



# City of Magnolia

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## ORDINANCE NO. 2006-0085

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF MAGNOLIA, TEXAS, WATER AND SEWER SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2006; AUTHORIZING THE REDEMPTION PRIOR TO MATURITY OF CERTAIN OUTSTANDING BONDS; AND CONTAINING OTHER MATTERS RELATING THERETO

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

WHEREAS, the City Council of the City of Magnolia, Texas (the "City") has heretofore issued its Utility System Revenue Bonds, Series 1995; and

WHEREAS, the City desires to refund such bonds in advance of their maturities (the "Refunded Bonds"); and

WHEREAS, Chapter 1207, Texas Government Code, as amended, authorizes the City to issue refunding bonds payable from taxes, without an election, for the purpose of refunding the Refunded Bonds in advance of their maturities, and to accomplish such refunding by depositing directly with any paying agent (or other qualified escrow agent) for the Refunded Bonds the proceeds of such refunding bonds, together with other available funds, in an amount sufficient to provide for the payment or redemption of the Refunded Bonds, and provides that such deposit shall constitute the making of firm banking and financial arrangements for the discharge and final payment or redemption of the Refunded Bonds; and

WHEREAS, upon the issuance of the refunding bonds herein authorized and the deposit of funds referred to above, the Refunded Bonds shall no longer be regarded as being outstanding, except for the purpose of being paid pursuant to such deposit, and the pledges, liens, trusts and all other covenants, provisions, terms and conditions of the ordinances authorizing the issuance of the Refunded Bonds shall be, with respect to the Refunded Bonds, discharged, terminated and defeased; and

WHEREAS, in addition to refunding the Refunded Bonds, the City desires to issue bonds payable from the net revenues of its water and sewer system to provide funds to acquire, purchase, construct, improve, renovate, enlarge or equip such system, as authorized by Chapter 1502, Texas Government Code, as amended; Now, Therefore

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MAGNOLIA, TEXAS:

## ARTICLE I

### RECITALS; CONSIDERATIONS

It is hereby found and determined that the matters and facts set out in the preamble to this Ordinance are true and correct.

It is hereby found and determined that the refunding contemplated in this Ordinance will require additional debt service payments of \$385,088.20, with a present value cost of \$291,805.05, but will benefit the City by unencumbering the City's natural gas system and permitting its sale and restructuring the City's debt, that such benefit is sufficient consideration for the refunding of the Refunded Bonds, and that the issuance of the refunding bonds is in the best interests of the City.

## ARTICLE II

### DEFINITIONS AND INTERPRETATIONS

Section 2.1: Definitions. In this Ordinance, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

“Act” means, collectively, Chapters 1207 and 1502, Texas Government Code, as amended.

“Additional Parity Bonds” mean the additional parity revenue bonds permitted to be issued by the City pursuant to Section 5.1 of this Ordinance.

“Blanket Issuer Letter of Representations” means the Blanket Issuer Letter of Representations between the City, the Registrar and DTC.

“Bond Purchase Agreement” means the agreement between the City and the Underwriter described in Section 7.1 of this Ordinance.

“Bonds” mean the \$4,780,000 City of Magnolia, Texas, Water and Sewer System Revenue and Refunding Bonds, Series 2006 authorized in this Ordinance, unless the context clearly indicates otherwise.

“Business Day” means any day which is not a Saturday, Sunday, or a day on which the Registrar is authorized by law or executive order to close.

“City” means the City of Magnolia, Texas.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Comptroller” means the Comptroller of Public Accounts of the State of Texas.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Gross Revenues" mean all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System and the interest income from the investment or deposit of money in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund.

"Initial Bond" means the Initial Bond authorized by Section 3.4(d).

"Interest and Sinking Fund" means the interest and sinking fund for payment of principal of and interest on the Bonds described in Section 4.5 of this Ordinance.

"Interest Payment Date", when used in connection with any Bond, means November 1, 2006, and each May 1 and November 1 thereafter until maturity or earlier redemption.

"Maintenance and Operation Expenses" mean the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, labor, materials, interest, repairs and extensions necessary to provide efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to (i) keep the System in operation and provide adequate service to the City and its residents, or (ii) respond to a physical accident or condition which would otherwise impair the System), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of the State of Texas. Depreciation shall not be considered as a Maintenance and Operation Expense.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" mean all Gross Revenues remaining after deducting the Maintenance and Operation Expenses.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Ordinance" means this bond ordinance and all amendments hereof and supplements hereto.

"Owner" when used with respect to any Bond, means the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners mean the Owners at the particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under this Ordinance, exclusive of Bonds held by the City.

"Parity Bonds" mean the Bonds and each series of Additional Parity Bonds from time to time hereafter issued, but only to the extent such Parity Bonds remain outstanding within the meaning of this Ordinance.

"Record Date" means, with respect to the Bonds, the close of business on the fifteenth day of the month preceding such Interest Payment Date.

"Refunded Bonds" mean the City's Utility System Revenue Bonds, Series 1995, dated October 1, 1995, in the aggregate principal amount of \$985,000, maturing on October 1 in each of the years 2006 through 2035, both inclusive.

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

"Registrar" means Wells Fargo Bank, N.A., and its successors in that capacity.

"Reserve Fund Requirement" means the maximum annual principal and interest requirements on the Parity Bonds, which may be determined and redetermined each year by the City but in no event less frequently than upon the issuance of each series of Parity Bonds.

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

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

"SID" means the Municipal Advisory Council of Texas, which has been designated by the State of Texas as, and determined by the SEC staff to be, a state information depository within the meaning of the Rule.

"Special Project" means, to the extent permitted by law, any waterworks or sanitary sewer system property, improvement or facility declared by the City not to be part of the System and substantially all of the costs of acquisition, construction, and installation of which is paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or Gross Revenues or Net Revenues of the System, and for which all maintenance and operation expenses are payable from sources other than revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"System" means all properties, facilities, improvements, equipment, interests, and rights constituting the waterworks and sanitary sewer system of the City, including all future extensions, replacements, betterments, additions, and improvements to the System. The System shall not include any Special Project or the City's natural gas system.

"Underwriter" means First Southwest Company.

Section 2.2: Interpretations. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Parity Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Parity Bonds.

### ARTICLE III

#### TERMS OF THE BONDS

Section 3.1: The Bonds shall be issued, pursuant to the Act, in fully registered form in the aggregate principal amount of \$4,780,000 for the purposes of financing improvements to the System and refunding the Refunded Bonds.

Section 3.2: Designation, Date, and Interest Payment Dates. The Bonds shall be designated as "City of Magnolia, Texas, Water and Sewer System Revenue and Refunding Bonds, Series 2006," and shall be dated May 1, 2006. The Bonds shall bear interest at the rates set out in Section 3.3 of this Ordinance from the later of May 1, 2006, 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, payable on November 1, 2006, and semiannually thereafter on May 1 and November 1 of each year until maturity or earlier redemption.

Section 3.3: Principal Amounts and Interest Rates; Numbers and Denominations. The Bonds shall be issued 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 Bonds shall mature subject to prior redemption in accordance with this Ordinance on November 1 in each of the years and in the amounts set out in such schedule. The Initial Bond shall be numbered I-1 and all other Bonds shall be numbered in sequence beginning with R-1. Bonds delivered on transfer of or in exchange for other Bonds 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 Bond or Bonds in lieu of which they are delivered.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	\$ 75,000	4.000%
2008	80,000	4.000
2009	80,000	4.050
2010	85,000	4.100
2011	90,000	4.200
2012	95,000	4.300
2013	95,000	4.350
2014	100,000	4.450
2015	105,000	4.550
2016	110,000	4.650
2018	235,000	4.750
2021	400,000	4.800
2023	300,000	5.000
2026	515,000	5.100
2031	1,055,000	5.150
2036	1,360,000	5.200

**Section 3.4: Execution of Bonds; Seal.** (a) The Bonds shall be signed on behalf of the City by the Mayor and countersigned by the Acting City Secretary, by their manual, lithographed, or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the City had been manually impressed upon each of the Bonds.

(b) If any officer of the City whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Registrar's Authentication Bond substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Registrar. In lieu of the executed Registrar's Authentication Bond described above, the Initial Bond delivered at the Closing Date shall

have attached hereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller, or by his duly authorized agent, which certificate shall be evidence that the Initial Bond has been duly approved by the Attorney General of the State of Texas and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(d) On the Closing Date, the Initial Bond, being a single bond representing the entire principal amount of the Bonds, payable in stated installments to the Underwriter or its designee, executed by manual or facsimile signature of the Mayor and Acting City Secretary of the City, approved by the Attorney General, and registered and manually signed by the Comptroller, shall be delivered to the Underwriter or its designee. Upon payment for the Initial Bond, the Registrar shall cancel the Initial Bond and deliver definitive Bonds to DTC.

Section 3.5: Payment of Principal and Interest. The Registrar is hereby appointed as the paying agent and registrar for the Bonds. The principal of the Bonds 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 respectively become due and payable at the operations office of the Registrar in Minneapolis, Minnesota. The interest on each Bond shall be payable on each Interest Payment Date, by check mailed by the Registrar on or before the Interest Payment Date to the Owner of record as of the Record Date.

If the date for payment of the principal of or interest on any Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day with the same force and effect as if made on the date payment was originally due.

Section 3.6: Successor Registrars. The City covenants that at all times while any Bonds are outstanding it will provide a commercial bank or trust company, organized under the laws of the United States or any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to serve as and perform the duties and services of Registrar for the Bonds. The City reserves the right to change the Registrar on not less than 60 days written notice to the Registrar, so 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 Registrar, the previous Registrar shall deliver the Register or copies thereof to the new Registrar, and the new Registrar shall notify each Owner, by United States mail, first class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

Section 3.7: Special Record Date. If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class, postage prepaid, not later than five (5) days prior to the

Special Record Date, to each affected Owner of record as of the close of business on the day prior to the mailing of such notice.

Section 3.8: Ownership; Unclaimed Principal and Interest. The City, the Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal of or interest on such Bond, and for all other purposes, whether or not such Bond 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 Bond in accordance with this Section shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Bond to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Bonds 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 applicable provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

Section 3.9: Registration, Transfer, and Exchange. So long as any Bonds remain outstanding, the Registrar shall keep the Register at its operations office in Minneapolis, Minnesota, and, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of this Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof at the operations office of the Registrar in Minneapolis, Minnesota, 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 Bond for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three Business Days after such presentation, a new Bond or Bonds 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 Bond or Bonds so presented.

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

The City or the Registrar may require the Owner of any Bond 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 Bond. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the City.



Section 3.10: Mutilated, Lost, or Stolen Bonds. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding. If any Bond 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 Bond has been acquired by a bona fide purchaser, shall authorize and the Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding.

The City or the Registrar may require the Owner of a mutilated Bond 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. The City or the Registrar may require the Owner of a lost, apparently destroyed or wrongfully taken Bond, before any replacement Bond is issued, to:

- (1) furnish to the City and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;
- (2) furnish such security or indemnity as may be required by the Registrar and the City to save them harmless;
- (3) pay 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) meet any other reasonable requirements of the City and the Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Registrar shall be entitled to recover such replacement Bond 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 Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a replacement Bond, authorize the Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

Section 3.11: Cancellation of Bonds. All Bonds paid in accordance with this Ordinance, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding

such payment. The Registrar shall furnish the City with appropriate certificates of destruction of such Bonds.

