sinking Fund. So long as any Certificates remain outstanding, all uninvested moneys on deposit in, or credited to, the Interest and Sinking Fund shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

Section 8. The revenues to be derived from the operation of the waterworks system of the City, after the payment of all operation and maintenance expenses thereof, are hereby pledged to the payment of the principal of and interest on the Certificates as the same come due to the extent that the taxes mentioned in Section 7 of this Ordinance may ever be insufficient or unavailable for said purpose; provided, however, that such pledge of said revenues is and shall be junior and subordinate in all respects to the pledge of said revenues to the payment of the City's outstanding Senior Lien Obligations and any bonds or obligations issued on a parity therewith and any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of said revenues to the payment of the Certificates, and the City also reserves the right to issue, for any lawful purpose at any time in one or more installments, bonds, certificates of obligation and other obligations of any kind payable in whole or in part from all or any part of the revenues of the City's waterworks system, secured by a pledge of said revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of said revenues securing this series of Certificates.

Section 9. (a) There is hereby created and established a special fund of the City, to be known as the "City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1989, Construction Fund". The proceeds of the Certificates shall be deposited in the Construction Fund. Money on deposit in the Construction Fund shall be used only for the purposes set forth in Section 2 of this Ordinance, except as provided in Section 9(b), below. Money on deposit in the Construction Fund may, at the option of the City, be invested as permitted by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from the Construction Fund will be available at the proper time or times. So long as any Certificates remain outstanding, all uninvested monies on deposit in, or credited to, the Construction Fund shall be secured by the pledge of security, as provided by law for cities in the State of Texas. All interest and income derived from such deposits and investments shall remain in the Construction Fund.

(b) In compliance with the published rules and regulations of the Texas Water Development Board, the Purchaser of the Certificates, the City covenants and agrees that upon final completion of the project to the financed with the proceeds of the Certificates, and if all or any portion of the Certificates shall be held by or on account of the Texas Water Development Board or the State of Texas, the proper officials of the City shall render due and final accounting to the Texas Water Development Board of the total cost of the project. If, following completion of the project, funds remain on hand in the Construction Fund or if the Development Fund Manager disapproves construction of any portion of the project as not being in accordance with the plans and specifications, the City shall, immediately after filing the final accounting, return to the Texas Water Development Board the amount of such excess and/or the cost as determined by the Development Fund Manager relating to the parts of the project not constructed in accordance with the plans and specifications, to the nearest multiple of \$5,000, and the Texas Water Development Board shall thereupon cancel and deliver to the City, in inverse numerical order, a like amount of Certificates held by the Texas Water Development Board. Any further amount remaining in the District's Construction Fund thereafter shall be promptly deposited by

the District into the Interest and Sinking Fund and applied to the payment of the principal of and interest on the Certificates. Unless otherwise stated in loan commitment of the Texas Water Development Board with respect to the purchase of the Certificates, in determining the amount of available funds for constructing the project to be financed, the City shall account for all monies in the Construction Fund, including all loan funds extended by the Texas Water Development Board, all other funds available from the project as described in the project engineer's sufficiently of funds statement required for closing the Texas Water Development Board's loan and all interest earned by the City on money in the Construction Fund. This requirement shall not be interpreted as prohibiting the Texas Water Development Board from enforcing such other rights as it may have under law.

Section 10. (a) The City intends that the interest on the Certificates shall be excludable from gross income for purposes of federal income taxation pursuant to section 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations. The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Certificates to be includable in gross income, as defined in Section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of this Section 10; provided, however, that the City shall not be required to comply with any particular requirement of this Section 10 if the City has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Certificates or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Section 10 will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this section 10.