Section 3.12: Book-Entry System. (a) The Initial Bond shall be registered in the name of First Southwest Company. Except as provided in Section 15 hereof, all other Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such DTC Participant holds an interest in the Bonds, except as provided in this Ordinance. Without limiting the immediately preceding sentence, the City and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Register as the absolute Owner of such Bond for the purpose of payment of principal of and interest on the Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfer with respect to such Bond, and for all other purposes whatsoever. The Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Register as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payments of principal, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a Bond certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions of this Ordinance with respect to interest checks being mailed to the Owner of record as of the Record Date, the phrase "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

Section 3.13. Successor Securities Depository: Transfer Outside Book-Entry Only System. In the event that the City in its sole discretion, determines that the beneficial owners of the Bonds be able to obtain certificated Bonds, or in the event DTC discontinues the services described herein, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants, as identified by DTC, of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants, as identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts, as identified by DTC. In such event, the Bonds shall not longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities

depository, or its nominee, or in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance.

Section 3.14. Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bonds, and all notices with respect to such Bonds, shall be made and given, respectively, in the manner provided in the Blanket Letter of Representations.

Section 3.15. Optional and Mandatory Redemption. The Bonds are subject to optional and mandatory redemption as set forth in the Form of Bond in this Ordinance.

Principal amounts may be redeemed only in integral multiples of \$5,000. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 3.9 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity, Issuance Date, and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty days prior to the date fixed for redemption by sending written notice by first class mail, postage prepaid, to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding of a particular maturity are to be redeemed, the numbers of the Bonds or portions thereof of such maturity to be redeemed. Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds 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 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Section 3.16: Forms. The form of the Bonds, including the form of Registration Certificate of the Comptroller of Public Accounts, which shall be attached or affixed to the Initial Bond, the form of the Registrar's Authentication Certificate, and the form of Assignment, shall be, respectively, substantially as follows, with such additions, deletions and variations as may be necessary or desirable and not prohibited by this Ordinance:

- (a) Form of Bonds.

UNITED STATES OF AMERICA

STATE OF TEXAS  
COUNTY OF MONTGOMERY

REGISTERED  
NUMBER  
\_\_\_\_\_

REGISTERED  
DENOMINATION  
\$ \_\_\_\_\_

CITY OF MAGNOLIA, TEXAS  
WATER AND SEWER SYSTEM REVENUE  
AND REFUNDING BOND  
SERIES 2006

INTEREST RATE:	MATURITY DATE:	ISSUE DATE:	CUSIP:
	November 1, 20__	May 1, 2006	

REGISTERED OWNER:

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The City of Magnolia, Texas, a municipal corporation duly incorporated under the laws of the State of Texas (herein the "City") for value received, promises to pay, but solely from certain Net Revenues as hereinafter provided, to the registered owner identified above or registered assigns, on the maturity date specified above, upon presentation and surrender of this Bond to Wells Fargo Bank, N.A. (the "Registrar"), at its operations office in Minneapolis, Minnesota, the principal amount identified above, payable 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, and to pay, solely from such Net Revenues, 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 May 1, 2006, or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this Bond is payable by check on May 1 and November 1, beginning on November 1, 2006, mailed to the registered owner of record as of the close of business on the fifteenth day of the month preceding each interest payment date.

THIS BOND is one of a duly authorized issue of Bonds, aggregating \$4,780,000 (the "Bonds"), issued for the purposes of improving the City's water and sewer system and refunding a portion of the City's outstanding water and sewer system revenue bonds, under and in strict conformity with the Constitution and laws of the State of Texas, particularly Chapters 1207 and 1502, Texas Government Code, as amended, and pursuant to an ordinance adopted by the City Council (the "Ordinance"), which Ordinance is of record in the City's official minutes.

THE CITY RESERVES THE RIGHT to redeem the Bonds maturing on or after November 1, 2015, in whole or from time to time in part, in integral multiples of \$5,000, on November 1, 2014, or any date thereafter at par plus accrued interest on the principal amounts called

for redemption to the date fixed for redemption. Reference is made to the Ordinance for complete details concerning the manner of redeeming the Bonds.

THE BONDS maturing in the years 2018, 2021, 2023, 2026, 2031 and 2036 (the "Term Bonds") are subject to mandatory redemption prior to maturity in the amounts and on the dates set out below, at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date:

TERM BONDS MATURING IN THE YEAR 2018

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2017	\$115,000
November 1, 2018 (maturity)	120,000

TERM BONDS MATURING IN THE YEAR 2021

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2019	\$125,000
November 1, 2020	135,000
November 1, 2021 (maturity)	140,000

TERM BONDS MATURING IN THE YEAR 2023

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2022	\$145,000
November 1, 2023 (maturity)	155,000

TERM BONDS MATURING IN THE YEAR 2026

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2024	\$165,000
November 1, 2025	170,000
November 1, 2026 (maturity)	180,000

TERM BONDS MATURING IN THE YEAR 2031

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2027	\$190,000
November 1, 2028	200,000
November 1, 2029	210,000
November 1, 2030	220,000
November 1, 2031 (maturity)	235,000

TERM BONDS MATURING IN THE YEAR 2036

<u>Mandatory Redemption</u>	<u>Principal Amount</u>
November 1, 2032	\$245,000
November 1, 2033	260,000
November 1, 2034	270,000
November 1, 2035	285,000
November 1, 2036 (maturity)	300,000

The particular Term Bonds to be redeemed shall be selected by the Registrar by lot or other customary random selection method, on or before October 1 of each year in which Term Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been acquired by the City and delivered to the Registrar for cancellation or have been optionally redeemed and which have not been made the basis for a previous reduction.

NOTICE OF ANY REDEMPTION shall be given at least thirty (30) days prior to the date fixed for redemption by first class mail, addressed to the registered owners of each Bond to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar.

When Bonds or portions thereof have been called for redemption, and due provision has been made to redeem the same, the 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 BOND IS TRANSFERABLE only upon presentation and surrender at the operations office of the Registrar in Minneapolis, Minnesota, 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 BONDS ARE EXCHANGEABLE at the operations office of the Registrar in Minneapolis, Minnesota, for Bonds in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

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

THE REGISTERED OWNER of this Bond, by acceptance hereof, acknowledges and agrees to be bound by all the terms and conditions of the Ordinance.

THE CITY has covenanted in the Ordinance that it will at all times provide a legally qualified registrar for the Bonds and will cause notice of any change of registrar to be mailed to each registered owner.

THIS BOND AND THE SERIES OF WHICH IT IS A PART are special obligations of the City that are payable from and are equally and ratably secured by a first lien on the revenues of the City's water and sewer system remaining after deduction of the operation and maintenance expenses of that system (the "Net Revenues"), as defined and provided in the Ordinance, which Net Revenues are required to be set aside and pledged to the payment of the Bonds and all additional bonds issued on a parity therewith, in the Interest and Sinking Fund and the Reserve Fund maintained for the payment of all such bonds, all as more fully described and provided for in the Ordinance. This Bond and the series of which it is a part, together with the interest thereon, are payable solely from such Net Revenues and do not constitute an indebtedness or general obligation of the City. The holder of this obligation is not entitled to demand payment of this obligation out of any money raised by taxation.

THE CITY HAS RESERVED THE RIGHT to issue additional parity revenue bonds, subject to the restrictions contained in the Ordinance, which may be equally and ratably payable from, and secured by a first lien on and pledge of, the Net Revenues in the same manner and to the same extent as this Bond and the series of which it is a part.

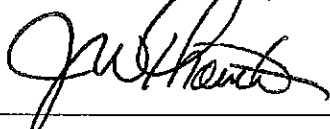
IT IS HEREBY DECLARED AND REPRESENTED that this Bond has been duly and validly issued and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the issuance and delivery of this Bond have been performed, existed, and been done in accordance with law; that the Bonds do not exceed any statutory limitation; and that provision has been made for the payment of the principal of and interest on this Bond and all of the Bonds by the creation of the aforesaid lien on and pledge of the Net Revenues.

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

(AUTHENTICATION  
CERTIFICATE)

(SEAL)

CITY OF MAGNOLIA, TEXAS

  
\_\_\_\_\_  
Mayor

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

(b) Form of Registration Certificate.

COMPTROLLER'S REGISTRATION CERTIFICATE:

REGISTER NO. \_\_\_\_\_

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

WITNESS MY SIGNATURE AND SEAL this \_\_\_\_\_.

(SEAL)

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

(c) Form of Authentication Certificate.

AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been delivered pursuant to the Bond Ordinance described in the text of this Bond.

Wells Fargo Bank, N.A.

By \_\_\_\_\_  
Authorized Signature  
Date of Authentication \_\_\_\_\_



(d) Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

\_\_\_\_\_  
\_\_\_\_\_  
(Please print or type name, address, and zip code of Transferee)

\_\_\_\_\_  
(Please insert Social Security or Taxpayer Identification Number of Transferee)  
the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints  
\_\_\_\_\_  
attorney to transfer said Bond on the books kept for registration thereof, with full power of  
substitution in the premises.

DATED: \_\_\_\_\_

Signature Guaranteed:

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

\_\_\_\_\_  
Registered Owner

NOTICE: The signature above must  
correspond to the name of the registered  
owner as shown on the face of this Bond in  
every particular, without any alteration,  
enlargement or change whatsoever.

(e) The Initial Bond shall be in the form set forth in paragraphs (a), (b) and (d) of this  
Section, except for the following alterations:

(i) immediately under the name of the Bond, the headings  
"INTEREST RATE" and "MATURITY DATE" shall both be  
completed with the words "As Shown Below" and the word "CUSIP"  
deleted;

(ii) in the first paragraph of the Bond, the words "on the maturity date  
specified above" and "at the rate shown above" shall be deleted and  
the following shall be inserted at the end of the first sentence "..., with  
such principal to be paid in installments on November 1 in each of the  
years and in the principal amounts identified in the following schedule  
and with such installments bearing interest at the per annum rates set  
forth in the following schedule:

[Information to be inserted from schedule in Section 3.3]

(iii) the Initial Bond shall be numbered I-1.

Section 3.17. CUSIP Numbers. CUSIP Numbers may be printed on the Bonds, but errors or omissions in the printing of such numbers shall have no effect on the validity of the Bonds.

#### ARTICLE IV

##### SECURITY AND SOURCE OF PAYMENT FOR ALL PARITY BONDS

Section 4.1: Pledge and Source of Payment. The City hereby covenants and agrees that all Gross Revenues of the System shall be deposited and paid into the special funds established for the Parity Bonds, as provided in this Ordinance, and shall be applied in the manner set out herein, to provide for the payment of all Maintenance and Operation Expenses and to provide for the payment of principal, interest and any redemption premium of the Parity Bonds and all expenses of paying, securing and insuring the same. The Parity Bonds shall constitute special obligations of the City that shall be payable solely from, and shall be equally and ratably secured by a first lien on, the Net Revenues, as collected and received by the City, from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the Parity Bonds in the Interest and Sinking Fund and Reserve Fund as hereinafter provided, and the Parity Bonds shall be in all respects on a parity with and of equal dignity with one another. The holders of the Parity Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation.

Section 4.2: Rates and Charges. So long as any Parity Bonds remain outstanding, the City shall fix, charge and collect rates and charges for the use and services of the System which are fully sufficient to produce Net Revenues in each fiscal year at least equal to 110% of the principal and interest requirements scheduled to occur in such fiscal year on all Parity Bonds then outstanding plus an amount equal to the sum of all deposits required to be made to the Reserve Fund in such fiscal year; but in no event shall Net Revenues ever be less than the amount required to maintain the Interest and Sinking Fund and the Reserve Fund as hereinafter provided, and, to the extent that funds for such purpose are not otherwise available, to pay all other outstanding obligations payable from the Net Revenues of the System, as and when the same become due.

The City will not grant or permit any free service from the System except for public buildings and institutions operated by the City.

Section 4.3: Special Funds. The following special Funds shall be created, maintained and accounted for as hereinafter provided, so long as any Parity Bonds remain outstanding:

- (a) Water and Sewer System Revenue Fund (the "Revenue Fund");
- (b) Water and Sewer System Revenue Bonds Interest and Sinking Fund (the "Interest and Sinking Fund"); and

- (c) Water and Sewer System Revenue Bonds Reserve Fund (the "Reserve Fund").

The Revenue Fund shall be maintained as a separate account on the books of the City. The Interest and Sinking Fund and the Reserve Fund shall be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City and shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Parity Bonds and the proceeds of which shall be and are hereby pledged to the payment of the Parity Bonds. All of the Funds named above shall be used solely as provided in this Ordinance so long as any Parity Bonds remain outstanding.

Section 4.4: Flow of Funds. All Gross Revenues of the System (except for interest and earnings on investments in the Reserve Fund and the Interest and Sinking Fund) shall be deposited as collected into the Revenue Fund. Money from time to time on deposit in the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to pay Maintenance and Operation Expenses.
- (b) Second, to make all deposits into the Interest and Sinking Fund required by this Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds.
- (c) Third, to make all deposits into the Reserve Fund required by this Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds.
- (d) Fourth, to pay any amounts due to any bond insurer of Parity Bonds not paid pursuant to subsections (b) or (c) above.
- (e) Fifth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the Interest and Sinking Fund and the Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Parity Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the Interest and Sinking Fund or the Reserve Fund.

Section 4.5: Interest and Sinking Fund. On or before the last Business Day of each month, so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, there shall be transferred into the Interest and Sinking Fund from the Revenue Fund:

- (i) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the interest scheduled to become due on the Parity Bonds on the next interest payment date; and

- (ii) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the next maturing principal of the Parity Bonds, including the principal amounts of, and any redemption premium on, any Parity Bonds payable as a result of the exercise or operation of any optional or mandatory redemption provision contained in any ordinance authorizing the issuance of Parity Bonds.

Money deposited to the credit of the Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and any redemption premium on the Parity Bonds, plus all bank charges and other costs and expenses relating to such payment. The paying agent shall destroy all paid Parity Bonds and shall provide the City with appropriate certificates of destruction.

Section 4.6: Reserve Fund. On or before the last Business Day of each month so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, and after making the transfers into the Interest and Sinking Fund required in the preceding Section, there shall be transferred into the Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the Reserve Fund Requirement. Each increase in the Reserve Fund Requirement resulting from the issuance of Additional Parity Bonds shall be accumulated within sixty (60) months of the issuance of such Additional Parity Bonds by making transfers from the Revenue Fund into the Reserve Fund in approximately equal monthly installments of amounts sufficient for such purpose. After the Reserve Fund Requirement has accumulated in the Reserve Fund and so long thereafter as such Fund contains the Reserve Fund Requirement, no further deposits shall be required to be made into the Reserve Fund, and any excess amounts may be transferred to the Revenue Fund. If the balance in the Reserve Fund is reduced below the Reserve Fund Requirement, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one twenty-fourth (1/24th) of the deficiency in the Reserve Fund Requirement until the Reserve Fund again equals the Reserve Fund Requirement. The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose and to pay and retire the last Parity Bonds to mature or be redeemed.

(b) Any surplus in the Reserve Fund in excess of the Reserve Fund requirement may, at the option of the City, be deposited in the Revenue Fund; provided, however, that bond proceeds deposited in the Reserve Fund and investment earnings on such proceeds, may only be used for the purposes for which the bonds were issued.

Section 4.7: Deficiencies in Funds. If in any month there shall not be deposited into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and paid into such Fund or Funds from the first available and unallocated money in the Revenue Fund, and such payment shall be in addition to the amounts otherwise required to be paid into such Funds during the succeeding month or months. To the extent necessary, the rates and charges for the System shall be increased to make up for any such deficiencies.

Section 4.8: Investment of Funds; Transfer of Investment Income. (a) Money in the Revenue Fund, the Interest and Sinking Fund and the Reserve Fund may, at the option of the City, be invested as permitted by law; provided that all such deposits and investments shall be made in such manner that the money within each Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Reserve Fund mature later than the final maturity date of the Parity Bonds. Any obligation in which money is so invested shall be kept and held in the Fund from which the investment was made. All such investments shall be promptly sold when necessary to prevent any default in connection with the Parity Bonds.

(b) All interest and income derived from such deposits and investments shall be credited as received to the Fund from which the investment was made.

## ARTICLE V

### ADDITIONAL BONDS

Section 5.1: Additional Parity Bonds. The City reserves the right to issue, for any lawful purpose (including any other bonds or obligations of the City issued in connection with or payable from the revenues of the System), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Net Revenues of the System on a parity with the Bonds and any previously issued Additional Parity Bonds; provided, however, that no Parity Bonds may be issued unless:

- (a) the Additional Parity Bonds mature on, and interest is payable on, the same days of the year as any outstanding Parity Bonds;
- (b) the Interest and Sinking Fund and the Reserve Fund each contains the amount of money then required to be on deposit therein;
- (c) for either the preceding fiscal year or a 12 consecutive calendar month period ending no more than 90 days prior to adoption of the ordinance authorizing such Additional Parity Bonds, Net Revenues were equal to at least 120% of the average annual principal and interest requirements on all Parity Bonds that will be outstanding after the issuance of the series of Additional Parity Bonds then proposed to be issued, as certified by the City's City Manager or an independent certified public accountant or firm of independent certified public accountants; and
- (d) if the City cannot meet the test described in (c) above, but a change in the rates and charges applicable to the System becomes effective at least sixty (60) days prior to the adoption of the ordinance authorizing Additional Parity Bonds and the City's City Manager certifies that, had such change in rates and charges been effective for the preceding fiscal year or 12 consecutive calendar month period ending no more than 90 days prior to adoption of said

ordinance, the Net Revenues for such period would have met the test described in (c) above.

Section 5.2: Subordinate Lien Bonds. The City reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on the Net Revenues securing payment of the Parity Bonds. Such subordinate lien obligations may be further secured by any other source of payment lawfully available for such purpose.

Section 5.3: Refunding Bonds. Parity Bonds may be refunded upon such terms and conditions as the City may deem to be in the best interest of the City; and if less than all outstanding Parity Bonds are refunded, the proposed refunding obligations shall be considered as "Additional Parity Bonds" under the provisions of this Section, and the report or certificate required by paragraph 5.1(c) shall give effect to the issuance of the proposed refunding obligations and shall not give effect to the obligations being refunded.

## ARTICLE VI

### COVENANTS AND PROVISIONS RELATING TO ALL PARITY BONDS

Section 6.1: Punctual Payment of Parity Bonds. The City will punctually pay or cause to be paid the interest on and principal of all Parity Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any ordinance authorizing the issuance of Additional Parity Bonds.

Section 6.2: Maintenance of System. So long as any Parity Bonds remain outstanding, the City covenants that it will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the City will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative, or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the System.

Section 6.3: Sale or Encumbrance of System. So long as any Parity Bonds remain outstanding, the City will not sell, dispose of or, except as permitted in Article V, further encumber the System; provided, however, that this provision shall not prevent the City from disposing of any portion of the System which is being replaced or is deemed by the City to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

Section 6.4: Insurance. The City further covenants and agrees that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar systems, to the extent that such insurance is available. The cost of all such insurance together with any additional insurance, shall be a part of the Maintenance and Operation Expenses. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed, or to make other capital improvements to the System, or to redeem Parity Bonds.

Section 6.5: Accounts, Records, and Audits. So long as any Parity Bonds remain outstanding, the City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof. The City shall after the close of each of its fiscal years cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants. Each year promptly after such audit report is prepared, the City shall furnish a copy thereof without cost to the Municipal Advisory Council of Texas, the major municipal rating agencies and any Owner of Parity Bonds who shall request same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 6.6: Competition. To the extent it legally may, the City will not grant any franchise or permit for the acquisition, construction, or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

Section 6.7: Pledge and Encumbrance of Net Revenues. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Parity Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of the Parity Bonds, the Net Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Parity Bonds.

Section 6.8: Bondowners' Remedies. This Ordinance shall constitute a contract between the City and the Owners of the Parity Bonds from time to time outstanding (including any bond insurers of Parity Bonds) and shall remain in effect until the Parity Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein (including payments of any amounts due to bond insurers of Parity Bonds). In the event of a default in the payment of the principal of or interest on any of the Parity Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Parity Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Parity Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the making and collection of reasonable and sufficient rates and charges for the

use and services of the System, the deposit of the Gross Revenues into the special funds herein provided, and the application of the Gross Revenues and the Net Revenues in the manner required in this Ordinance.

Section 6.9: Discharge by Deposit. The City may discharge its obligation to the Owners of any or all of the Parity Bonds to pay principal, interest and redemption premium (if any) thereon in any manner now or hereafter permitted by law.

Section 6.10: Paying Agents May Own Parity Bonds. The paying agents for the Parity Bonds, in their individual or any other capacity, may become holders or pledgees of the Parity Bonds with the same rights they would have if they were not paying agents.

Section 6.11: No Recourse Against City Officials. No recourse shall be had for the payment of principal of or interest on any Parity Bonds or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Parity Bonds.

## ARTICLE VII

### PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF BONDS

Section 7.1: Sale; Bond Purchase Agreement. The Bonds are hereby sold and shall be delivered to the Underwriter at a price of \$4,694,741.50, plus accrued interest to the date of delivery, in accordance with the terms of the Bond Purchase Agreement of even date herewith, presented to and hereby approved by the City Council, which price and terms are hereby found and determined to be the most advantageous reasonably obtainable by the City. The Mayor and other appropriate officials of the City are hereby authorized and directed to execute the Bond Purchase Agreement on behalf of the City, and the Mayor and all other officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Bonds.

Section 7.2: Federal Income Tax Exclusion.

(a) General. The City intends that the interest on the Bonds shall be excludable from gross income 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 the applicable Income Tax Regulations (the "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 Bonds to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes. In particular, the City covenants and agrees to comply with each requirement of this Section; provided, however, that the City shall not be required to comply with any particular requirement of this Section 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 Bonds or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this



Section will satisfy the applicable requirements of the Code and the Regulations, 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.

(b) No Private Use or Payment and No Private Loan Financing. 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 Bonds are delivered, that the proceeds of the Refunded Bonds have not been used, and that proceeds of the Refunded Bonds and the Bonds will not be used, in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Refunded Bonds and the Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

(c) No Federal Guarantee. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

(d) No Hedge Bonds. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the applicable Regulations thereunder.

(e) No Arbitrage. 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 Bonds are delivered, the City will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

(f) Arbitrage Rebate. If the City does not qualify for an exception to the requirements of section 148(f) of the Code relating to the required rebate to the United States, 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 Bonds (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 Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit

in the funds and accounts of the City allocable to other bond issue 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 Bonds 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 Bonds or on such other dates as may be permitted under applicable Regulations, 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 Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(g) Information Reporting. 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 of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Regulations promulgated thereunder.

(h) Continuing Obligation. Notwithstanding any other provision of this Ordinance, the City's obligations under the covenants and provisions of this Section shall survive the defeasance and discharge of the Bonds.

Section 7.3: Qualified Tax-Exempt Obligations. The City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b) of the Code. In connection therewith, the City represents (a) that the aggregate amount of tax-exempt obligations issued by the City during calendar year 2006, including the Bonds, which have been designated as "qualified tax-exempt obligations" under section 265(b)(3) of the Code does not exceed \$10,000,000, and (b) that the reasonably anticipated amount of tax-exempt obligations which will be issued by the City during calendar year 2006, including the Bonds, will not exceed \$10,000,000. For purposes of this Section, the term "tax-exempt obligation" does not include "private activity bonds" within the meaning of section 141 of the Code, other than "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code. In addition, for purposes of this Section, the City includes all governmental units which are aggregated with the City under the Code.