(b) The City covenants and agrees that its use of the Net Proceeds of the Certificates (as hereinafter defined) will at all times satisfy the following requirements:

(1) The City will limit the amount of original or investment proceeds of the Certificates to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Certificates ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the Certificates in any manner contrary to the guidelines set forth in Revenue Procedures 82-14, 1982-1 C.B. 459, and 82-15, 1982-1 C.B. 460, including any revisions or amendments thereto shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit;

(2) The City will not permit more than five percent of the Net Proceeds of the Certificates to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of the Certificates. Further, the amount of private-use proceeds of the Certificates in excess of five percent of the Net Proceeds of the Certificates ("excess private-use proceeds") will not exceed the proceeds of the Certificates expended for the governmental purpose of the Certificates to which such excess private-use proceeds relate; and

(3) The City will not permit an amount of proceeds of the Certificates exceeding the lesser of (i) \$5,000,000 or (ii) five percent of the Net Proceeds of the Certificates to be used, directly or indirectly, to finance loans to persons other than governmental units.

When used in this Section 10, the term Net Proceeds of the Certificates shall mean the proceeds from the sale of the Certificates, including investment earnings on such proceeds, less accrued interest.

(c) The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Certificates to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b) (3) of the Code and such regulations.

(d) The City shall certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Certificates are delivered, the City will reasonably expect that the proceeds of the Certificates will not be used in a manner that would cause the Certificates to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Certificates including interest or other investment income derived from Certificate proceeds regulate investments of proceeds of the Certificates, and take such other and further action as may be required so that the Certificates will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

(e) The City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the "gross proceeds" of the Certificates (within the meaning of section 148(f) (6) (B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Certificate as may be required to calculate the amount earned on the investment of the gross proceeds of the Certificates separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issues of the City or moneys which do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the

gross proceeds of the Certificates which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Certificates, all amounts required to be rebated to the federal government. Further, the City 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 Certificates that might result in a "prohibited payment" within the meaning of Temp. Treas. Reg. §1.103-15AT.

(f) The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close the calendar quarter in which the Certificates are issued, an information statement concerning the Certificates, all under and in accordance with section 149(e) of the Code and applicable regulations thereunder.

All officers, employees and agents of the City are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the City as of the date the Certificates are delivered. In complying with the foregoing covenants, the City may rely from time to time upon an opinion issued by nationally recognized bond counsel to the effect that any action by the City or reliance upon any interpretation of the Code or Regulations contained in such opinion will not cause interest on the Certificates to be includable in gross income for federal income tax purposes under existing law.

Section 11. After the Certificates to be initially issued shall have been executed, it shall be the duty of the Mayor of the City to deliver the Certificates to be initially issued and all pertinent records and proceedings to the Attorney General of Texas, for examination and approval by the Attorney General. After the Certificates to be initially issued shall have been approved by the Attorney General, they shall be delivered to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Certificates to be initially issued, the Comptroller of Public Accounts (or a deputy lawfully designated in writing

to act for the Comptroller) shall manually sign the Comptroller's Registration Certificate prescribed herein to be printed and endorsed on the Certificates to be initially issued, and the seal of said Comptroller shall be impressed, or placed in facsimile, thereon.

Section 12. The sale of the Certificates to the Purchaser at the price of par is hereby authorized, approved, ratified and confirmed, subject to the unqualified approving opinion as to the legality of the Certificates of the Attorney General of the State of Texas, and of Vinson & Elkins, Houston, Texas, market attorneys. The Certificates initially delivered shall be registered in the name of the Purchaser or its designee. It is hereby found and determined that the sale of the Certificates to said Purchaser is on the best terms and at the best price obtainable by the City.

Section 13. So long as any of the Certificates are held by the Texas Water Development Board, the City shall provide to the Board's Development Fund Manager a copy of an annual audit of the City's finances.

Section 14. The City covenants that the project to be financed by the Certificates will be kept continually insured against such perils and to such extent that insurance is customarily carried by cities operating similar facilities in similar locations; provided, however, that the City shall not be required to maintain such insurance so long as builders risk insurance covering such facilities during the period of construction is in effect.

Section 15. The City covenants that "as built" plans shall be provided to the Texas Water Development Board, and that so long as any Certificates are held by the Texas Water Development Board it will abide by the Board's rules and the relevant statutes of the State of Texas, including Chapters 15, 16 and 17, Texas Water Code.

X Section 16. The City will not take, or omit to take, any action which action or omission would adversely affect the excludability for Federal income tax purposes of interest payable on any series of bonds issued by the Texas Water Development Board or the Texas Water Resources Finance Authority.