Section 7.4: Use of Proceeds. Proceeds from the sale of the Bonds shall, promptly upon receipt by the City, be applied as follows:

- (a) Accrued interest shall be deposited into the Interest and Sinking Fund.
- (b) \$3,200,589.21 shall be used to pay for improvements to the System; and
- (c) The remaining proceeds from the sale of the Bonds, together with other available funds of the City in the amount of \$991,034.79, shall be deposited directly with the paying agent for the Refunded Bonds to pay all principal of

and interest on the Refunded Bonds due on the redemption date specified in Section 7.5 below, and all costs incurred in the issuance of the Bonds and the refunding of the Refunded Bonds. Any proceeds of the Bonds remaining after making all such deposits and payments, including interest earned on the investment of such proceeds, shall be deposited into the Interest and Sinking Fund.

Section 7.5: Redemption Prior to Maturity of Certain Refunded Bonds. The City hereby calls the following bonds for redemption prior to maturity on the date shown below, at a price of par plus accrued interest to the date fixed for redemption, and authorizes and directs notice of such redemption to be given in accordance with the ordinance authorizing the issuance of such bonds.

<u>Bonds to be Redeemed</u>	<u>Redemption Date</u>
Utility System Revenue Bonds Series 1995 Maturities 2006 through 2035	May 17, 2006

#### ARTICLE VIII

##### CONTINUING DISCLOSURE

Section 8.1: Continuing Disclosure Undertaking. The City qualifies for the small issuer exemption from the Rule because the City has less than \$10,000,000 in aggregate amount of outstanding obligations (including the Bonds) and no person is committed by contract or other arrangement with respect to payment of the Bonds.

(a) Financial Information and Operating Data. The City will provide certain financial information and operating data customarily prepared by the City and publicly available, to any person upon request made to the City in writing. The information to be provided is of the general type included in the Official Statement in Appendix B. The City will annually update such information and data that is customarily prepared, and a response to an informational request will be the latest annual update of such information and data at the time of such response.

Information agreed to be provided by the City on request may be obtained by contacting the City of Magnolia, P.O. Box 396, Magnolia, TX. 77353, Attention: City Manager, or by calling 281.356.2266.

(b) Material Event Notices. The City shall notify the SID and either each NRMSIR or 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:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial

- difficulties;
- D.    Unscheduled draws on credit enhancements reflecting financial difficulties;
- E.    Substitution of credit or liquidity providers, or their failure to perform;
- F.    Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G.    Modifications to rights of holders of the Bonds;
- H.    Bond calls;
- I.    Defeasances;
- J.    Release, substitution, or sale of property securing repayment of the Bonds; and
- K.    Rating changes.

The City shall notify the SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 8.1(a) of this Ordinance by the time required by such Section.

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

The provisions of this Section are for the sole benefit of the holders and beneficial owners 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 City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER 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 City in observing or performing its obligations under this Section shall comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

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

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, change in law, or change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the initial primary offering 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 holders of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment, or (b) any person unaffiliated with the City (such as nationally recognized bond counsel), determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only to the extent that its right to do so would not prevent an underwriter from purchasing the Bonds in the initial primary offering in compliance with the Rule. If the City amends its agreement, the City will include in its next annual update an explanation in narrative form of the reasons for the amendment and its impact on the type of operating data or financial information being provided.

## ARTICLE IX

### MISCELLANEOUS

Section 9.1: Official Statement. The City Council ratifies and confirms its prior approval of the form and content of the Preliminary Official Statement prepared in the initial offering and sale of the Bonds and hereby authorizes the preparation of a final Official Statement reflecting the terms of the Bond Purchase Agreement with the Underwriter and other relevant matters. The use of such Official Statement in the reoffering of the Bonds by the Underwriter is hereby approved and authorized.

Section 9.2: Further Proceedings. The Mayor, the City Manager, the Acting City Secretary, and other appropriate officials of the City are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Ordinance.

Section 9.3: Severability. 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 9.4: Paying Agent/Registrar Agreement. The form of agreement setting forth the duties of the Registrar is hereby approved, and an appropriate official of the City is hereby authorized to execute such agreement for and on behalf of the City.

Section 9.5: No Personal Liability. No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, or on this Ordinance, against any official or employee of the City or any person executing any Bonds.

Section 9.6: Parties Interested. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Registrar and the Owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance shall be for the sole and exclusive benefit of the City, the Registrar and the Owners of the Bonds.

Section 9.7: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

Section 9.8: Open Meeting. It is hereby officially found and determined that the meeting at which this Ordinance was adopted was open to the public, and that public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act.

PASSED AND APPROVED this 14<sup>th</sup> day of March, 2006.

/s/ Jimmy W. Thornton, Jr.

Mayor

City of Magnolia, Texas

ATTEST:

/s/ L. Ann D. Drake

Acting City Secretary

City of Magnolia, Texas

(SEAL)

## SOURCES AND USES OF FUNDS

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Dated Date 05/01/2006  
Delivery Date 05/16/2006

## Sources:

## Bond Proceeds:

Par Amount	4,780,000.00
Accrued Interest	9,831.04
Net Original Issue Discount	-4,208.50

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4,785,622.54

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## Uses:

## Project Fund Deposits:

Waterwell	3,200,000.00
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## Refunding Escrow Deposits:

Cash Deposit	991,034.79
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## Other Fund Deposits:

Bond Reserve Fund	312,197.50
Accrued Interest	9,831.04
	<hr/> 322,028.54

## Delivery Date Expenses:

Cost of Issuance	190,920.00
Underwriter's Discount	81,050.00
	<hr/> 271,970.00

## Other Uses of Funds:

Additional Proceeds	589.21
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4,785,622.54

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## SUMMARY OF REFUNDING RESULTS

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Dated Date	05/01/2006
Delivery Date	05/16/2006
Arbitrage yield	5.054213%
Escrow yield	
Bond Par Amount	4,780,000.00
True Interest Cost	5.201531%
Net Interest Cost	5.167480%
Average Coupon	5.076196%
Average Life	19.498
Par amount of refunded bonds	985,000.00
PV of prior debt to 05/16/2006 @ 5.054213%	971,199.74
Net PV Savings	-291,805.05
Percentage savings of refunded bonds	-29.624878%
Percentage savings of refunding bonds	-6.104708%

## SAVINGS

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Date	Prior Debt Service	Refunding Debt Service	Refunding Receipts	Refunding Net Cash Flow	Savings	Present Value to 05/16/2006 @ 5.0542127%
09/30/2006			9,831.04	-9,831.04	9,831.04	9,831.04
09/30/2007	62,653.13	235,945.00		235,945.00	-173,291.87	-166,847.11
09/30/2008	61,921.88	309,445.00		309,445.00	-247,523.12	-227,772.15
09/30/2009	61,190.63	311,345.00		311,345.00	-250,154.37	-219,039.17
09/30/2010	60,459.38	308,125.00		308,125.00	-247,665.62	-206,308.79
09/30/2011	64,606.26	309,762.50		309,762.50	-245,156.24	-194,266.01
09/30/2012	63,631.26	311,130.00		311,130.00	-247,498.74	-186,620.65
09/30/2013	62,656.26	312,197.50		312,197.50	-249,541.24	-179,044.65
09/30/2014	61,681.26	308,088.75		308,088.75	-246,407.49	-168,197.09
09/30/2015	60,706.26	308,797.50		308,797.50	-248,091.24	-161,142.36
09/30/2016	64,609.38	309,183.75		309,183.75	-244,574.37	-151,120.27
09/30/2017	63,390.63	309,237.50		309,237.50	-245,846.87	-144,548.87
09/30/2018	62,171.88	308,948.75		308,948.75	-246,776.87	-138,068.23
09/30/2019	60,953.13	308,367.50		308,367.50	-247,414.37	-131,720.51
09/30/2020	64,612.51	307,517.50		307,517.50	-242,904.99	-123,024.49
09/30/2021	63,150.01	311,277.50		311,277.50	-248,127.49	-119,605.36
09/30/2022	61,687.51	309,677.50		309,677.50	-247,989.99	-113,751.09
09/30/2023	60,225.01	307,692.50		307,692.50	-247,467.49	-108,016.92
09/30/2024	63,640.63	310,192.50		310,192.50	-246,551.87	-102,399.81
09/30/2025	61,934.38	312,110.00		312,110.00	-250,175.62	-98,892.00
09/30/2026	60,228.13	308,567.50		308,567.50	-248,339.37	-93,416.99
09/30/2027	63,400.00	309,642.50		309,642.50	-246,242.50	-88,140.68
09/30/2028	61,450.00	310,160.00		310,160.00	-248,710.00	-84,730.52
09/30/2029	64,378.13	310,117.50		310,117.50	-245,739.37	-79,665.33
09/30/2030	62,184.38	309,560.00		309,560.00	-247,375.62	-76,329.65
09/30/2031	64,868.75	308,487.50		308,487.50	-243,618.75	-71,534.00
09/30/2032	62,431.25	311,771.25		311,771.25	-249,340.00	-69,692.88
09/30/2033	64,871.88	309,350.00		309,350.00	-244,478.12	-65,032.01
09/30/2034	62,190.63	311,220.00		311,220.00	-249,029.37	-63,058.26
09/30/2035	64,387.50	307,440.00		307,440.00	-243,052.50	-58,574.87
09/30/2036	61,462.50	308,010.00		308,010.00	-246,547.50	-56,562.66
09/30/2037		307,800.00		307,800.00	-307,800.00	-67,299.39
	1,877,734.54	9,521,167.50	9,831.04	9,511,336.46	-7,633,601.92	-3,804,591.76

Savings Summary

PV of savings from cash flow	-3,804,591.76
Plus: Refunding funds on hand	3,512,786.71
Net PV Savings	-291,805.05

## BOND PRICING

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Bond Component	Maturity Date	Amount	Rate	Yield	Price
Serials:					
	11/01/2007	75,000	4.000%	3.900%	100.138
	11/01/2008	80,000	4.000%	4.000%	100.000
	11/01/2009	80,000	4.050%	4.050%	100.000
	11/01/2010	85,000	4.100%	4.100%	100.000
	11/01/2011	90,000	4.200%	4.200%	100.000
	11/01/2012	95,000	4.300%	4.300%	100.000
	11/01/2013	95,000	4.350%	4.350%	100.000
	11/01/2014	100,000	4.450%	4.450%	100.000
	11/01/2015	105,000	4.550%	4.550%	100.000
	11/01/2016	110,000	4.650%	4.650%	100.000
		915,000			
Term 2018:					
	11/01/2018	235,000	4.750%	4.750%	100.000
Term 2021:					
	11/01/2021	400,000	4.800%	4.900%	98.922
Term 2023:					
	11/01/2023	300,000	5.000%	5.000%	100.000
Term 2026:					
	11/01/2026	515,000	5.100%	5.100%	100.000
Term 2031:					
	11/01/2031	1,055,000	5.150%	5.150%	100.000
Term 2036:					
	11/01/2036	1,360,000	5.200%	5.200%	100.000
		4,780,000			

## BOND PRICING

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Dated Date	05/01/2006	
Delivery Date	05/16/2006	
First Coupon	11/01/2006	
Par Amount	4,780,000.00	
Original Issue Discount	-4,208.50	
<hr/>		
Production	4,775,791.50	99.911956%
Underwriter's Discount	-81,050.00	-1.695607%
<hr/>		
Purchase Price	4,694,741.50	98.216349%
Accrued Interest	9,831.04	
<hr/>		
Net Proceeds	4,704,572.54	

## BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Dated Date 05/01/2006  
Delivery Date 05/16/2006

Period Ending	Principal	Coupon	Interest	Debt Service
09/30/2006				
09/30/2007			235,945.00	235,945.00
09/30/2008	75,000	4.000%	234,445.00	309,445.00
09/30/2009	80,000	4.000%	231,345.00	311,345.00
09/30/2010	80,000	4.050%	228,125.00	308,125.00
09/30/2011	85,000	4.100%	224,762.50	309,762.50
09/30/2012	90,000	4.200%	221,130.00	311,130.00
09/30/2013	95,000	4.300%	217,197.50	312,197.50
09/30/2014	95,000	4.350%	213,088.75	308,088.75
09/30/2015	100,000	4.450%	208,797.50	308,797.50
09/30/2016	105,000	4.550%	204,183.75	309,183.75
09/30/2017	110,000	4.650%	199,237.50	309,237.50
09/30/2018	115,000	4.750%	193,948.75	308,948.75
09/30/2019	120,000	4.750%	188,367.50	308,367.50
09/30/2020	125,000	4.800%	182,517.50	307,517.50
09/30/2021	135,000	4.800%	176,277.50	311,277.50
09/30/2022	140,000	4.800%	169,677.50	309,677.50
09/30/2023	145,000	5.000%	162,692.50	307,692.50
09/30/2024	155,000	5.000%	155,192.50	310,192.50
09/30/2025	165,000	5.100%	147,110.00	312,110.00
09/30/2026	170,000	5.100%	138,567.50	308,567.50
09/30/2027	180,000	5.100%	129,642.50	309,642.50
09/30/2028	190,000	5.150%	120,160.00	310,160.00
09/30/2029	200,000	5.150%	110,117.50	310,117.50
09/30/2030	210,000	5.150%	99,560.00	309,560.00
09/30/2031	220,000	5.150%	88,487.50	308,487.50
09/30/2032	235,000	5.150%	76,771.25	311,771.25
09/30/2033	245,000	5.200%	64,350.00	309,350.00
09/30/2034	260,000	5.200%	51,220.00	311,220.00
09/30/2035	270,000	5.200%	37,440.00	307,440.00
09/30/2036	285,000	5.200%	23,010.00	308,010.00
09/30/2037	300,000	5.200%	7,800.00	307,800.00
	4,780,000		4,741,167.50	9,521,167.50

## BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Dated Date 05/01/2006  
Delivery Date 05/16/2006

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/16/2006					
11/01/2006			117,972.50	117,972.50	
05/01/2007			117,972.50	117,972.50	
09/30/2007					235,945.00
11/01/2007	75,000	4.000%	117,972.50	192,972.50	
05/01/2008			116,472.50	116,472.50	
09/30/2008					309,445.00
11/01/2008	80,000	4.000%	116,472.50	196,472.50	
05/01/2009			114,872.50	114,872.50	
09/30/2009					311,345.00
11/01/2009	80,000	4.050%	114,872.50	194,872.50	
05/01/2010			113,252.50	113,252.50	
09/30/2010					308,125.00
11/01/2010	85,000	4.100%	113,252.50	198,252.50	
05/01/2011			111,510.00	111,510.00	
09/30/2011					309,762.50
11/01/2011	90,000	4.200%	111,510.00	201,510.00	
05/01/2012			109,620.00	109,620.00	
09/30/2012					311,130.00
11/01/2012	95,000	4.300%	109,620.00	204,620.00	
05/01/2013			107,577.50	107,577.50	
09/30/2013					312,197.50
11/01/2013	95,000	4.350%	107,577.50	202,577.50	
05/01/2014			105,511.25	105,511.25	
09/30/2014					308,088.75
11/01/2014	100,000	4.450%	105,511.25	205,511.25	
05/01/2015			103,286.25	103,286.25	
09/30/2015					308,797.50
11/01/2015	105,000	4.550%	103,286.25	208,286.25	
05/01/2016			100,897.50	100,897.50	
09/30/2016					309,183.75
11/01/2016	110,000	4.650%	100,897.50	210,897.50	
05/01/2017			98,340.00	98,340.00	
09/30/2017					309,237.50
11/01/2017	115,000	4.750%	98,340.00	213,340.00	
05/01/2018			95,608.75	95,608.75	
09/30/2018					308,948.75
11/01/2018	120,000	4.750%	95,608.75	215,608.75	
05/01/2019			92,758.75	92,758.75	
09/30/2019					308,367.50
11/01/2019	125,000	4.800%	92,758.75	217,758.75	

## BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/01/2020			89,758.75	89,758.75	
09/30/2020					307,517.50
11/01/2020	135,000	4.800%	89,758.75	224,758.75	
05/01/2021			86,518.75	86,518.75	
09/30/2021					311,277.50
11/01/2021	140,000	4.800%	86,518.75	226,518.75	
05/01/2022			83,158.75	83,158.75	
09/30/2022					309,677.50
11/01/2022	145,000	5.000%	83,158.75	228,158.75	
05/01/2023			79,533.75	79,533.75	
09/30/2023					307,692.50
11/01/2023	155,000	5.000%	79,533.75	234,533.75	
05/01/2024			75,658.75	75,658.75	
09/30/2024					310,192.50
11/01/2024	165,000	5.100%	75,658.75	240,658.75	
05/01/2025			71,451.25	71,451.25	
09/30/2025					312,110.00
11/01/2025	170,000	5.100%	71,451.25	241,451.25	
05/01/2026			67,116.25	67,116.25	
09/30/2026					308,567.50
11/01/2026	180,000	5.100%	67,116.25	247,116.25	
05/01/2027			62,526.25	62,526.25	
09/30/2027					309,642.50
11/01/2027	190,000	5.150%	62,526.25	252,526.25	
05/01/2028			57,633.75	57,633.75	
09/30/2028					310,160.00
11/01/2028	200,000	5.150%	57,633.75	257,633.75	
05/01/2029			52,483.75	52,483.75	
09/30/2029					310,117.50
11/01/2029	210,000	5.150%	52,483.75	262,483.75	
05/01/2030			47,076.25	47,076.25	
09/30/2030					309,560.00
11/01/2030	220,000	5.150%	47,076.25	267,076.25	
05/01/2031			41,411.25	41,411.25	
09/30/2031					308,487.50
11/01/2031	235,000	5.150%	41,411.25	276,411.25	
05/01/2032			35,360.00	35,360.00	
09/30/2032					311,771.25
11/01/2032	245,000	5.200%	35,360.00	280,360.00	
05/01/2033			28,990.00	28,990.00	
09/30/2033					309,350.00
11/01/2033	260,000	5.200%	28,990.00	288,990.00	
05/01/2034			22,230.00	22,230.00	
09/30/2034					311,220.00
11/01/2034	270,000	5.200%	22,230.00	292,230.00	

## BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/01/2035			15,210.00	15,210.00	
09/30/2035					307,440.00
11/01/2035	285,000	5.200%	15,210.00	300,210.00	
05/01/2036			7,800.00	7,800.00	
09/30/2036					308,010.00
11/01/2036	300,000	5.200%	7,800.00	307,800.00	
09/30/2037					307,800.00
	4,780,000		4,741,167.50	9,521,167.50	9,521,167.50



## PRIOR BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
10/01/2006	15,000	24,009.38	39,009.38	
04/01/2007		23,643.75	23,643.75	
09/30/2007				62,653.13
10/01/2007	15,000	23,643.75	38,643.75	
04/01/2008		23,278.13	23,278.13	
09/30/2008				61,921.88
10/01/2008	15,000	23,278.13	38,278.13	
04/01/2009		22,912.50	22,912.50	
09/30/2009				61,190.63
10/01/2009	15,000	22,912.50	37,912.50	
04/01/2010		22,546.88	22,546.88	
09/30/2010				60,459.38
10/01/2010	20,000	22,546.88	42,546.88	
04/01/2011		22,059.38	22,059.38	
09/30/2011				64,606.26
10/01/2011	20,000	22,059.38	42,059.38	
04/01/2012		21,571.88	21,571.88	
09/30/2012				63,631.26
10/01/2012	20,000	21,571.88	41,571.88	
04/01/2013		21,084.38	21,084.38	
09/30/2013				62,656.26
10/01/2013	20,000	21,084.38	41,084.38	
04/01/2014		20,596.88	20,596.88	
09/30/2014				61,681.26
10/01/2014	20,000	20,596.88	40,596.88	
04/01/2015		20,109.38	20,109.38	
09/30/2015				60,706.26
10/01/2015	25,000	20,109.38	45,109.38	
04/01/2016		19,500.00	19,500.00	
09/30/2016				64,609.38
10/01/2016	25,000	19,500.00	44,500.00	
04/01/2017		18,890.63	18,890.63	
09/30/2017				63,390.63
10/01/2017	25,000	18,890.63	43,890.63	
04/01/2018		18,281.25	18,281.25	
09/30/2018				62,171.88
10/01/2018	25,000	18,281.25	43,281.25	
04/01/2019		17,671.88	17,671.88	
09/30/2019				60,953.13
10/01/2019	30,000	17,671.88	47,671.88	
04/01/2020		16,940.63	16,940.63	
09/30/2020				64,612.51
10/01/2020	30,000	16,940.63	46,940.63	
04/01/2021		16,209.38	16,209.38	
09/30/2021				63,150.01

## PRIOR BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
10/01/2021	30,000	16,209.38	46,209.38	
04/01/2022		15,478.13	15,478.13	
09/30/2022				61,687.51
10/01/2022	30,000	15,478.13	45,478.13	
04/01/2023		14,746.88	14,746.88	
09/30/2023				60,225.01
10/01/2023	35,000	14,746.88	49,746.88	
04/01/2024		13,893.75	13,893.75	
09/30/2024				63,640.63
10/01/2024	35,000	13,893.75	48,893.75	
04/01/2025		13,040.63	13,040.63	
09/30/2025				61,934.38
10/01/2025	35,000	13,040.63	48,040.63	
04/01/2026		12,187.50	12,187.50	
09/30/2026				60,228.13
10/01/2026	40,000	12,187.50	52,187.50	
04/01/2027		11,212.50	11,212.50	
09/30/2027				63,400.00
10/01/2027	40,000	11,212.50	51,212.50	
04/01/2028		10,237.50	10,237.50	
09/30/2028				61,450.00
10/01/2028	45,000	10,237.50	55,237.50	
04/01/2029		9,140.63	9,140.63	
09/30/2029				64,378.13
10/01/2029	45,000	9,140.63	54,140.63	
04/01/2030		8,043.75	8,043.75	
09/30/2030				62,184.38
10/01/2030	50,000	8,043.75	58,043.75	
04/01/2031		6,825.00	6,825.00	
09/30/2031				64,868.75
10/01/2031	50,000	6,825.00	56,825.00	
04/01/2032		5,606.25	5,606.25	
09/30/2032				62,431.25
10/01/2032	55,000	5,606.25	60,606.25	
04/01/2033		4,265.63	4,265.63	
09/30/2033				64,871.88
10/01/2033	55,000	4,265.63	59,265.63	
04/01/2034		2,925.00	2,925.00	
09/30/2034				62,190.63
10/01/2034	60,000	2,925.00	62,925.00	

## PRIOR BOND DEBT SERVICE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
04/01/2035		1,462.50	1,462.50	
09/30/2035				64,387.50
10/01/2035	60,000	1,462.50	61,462.50	
09/30/2036				61,462.50
	985,000	892,734.54	1,877,734.54	1,877,734.54

## ESCROW COST

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Purchase Date	Cost of Securities	Cash Deposit	Total Escrow Cost
05/16/2006		991,034.79	991,034.79
	0	991,034.79	991,034.79

## BOND MATURITY TABLE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Maturity Date	Serials	Term 2018	Term 2021	Term 2023	Term 2026	Term 2031
11/01/2007	75,000					
11/01/2008	80,000					
11/01/2009	80,000					
11/01/2010	85,000					
11/01/2011	90,000					
11/01/2012	95,000					
11/01/2013	95,000					
11/01/2014	100,000					
11/01/2015	105,000					
11/01/2016	110,000					
11/01/2017		115,000				
11/01/2018		120,000				
11/01/2019			125,000			
11/01/2020			135,000			
11/01/2021			140,000			
11/01/2022				145,000		
11/01/2023				155,000		
11/01/2024					165,000	
11/01/2025					170,000	
11/01/2026					180,000	
11/01/2027						190,000
11/01/2028						200,000
11/01/2029						210,000
11/01/2030						220,000
11/01/2031						235,000
11/01/2032						
11/01/2033						
11/01/2034						
11/01/2035						
11/01/2036						
	915,000	235,000	400,000	300,000	515,000	1,055,000