Section 17. If any section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

Section 18. It is hereby officially found and determined that an emergency and urgent public necessity exist relating to the adoption of this Ordinance, and because the proceeds from the sale of the Certificates are required as soon as possible for necessary and urgently needed improvements; that such emergency and necessity require the adoption of this Ordinance and the holding of the meeting, or meetings, at which this Ordinance is adopted at the time or times and place held; the meeting, or meetings, at which this Ordinance was adopted was or were open to the public, and public notice of the time, place and purpose of said meeting, or meetings, was given, all as required by Vernon's Ann. Tex. Civ. St. Article 6252-17, as amended; and that such notice or notices as given are hereby authorized, approved, adopted and ratified.

Section 19. This Ordinance shall be in force and effect from and after its final passage.

Section 20. If the date for payment of the principal of or interest on any Certificate is a Saturday, Sunday, or a day on which banking institutions in the city where the principal corporate trust office of the Registrar is located are authorized by law or executive order to close, or a day on which the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday or a day on which banking institutions in the city where the principal corporate trust office of the Registrar is located are authorized by law or executive order to close, or a day on which the United States Postal Service is not open for business.

Section 21. (a) The Registrar, by undertaking the performance of the duties of the Registrar and in consideration of the payment of fees and/or deposits of money pursuant to

this Ordinance and a Paying Agent/Registrar Agreement, accepts and agrees to abide by the terms of this Ordinance and such Agreement. The City hereby approves the Paying Agent/Registrar Agreement.

(b) The City reserves the right to replace the Registrar or its successor at any time. If the Registrar is replaced by the City, the new Registrar shall accept the previous Registrar's records and act in the same capacity as the previous Registrar. Any successor Registrar shall be either a national or state banking institution and a corporation organized and doing business under the laws of the United States of America or any State authorized under such laws to exercise trust powers and subject to supervision or examination by Federal or State authority. Upon any change in the Registrar, the City shall cause a written notice thereof to be sent to each Owner by United States mail, first class, postage prepaid, which notice shall also give the address of the new Registrar.

Section 22. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation or agreement of any member of the City Council or agent or employee of the City Council or of the City in his individual capacity and neither the members of City Council nor any officer thereof, nor any agent or employee of the City Council or of the City, shall be liable personally on the Certificates when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 23. The facts, recitals, and statements set out in the preamble of this Ordinance are hereby found and determined to be true and correct.

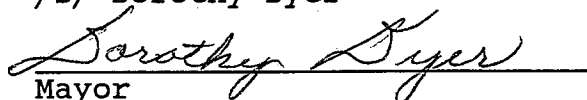
Section 24. The name of the City is and is hereby declared to be the "City of Magnolia, Texas," and any and all actions heretofore taken by the City under such name with respect to the Certificates and the Senior Lien Obligations are hereby ratified and confirmed.

Section 25. Without limitation to any other provision of this Ordinance, the City hereby approves and ratifies all actions taken by the City in (a) authorizing the publication

of notice of intention to issue the Certificates, including, without limitation, adoption of the City's Resolution Authorizing Publication of Notice of Intention to Issue and Sell Certificates of Obligation, adopted on January 30, 1988, and all actions taken and publications made in accordance therewith and (b) calling, holding and conducting the election authorizing the issuance of the Certificates, including, without limitation, adoption of the City's Resolution Calling Certificates of Obligation Election, adopted on March 8, 1988, and adoption of the City's Resolution Canvassing Returns and Declaring Results of Election, adopted on May 10, 1988, and all actions taken in connection therewith."

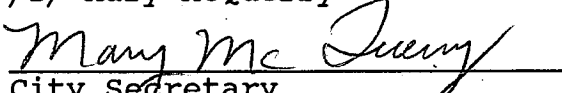
PASSED AND APPROVED on April 11, 1989.

/s/ Dorothy Dyer


Mayor
CITY OF MAGNOLIA, TEXAS

ATTEST:

/s/ Mary McQuerry


City Secretary
CITY OF MAGNOLIA, TEXAS

(SEAL)