## BOND MATURITY TABLE

City of Magnolia, Texas  
Utility System Revenue & Ref Bonds, Series 2006

## FINAL NUMBERS

Maturity Date	Term 2036	Total
11/01/2007		75,000
11/01/2008		80,000
11/01/2009		80,000
11/01/2010		85,000
11/01/2011		90,000
11/01/2012		95,000
11/01/2013		95,000
11/01/2014		100,000
11/01/2015		105,000
11/01/2016		110,000
11/01/2017		115,000
11/01/2018		120,000
11/01/2019		125,000
11/01/2020		135,000
11/01/2021		140,000
11/01/2022		145,000
11/01/2023		155,000
11/01/2024		165,000
11/01/2025		170,000
11/01/2026		180,000
11/01/2027		190,000
11/01/2028		200,000
11/01/2029		210,000
11/01/2030		220,000
11/01/2031		235,000
11/01/2032	245,000	245,000
11/01/2033	260,000	260,000
11/01/2034	270,000	270,000
11/01/2035	285,000	285,000
11/01/2036	300,000	300,000
	1,360,000	4,780,000

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Magnolia, City of (Waterworks & Sewer System)

AS OF: 07/31/2006

## DOCUMENTS RECEIVED BY THE MUNICIPAL ADVISORY COUNCIL OF TEXAS

The following is a list of audits, material events and updated financial information & operating data received by the Municipal Advisory Council of Texas (MAC). The MAC is the State Information Depository (SID) for the State of Texas. If you are required to file with the SID pursuant to SEC Rule 15c2-12, please take a moment to look over this list. If you have made a filing or submitted an audit that is not reflected on this list, please resubmit the information or contact the Municipal Advisory Council of Texas. Thank you for your cooperation.

## AUDITS RECEIVED BUT NOT ASSOCIATED WITH AN ANNUAL DISCLOSURE REQUIREMENT

### Documents Submitted

Financial Statements

Annual Financial Report

Annual Financial Report

Annual Financial Report

Annual Financial Report

### Doc. Date    Received

09/30/2000    12/10/2004

09/30/2001    12/10/2004

09/30/2002    12/10/2004

09/30/2003    12/10/2004

09/30/2005    04/21/2006

## MATERIAL EVENTS NOTICES PURSUANT TO SEC RULE 15C2-12

### Documents Submitted

NO DOCUMENTS RECEIVED

*Received & Filed  
in the Office of*

**AUG 07 2006**

*City Secretary  
City of Magnolia, Texas*

Please take a moment to review the updated version of the Texas Municipal Report on your entity. If you have any suggestions, comments or corrections regarding the information contained in this report, we would like to hear from you. Please contact the Assistant Executive Director, Laura Slaughter with your comments. You may fax your comments to 512-476-6403 or send them by email to [laura@mactexas.com](mailto:laura@mactexas.com).



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FOR OTHER BONDS OF THE CITY, SEE SEPARATE TEXAS MUNICIPAL REPORTS.

FINANCIAL STATEMENT (As of May 1, 2006)

Special Obligation Debt

Utility System \$4,780,000

Special Fund Balance

Reserve Fund \$312,197\*

\*Set aside from bond proceeds for payment of Series 2006 Bonds.

PAYMENT RECORD Never defaulted.

DETAILS OF REVENUE DEBT

Outstanding: 05/01/2006

W & SS Rev & Ref Bds Ser 2006

Tax Treatment: BQ

Original Issue Amount: \$4,780,000

Dated Date: 05/01/2006

Sale Date: 04/11/2006

Delivery Date: 05/16/2006

Type of Sale: Negotiated

Record Date: MSRB

Bond Form: BE

Denomination: \$5,000

Interest Pays: Semi-Annually: 11/01, 05/01

1st Coupon Date: 11/01/2006

Paying Agent: Wells Fargo Bank, N.A., Houston, TX

Bond Counsel: Vinson & Elkins L.L.P.

Fin Adv: Coastal Securities, Houston, TX

Lead Manager: First Southwest Company

Use of Proceeds: Water, Refunding.

Call Option: Bonds maturing on 11/01/2015 to 11/01/2016 and 11/01/2018 and 11/01/2021 and 11/01/2023 and 11/01/2026 and 11/01/2031 and 11/01/2036 callable in whole or in part on any date beginning 11/01/2014 @ par. The following term bonds are subject to mandatory sinking fund redemption each 11/1 @ par as follows: Mty 11/01/2018: 115M-11/01/2017: 120M matures 11/01/2018. Mty 11/01/2021: 125M-11/01/2019: 135M-11/01/2020: 140M matures 11/01/2021. Mty 11/01/2023: 145M-11/01/2022: 155M matures 11/01/2023. Mty 11/01/2026: 165M-11/01/2024: 170M-11/01/2025: 180M matures 11/01/2026. Mty 11/01/2031: 190M-11/01/2027: 200M-11/01/2028: 210M-11/01/2029: 220M-11/01/2030: 235M matures 11/01/2031. Mty 11/01/2036: 245M-11/01/2032: 260M-11/01/2033: 270M-11/01/2034: 285M-11/01/2035: 300M matures 11/01/2036.

This issue defeased mty(s) 10/01/2006-10/01/2035 of Util Sys Rev Bds Ser 95 @ par.

Maturity	Amount	Coupon	Orig Reoffering Price/Yield
11/01/2007	75,000	4.0000%	3.900%
11/01/2008	80,000	4.0000%	100.000%
11/01/2009	80,000	4.0500%	100.000%
11/01/2010	85,000	4.1000%	100.000%
11/01/2011	90,000	4.2000%	100.000%

11/01/2012	95,000	4.3000%	100.000%
11/01/2013	95,000	4.3500%	100.000%
11/01/2014	100,000	4.4500%	100.000%
11/01/2015	105,000	4.5500%	100.000%
11/01/2016	110,000	4.6500%	100.000%
11/01/2018	235,000	4.7500%	100.000%
11/01/2021	400,000	4.8000%	4.900%
11/01/2023	300,000	5.0000%	100.000%
11/01/2026	515,000	5.1000%	100.000%
11/01/2031	1,055,000	5.1500%	100.000%
11/01/2036	1,360,000	5.2000%	100.000%

-----\$4,780,000

Term bonds maturing on 11/01/2018:

Mandatory Redemption Date	Principal Amount
11/01/2017	\$115,000
11/01/2018	\$120,000

Term bonds maturing on 11/01/2021:

Mandatory Redemption Date	Principal Amount
11/01/2019	\$125,000
11/01/2020	\$135,000
11/01/2021	\$140,000

Term bonds maturing on 11/01/2023:

Mandatory Redemption Date	Principal Amount
11/01/2022	\$145,000
11/01/2023	\$155,000

Term bonds maturing on 11/01/2026:

Mandatory Redemption Date	Principal Amount
11/01/2024	\$165,000
11/01/2025	\$170,000
11/01/2026	\$180,000

Term bonds maturing on 11/01/2031:

Mandatory Redemption Date	Principal Amount
11/01/2027	\$190,000
11/01/2028	\$200,000
11/01/2029	\$210,000
11/01/2030	\$220,000
11/01/2031	\$235,000

Term bonds maturing on 11/01/2036:

Mandatory Redemption Date	Principal Amount
11/01/2032	\$245,000
11/01/2033	\$260,000
11/01/2034	\$270,000
11/01/2035	\$285,000
11/01/2036	\$300,000

GRAND TOTAL-----> \$4,780,000

## BOND DEBT SERVICE

Period Ending	Principal	Interest	Debt Service
09/30/2007	0.00	235,945.00	235,945.00
09/30/2008	75,000.00	234,445.00	309,445.00

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09/30/2009	80,000.00	231,345.00	311,345.00
09/30/2010	80,000.00	228,125.00	308,125.00
09/30/2011	85,000.00	224,762.50	309,762.50
09/30/2012	90,000.00	221,130.00	311,130.00
09/30/2013	95,000.00	217,197.50	312,197.50
09/30/2014	95,000.00	213,088.75	308,088.75
09/30/2015	100,000.00	208,797.50	308,797.50
09/30/2016	105,000.00	204,183.75	309,183.75
09/30/2017	110,000.00	199,237.50	309,237.50
09/30/2018	115,000.00	193,948.75	308,948.75
09/30/2019	120,000.00	188,367.50	308,367.50
09/30/2020	125,000.00	182,517.50	307,517.50
09/30/2021	135,000.00	176,277.50	311,277.50
09/30/2022	140,000.00	169,677.50	309,677.50
09/30/2023	145,000.00	162,692.50	307,692.50
09/30/2024	155,000.00	155,192.50	310,192.50
09/30/2025	165,000.00	147,110.00	312,110.00
09/30/2026	170,000.00	138,567.50	308,567.50
09/30/2027	180,000.00	129,642.50	309,642.50
09/30/2028	190,000.00	120,160.00	310,160.00
09/30/2029	200,000.00	110,117.50	310,117.50
09/30/2030	210,000.00	99,560.00	309,560.00
09/30/2031	220,000.00	88,487.50	308,487.50
09/30/2032	235,000.00	76,771.25	311,771.25
09/30/2033	245,000.00	64,350.00	309,350.00
09/30/2034	260,000.00	51,220.00	311,220.00
09/30/2035	270,000.00	37,440.00	307,440.00
09/30/2036	285,000.00	23,010.00	308,010.00
09/30/2037	300,000.00	7,800.00	307,800.00
<hr/>			
	4,780,000.00	4,741,167.50	9,521,167.50

COMPUTED ON BASIS OF MANDATORY REDEMPTION.

PERTINENT PROVISIONS OF THE WATER & SEWER SYSTEM REVENUE BOND INDENTURE

1. Nature of Pledge: First lien on and pledge of the net revenues from the operation of the water and sewer system.

2. Special Funds Created by Indenture:

I&S Fund: Receives equal monthly deposits to meet debt service requirements.

Reserve Fund: Receives equal monthly deposits equal to 1/60th of the annual debt service requirement until an amount equal the maximum principal and interest requirements. The City may purchase a Reserve Fund Surety Policy to satisfy the requirement.

3. Coverage Required as a Condition to Issuance of Parity Bonds: For the last complete fiscal year or for any twelve consecutive calendar month period ending not more than 90 days preceding the adoption of additional bonds ordinance, net revenues shall have been not less than 1.20 times average annual requirements.

4. Rate Covenant: The Issuer has covenanted to maintain rates and charges sufficient to produce 110% of the interest and principal of the Bonds and additional bonds and the amounts required to be deposited to the special funds created for the security of all bonds.

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

Statements include an indeterminable amount of garbage revenue.

	Fiscal Year Ended			
	09-30-2005	09-30-2004	09-30-2003	09-30-2002
Revenues:				
Water Service	\$450,076	\$415,891	\$416,266	\$444,335
Sewer Service	311,862	311,397	336,413	316,228
Other	417,480	233,855	67,767	318,724
	-----	-----	-----	-----
Total	\$1,179,418	\$961,143	\$820,446	\$1,079,287
Expenses:				
Garbage	\$66,226)	\$	\$79,750	\$66,123
Other	635,645)	575,512	695,766	664,937
	-----	-----	-----	-----
Total	\$701,871	\$575,512	\$775,516	\$731,060
Available For				
Debt Service	\$477,547	\$385,631	\$44,930	\$348,227
Revenue				
Ann Reqmts	\$66,634	\$62,275	\$62,787	\$63,300
Coverage On				
Revenue Bds	7.16X	6.19X	0.71X	5.50X
Customer Count:				
Sewer	592	577	573	710
Water	932	925	908	1,046

WATER Two wells.

WATER RATES Effective April 8, 2006.

Old Rates

Within City Limits

Rates - \$22.00/M first 1,000 gallons  
\$ 2.00/M over 1,000 gallons

Outside City Limits

Rates - \$32.00/M first 1,000 gallons  
\$ 2.40/M over 1,000 gallons

Water Meters

Within City Limits

Meter Size	Rate
1 1/2"	\$60.00
2"	82.00
3"	90.00

Outside City Limits

Meter Size	Rate
------------	------

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1 1/2"	\$75.00
2"	100.00
3"	125.00

## New Rates

### Residential Within City Limits

Rates - \$27.00/M first 1,000 gallons  
\$ 3.50/M over 1,000 gallons

### Residential Outside City Limits

Rates - \$50.00/M first 1,000 gallons  
\$ 5.40/M over 1,000 gallons

## Commercial Water Meters

### Within City Limits

Meter Size	Rate
5/8"-3/4"	\$32.00/M plus \$5.00/M over 1,000 gallons
1"	45.00/M plus \$5.50/M over 1,000 gallons
1 1/2"	65.00/M plus \$3.50/M over 1,000 gallons
2"	87.00/M plus \$3.50/M over 1,000 gallons
3"	95.00/M plus \$3.50/M over 1,000 gallons

### Outside City Limits

Meter Size	Rate
5/8"-3/4"	\$68.00/M plus \$8.40/M over 1,000 gallons
1"	81.00/M plus \$8.40/M over 1,000 gallons
1 1/2"	93.00/M plus \$5.40/M over 1,000 gallons
2"	118.00/M plus \$5.40/M over 1,000 gallons
3"	161.00/M plus \$5.40/M over 1,000 gallons

SEWER RATES Effective April 8, 2006.

## Old Rates

### Residential

Rates - \$9.95 base rate  
plus \$2.40/M per 1,000 gallons

### Commercial

#### First 1,000 gallons

Meter Size	Rate
3/4" - 1"	\$14.00
1 1/2"	17.00
2"	20.00
3"	23.00

plus \$2.85/M per 1,000 gallons

## New Rates

### Residential

Rates - \$9.50 base rate  
plus \$2.85/M per 1,000 gallons

### Commercial

#### First 1,000 gallons

Meter Size	Rate
5/8" - 3/4"	\$14.00
1"	15.00
1 1/2"	17.00
2"	20.00
3"	23.00

plus \$2.85/M per 1,000 gallons

REVENUE BONDS AUTHORIZED BUT UNISSUED None

NON-FUNDED DEBT PAYABLE (As of September 30, 2005)

The City reports additional debt in the principal amount of \$40,824 under Water Fund as follows:

	Amount Outstanding	Int Rate	Next Year's Requirements	Reported Under
Note	\$40,824	8.25%	\$41,815	Water Fund

## ECONOMIC BACKGROUND

The City of Magnolia is a retail center located at the intersection of Farm Roads 249 and 1488. It had a 2000 population of 1,111, an 18% increase since 1990. Two manufacturers located near the city produce oilfield equipment. Some residents commute to Houston for employment. The City is located in the Magnolia Independent School District and is experiencing rapid residential and commercial growth in both the City and adjacent to its city limits.

County Characteristics: Montgomery County was created in 1837 from Washington County. The southeast Texas county was named after U.S. Revolutionary General Richard Montgomery. The County is located on the southern edge of the Big Thicket. The economy is heavily influenced by timber and oil related businesses. Many residents commute south to the Houston metropolitan area. Cattle, greenhouse products, and timber are principal agricultural sources of income. The county seat is Conroe.

Retail Sales for 2005 totaled \$5.69 billion.\* The County's 2000 population was 293,768, a 61.23% increase since 1990. The total 2005 Effective Buying Income was \$8.57 billion with a median income of \$48,908 per household compared to the state median of \$38,804.\* A total of 84.4% of the households had Effective Buying Incomes in excess of \$20,000 with 15.6% below \$20,000.\* Countywide employment for the fourth quarter of 2005 totaled 106,111 persons earning \$1.08 billion as reported by the Texas Employment Commission.

Minerals produced include oil, gas, sand, and gravel. Harvest Trends, a publication of the Texas Forest Service, indicates 12.5 million cubic feet of timber produced in 2003 with a delivered value of \$17.9 million. Montgomery College had a Fall 2005 enrollment of 7,943.

Any data on population, value added by manufacturing or production of minerals or agricultural products are from U.S. Census or other official sources.

\* Sales & Marketing Management: 2005 Survey of Buying Power; further reproduction not licensed.

## FINANCE CONNECTED OFFICIALS

### Mayor

Jimmy W. Thornton, Jr.  
P.O. Box 396

# TEXAS MUNICIPAL REPORTS

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Magnolia, TX 77353-0396

Phone: 281-356-2266

Fax: 281-259-7811

City Manager

Roger Carlisle

P.O. Box 396

Magnolia, TX 77353-0396

Phone: 281-356-2266

Fax: 281-259-7811

rcarlisle@ci.magnolia.tx.us

City Secretary

LuAnn D. Drake

P.O. Box 396

Magnolia, TX 77353-0396

Phone: 281-356-2266

Fax: 281-259-7811

KEP

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Magnolia, City of (Waterworks & Sewer System)

AS OF: 07/31/2006

## DOCUMENTS RECEIVED BY THE MUNICIPAL ADVISORY COUNCIL OF TEXAS

The following is a list of audits, material events and updated financial information & operating data received by the Municipal Advisory Council of Texas (MAC). The MAC is the State Information Depository (SID) for the State of Texas. If you are required to file with the SID pursuant to SEC Rule 15c2-12, please take a moment to look over this list. If you have made a filing or submitted an audit that is not reflected on this list, please resubmit the information or contact the Municipal Advisory Council of Texas. Thank you for your cooperation.

## AUDITS RECEIVED BUT NOT ASSOCIATED WITH AN ANNUAL DISCLOSURE REQUIREMENT

### Documents Submitted

Financial Statements  
Annual Financial Report  
Annual Financial Report  
Annual Financial Report  
Annual Financial Report

### Doc. Date    Received

09/30/2000    12/10/2004  
09/30/2001    12/10/2004  
09/30/2002    12/10/2004  
09/30/2003    12/10/2004  
09/30/2005    04/21/2006

## MATERIAL EVENTS NOTICES PURSUANT TO SEC RULE 15C2-12

### Documents Submitted

NO DOCUMENTS RECEIVED

*Received & Filed  
in the Office of*

**AUG 07 2006**

*City Secretary  
City of Magnolia, Texas*

Please take a moment to review the updated version of the Texas Municipal Report on your entity. If you have any suggestions, comments or corrections regarding the information contained in this report, we would like to hear from you. Please contact the Assistant Executive Director, Laura Slaughter with your comments. You may fax your comments to 512-476-6403 or send them by email to [laura@mactexas.com](mailto:laura@mactexas.com).

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## Magnolia, City of (Waterworks & Sewer System) Montgomery County

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FOR OTHER BONDS OF THE CITY, SEE SEPARATE TEXAS MUNICIPAL REPORTS.

### FINANCIAL STATEMENT (As of May 1, 2006)

Special Obligation Debt  
Utility System \$4,780,000

Special Fund Balance  
Reserve Fund \$312,197\*

\*Set aside from bond proceeds for payment of Series 2006 Bonds.

PAYMENT RECORD Never defaulted.

### DETAILS OF REVENUE DEBT

Outstanding: 05/01/2006

W & SS Rev & Ref Bds Ser 2006  
Tax Treatment: BQ  
Original Issue Amount: \$4,780,000  
Dated Date: 05/01/2006  
Sale Date: 04/11/2006  
Delivery Date: 05/16/2006  
Type of Sale: Negotiated  
Record Date: MSRB  
Bond Form: BE  
Denomination: \$5,000  
Interest Pays: Semi-Annually: 11/01, 05/01  
1st Coupon Date: 11/01/2006  
Paying Agent: Wells Fargo Bank, N.A., Houston, TX  
Bond Counsel: Vinson & Elkins L.L.P.  
Fin Adv: Coastal Securities, Houston, TX  
Lead Manager: First Southwest Company

Use of Proceeds: Water, Refunding.

Call Option: Bonds maturing on 11/01/2015 to 11/01/2016 and 11/01/2018 and 11/01/2021 and 11/01/2023 and 11/01/2026 and 11/01/2031 and 11/01/2036 callable in whole or in part on any date beginning 11/01/2014 @ par. The following term bonds are subject to mandatory sinking fund redemption each 11/1 @ par as follows: Mty 11/01/2018: 115M-11/01/2017; 120M matures 11/01/2018. Mty 11/01/2021: 125M-11/01/2019; 135M-11/01/2020; 140M matures 11/01/2021. Mty 11/01/2023: 145M-11/01/2022; 155M matures 11/01/2023. Mty 11/01/2026: 165M-11/01/2024; 170M-11/01/2025; 180M matures 11/01/2026. Mty 11/01/2031: 190M-11/01/2027; 200M-11/01/2028; 210M-11/01/2029; 220M-11/01/2030; 235M matures 11/01/2031. Mty 11/01/2036: 245M-11/01/2032; 260M-11/01/2033; 270M-11/01/2034; 285M-11/01/2035; 300M matures 11/01/2036.

This issue defeased mty(s) 10/01/2006-10/01/2035 of Util Sys Rev Bds Ser 95 @ par.

Maturity	Amount	Coupon	Orig Reoffering Price/Yield
11/01/2007	75,000	4.0000%	3.900%
11/01/2008	80,000	4.0000%	100.000%
11/01/2009	80,000	4.0500%	100.000%
11/01/2010	85,000	4.1000%	100.000%
11/01/2011	90,000	4.2000%	100.000%

11/01/2012	95,000	4.3000%	100.000%
11/01/2013	95,000	4.3500%	100.000%
11/01/2014	100,000	4.4500%	100.000%
11/01/2015	105,000	4.5500%	100.000%
11/01/2016	110,000	4.6500%	100.000%
11/01/2018	235,000	4.7500%	100.000%
11/01/2021	400,000	4.8000%	4.900%
11/01/2023	300,000	5.0000%	100.000%
11/01/2026	515,000	5.1000%	100.000%
11/01/2031	1,055,000	5.1500%	100.000%
11/01/2036	1,360,000	5.2000%	100.000%
			-----\$4,780,000

### Term bonds maturing on 11/01/2018:

Mandatory Redemption Date	Principal Amount
11/01/2017	\$115,000
11/01/2018	\$120,000

### Term bonds maturing on 11/01/2021:

Mandatory Redemption Date	Principal Amount
11/01/2019	\$125,000
11/01/2020	\$135,000
11/01/2021	\$140,000

### Term bonds maturing on 11/01/2023:

Mandatory Redemption Date	Principal Amount
11/01/2022	\$145,000
11/01/2023	\$155,000

### Term bonds maturing on 11/01/2026:

Mandatory Redemption Date	Principal Amount
11/01/2024	\$165,000
11/01/2025	\$170,000
11/01/2026	\$180,000

### Term bonds maturing on 11/01/2031:

Mandatory Redemption Date	Principal Amount
11/01/2027	\$190,000
11/01/2028	\$200,000
11/01/2029	\$210,000
11/01/2030	\$220,000
11/01/2031	\$235,000

### Term bonds maturing on 11/01/2036:

Mandatory Redemption Date	Principal Amount
11/01/2032	\$245,000
11/01/2033	\$260,000
11/01/2034	\$270,000
11/01/2035	\$285,000
11/01/2036	\$300,000

GRAND TOTAL =====> \$4,780,000

### BOND DEBT SERVICE

Period Ending	Principal	Interest	Debt Service
09/30/2007	0.00	235,945.00	235,945.00
09/30/2008	75,000.00	234,445.00	309,445.00

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09/30/2009	80,000.00	231,345.00	311,345.00
09/30/2010	80,000.00	228,125.00	308,125.00
09/30/2011	85,000.00	224,762.50	309,762.50
09/30/2012	90,000.00	221,130.00	311,130.00
09/30/2013	95,000.00	217,197.50	312,197.50
09/30/2014	95,000.00	213,088.75	308,088.75
09/30/2015	100,000.00	208,797.50	308,797.50
09/30/2016	105,000.00	204,183.75	309,183.75
09/30/2017	110,000.00	199,237.50	309,237.50
09/30/2018	115,000.00	193,948.75	308,948.75
09/30/2019	120,000.00	188,367.50	308,367.50
09/30/2020	125,000.00	182,517.50	307,517.50
09/30/2021	135,000.00	176,277.50	311,277.50
09/30/2022	140,000.00	169,677.50	309,677.50
09/30/2023	145,000.00	162,692.50	307,692.50
09/30/2024	155,000.00	155,192.50	310,192.50
09/30/2025	165,000.00	147,110.00	312,110.00
09/30/2026	170,000.00	138,567.50	308,567.50
09/30/2027	180,000.00	129,642.50	309,642.50
09/30/2028	190,000.00	120,160.00	310,160.00
09/30/2029	200,000.00	110,117.50	310,117.50
09/30/2030	210,000.00	99,560.00	309,560.00
09/30/2031	220,000.00	88,487.50	308,487.50
09/30/2032	235,000.00	76,771.25	311,771.25
09/30/2033	245,000.00	64,350.00	309,350.00
09/30/2034	260,000.00	51,220.00	311,220.00
09/30/2035	270,000.00	37,440.00	307,440.00
09/30/2036	285,000.00	23,010.00	308,010.00
09/30/2037	300,000.00	7,800.00	307,800.00
<hr/>			
	4,780,000.00	4,741,167.50	9,521,167.50

COMPUTED ON BASIS OF MANDATORY REDEMPTION.

### PERTINENT PROVISIONS OF THE WATER & SEWER SYSTEM REVENUE BOND INDENTURE

1. Nature of Pledge: First lien on and pledge of the net revenues from the operation of the water and sewer system.

2. Special Funds Created by Indenture:

I&S Fund: Receives equal monthly deposits to meet debt service requirements.

Reserve Fund: Receives equal monthly deposits equal to 1/60th of the annual debt service requirement until an amount equal the maximum principal and interest requirements. The City may purchase a Reserve Fund Surety Policy to satisfy the requirement.

3. Coverage Required as a Condition to Issuance of Parity Bonds: For the last complete fiscal year or for any twelve consecutive calendar month period ending not more than 90 days preceding the adoption of additional bonds ordinance, net revenues shall have been not less than 1.20 times average annual requirements.

4. Rate Covenant: The Issuer has covenanted to maintain rates and charges sufficient to produce 110% of the interest and principal of the Bonds and additional bonds and the amounts required to be deposited to the special funds created for the security of all bonds.

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

Statements include an indeterminable amount of garbage revenue.

	Fiscal Year Ended			
	09-30-2005	09-30-2004	09-30-2003	09-30-2002
Revenues:				
Water Service	\$450,076	\$415,891	\$416,266	\$444,335
Sewer Service	311,862	311,397	336,413	316,228
Other	417,480	233,855	67,767	318,724
Total	\$1,179,418	\$961,143	\$820,446	\$1,079,287

Expenses:				
Garbage	\$66,226)	\$	\$79,750	\$66,123
Other	635,645)	575,512	695,766	664,937
Total	\$701,871	\$575,512	\$775,516	\$731,060

Available For Debt Service	\$477,547	\$385,631	\$44,930	\$348,227
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Revenue Ann Reqmts	\$66,634	\$62,275	\$62,787	\$63,300
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Coverage On Revenue Bds	7.16X	6.19X	0.71X	5.50X
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Customer Count:				
Sewer	592	577	573	710
Water	932	925	908	1,046

WATER Two wells.

WATER RATES Effective April 8, 2006.

Old Rates  
Within City Limits  
Rates - \$22.00/M first 1,000 gallons  
\$ 2.00/M over 1,000 gallons

Outside City Limits  
Rates - \$32.00/M first 1,000 gallons  
\$ 2.40/M over 1,000 gallons

Water Meters		
Within City Limits		
Meter Size	Rate	
1 1/2"	\$60.00	
2"	82.00	
3"	90.00	

Outside City Limits		
Meter Size	Rate	



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1 1/2"	\$75.00
2"	100.00
3"	125.00

## New Rates

### Residential Within City Limits

Rates - \$27.00/M first 1,000 gallons  
\$ 3.50/M over 1,000 gallons

### Residential Outside City Limits

Rates - \$50.00/M first 1,000 gallons  
\$ 5.40/M over 1,000 gallons

## Commercial Water Meters

### Within City Limits

Meter Size	Rate
5/8"-3/4"	\$32.00/M plus \$5.00/M over 1,000 gallons
1"	45.00/M plus \$5.50/M over 1,000 gallons
1 1/2"	65.00/M plus \$3.50/M over 1,000 gallons
2"	87.00/M plus \$3.50/M over 1,000 gallons
3"	95.00/M plus \$3.50/M over 1,000 gallons

### Outside City Limits

Meter Size	Rate
5/8"-3/4"	\$68.00/M plus \$8.40/M over 1,000 gallons
1"	81.00/M plus \$8.40/M over 1,000 gallons
1 1/2"	93.00/M plus \$5.40/M over 1,000 gallons
2"	118.00/M plus \$5.40/M over 1,000 gallons
3"	161.00/M plus \$5.40/M over 1,000 gallons

SEWER RATES Effective April 8, 2006.

## Old Rates

### Residential

Rates - \$9.95 base rate  
plus \$2.40/M per 1,000 gallons

### Commercial

#### First 1,000 gallons

Meter Size	Rate
3/4" - 1"	\$14.00
1 1/2"	17.00
2"	20.00
3"	23.00

plus \$2.85/M per 1,000 gallons

## New Rates

### Residential

Rates - \$9.50 base rate  
plus \$2.85/M per 1,000 gallons

### Commercial

#### First 1,000 gallons

Meter Size	Rate
5/8" - 3/4"	\$14.00
1"	15.00
1 1/2"	17.00
2"	20.00
3"	23.00

plus \$2.85/M per 1,000 gallons

REVENUE BONDS AUTHORIZED BUT UNISSUED None

NON-FUNDED DEBT PAYABLE (As of September 30, 2005)

The City reports additional debt in the principal amount of \$40,824 under Water Fund as follows:

	Amount Outstanding	Int Rate	Next Year's Requirements	Reported Under
Note	\$40,824	8.25%	\$41,815	Water Fund

## ECONOMIC BACKGROUND

The City of Magnolia is a retail center located at the intersection of Farm Roads 249 and 1488. It had a 2000 population of 1,111, an 18% increase since 1990. Two manufacturers located near the city produce oilfield equipment. Some residents commute to Houston for employment. The City is located in the Magnolia Independent School District and is experiencing rapid residential and commercial growth in both the City and adjacent to its city limits.

County Characteristics: Montgomery County was created in 1837 from Washington County. The southeast Texas county was named after U.S. Revolutionary General Richard Montgomery. The County is located on the southern edge of the Big Thicket. The economy is heavily influenced by timber and oil related businesses. Many residents commute south to the Houston metropolitan area. Cattle, greenhouse products, and timber are principal agricultural sources of income. The county seat is Conroe.

Retail Sales for 2005 totaled \$5.69 billion.\* The County's 2000 population was 293,768, a 61.23% increase since 1990. The total 2005 Effective Buying Income was \$8.57 billion with a median income of \$48,908 per household compared to the state median of \$38,804.\* A total of 84.4% of the households had Effective Buying Incomes in excess of \$20,000 with 15.6% below \$20,000.\* Countywide employment for the fourth quarter of 2005 totaled 106,111 persons earning \$1.08 billion as reported by the Texas Employment Commission.

Minerals produced include oil, gas, sand, and gravel. Harvest Trends, a publication of the Texas Forest Service, indicates 12.5 million cubic feet of timber produced in 2003 with a delivered value of \$17.9 million. Montgomery College had a Fall 2005 enrollment of 7,943.

Any data on population, value added by manufacturing or production of minerals or agricultural products are from U.S. Census or other official sources.

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## FINANCE CONNECTED OFFICIALS

### Mayor

Jimmy W. Thornton, Jr.  
P.O. Box 396

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City Manager  
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rcarlisle@ci.magnolia.tx.us

City Secretary  
LuAnn D. Drake  
P.O. Box 396  
Magnolia, TX 77353-0396  
Phone: 281-356-2266  
Fax: 281-259-7811  
KEP

# AFFIDAVIT OF PUBLICATION

Before me, the undersigned authority, on this day personally appeared Denny O'Brien who on his oath stated:

## NOTICE OF ELECTION

### TO THE REGISTERED VOTERS OF THE CITY OF MAGNOLIA, TEXAS:

Notice is hereby given that the polling place listed will be open from 7:00 a.m. until 7:00 p.m. on May 13, 2006, for voting in a general election of a Mayor, City Council Position 1, City Council Position 4 and City Council Position 5 and for the purpose of submitting four propositions: (1) to approve or reject the dissolution of the Magnolia Community Development Corporation; and (2) to approve or reject the use of sales and use tax proceeds for infrastructure relating to water supply facilities and water conservation programs; and (3) to approve or reject issuing certificates of obligation for the repair of a water well and the acquisition and renovation of the building located at 18111 Buddy Riley Blvd., Magnolia, Texas to be used as the new City Hall; and authorizing the City Council to levy and pledge and cause to be assessed and collected, annual ad valorem taxes in combination with a pledge of revenues in payment thereof; and (4) to reauthorize the local sales and use tax in the City of Magnolia, Texas at the rate of one-fourth of one percent to continue providing revenue for maintenance and repair of municipal streets.

### LOCATION OF POLLING PLACE for May 13, 2006

Montgomery County  
Malcolm Purvis Library  
510 Melton Street  
Magnolia, Texas 77354

There are new and additional early voting locations for this election. Early voting by personal appearance will be conducted by Montgomery County Elections on the following dates and times at the following locations.

May 01, 2006 - May 05, 2006

8:00 am - 5:00 pm

May 08, 2006 - May 09, 2006

7:00 am - 7:00 pm

Election Central, 225 Collins St., Conroe, TX 77301

Malcolm Purvis Library, 510 Melton St., Magnolia, TX 77354

South County Community Building, 2235 Lake Robbins Dr., The Woodlands, TX 77380

Constable/J.P. 1 Precinct Building, 300 South Danville (SH 75), Willis, TX 77378

East County Courthouse Annex, 21130 U.S. Hwy. 59 South, New Caney, TX 77357

West County Courthouse Annex, 19380 Hwy. 105 W., Ste. 507, Montgomery, TX 77356

May 06, 2006

8:00 am - 5:00 pm

West County Courthouse Annex, 19380 Hwy. 105 W., Ste. 507, Montgomery, TX 77356

Applications for mail ballots must be received no later than the close of business on April 28, 2006, addressed to LuAnn D. Drake, Early Voting Clerk, P.O. Box 396, Magnolia, Texas 77353.

I am the Editor of the Tomball Magnolia Tribune, a newspaper published in Harris County, Texas and now the facts stated in this affidavit. The attached matter is a true and correct copy of the publication of the citation of which it purports to be a copy, as the same appeared in such newspaper in the respective issue of:

5/1, 2006

, 2006

Denny O'Brien, Editor

Subscribed and sworn to this 1st day of May, 2006

