



# City of Magnolia

P.O. BOX 396  
MONTGOMERY COUNTY  
MAGNOLIA, TEXAS 77353-0396  
281-356-2266  
Fax 281-259-7811



## ORDINANCE NO. 2006-094

ORDINANCE AUTHORIZING THE ISSUANCE OF \$1,500,000 CITY OF  
MAGNOLIA, TEXAS, CERTIFICATES OF OBLIGATION, SERIES 2006

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

WHEREAS, the City Council of the City of Magnolia, Texas (the "City"), authorized the publication of a notice of intention to issue certificates of obligation to the effect that the City Council would meet on September 20, 2005, to adopt an ordinance and take such other action as may be deemed necessary to authorize the issuance of certificates of obligation payable from City ad valorem taxes and from a limited pledge of a subordinate lien of the net revenues of the City's waterworks and sanitary sewer system, for the purpose of evidencing the indebtedness of the City for all or any part of the cost of repairing the water well and the acquisition and renovation of a building located at 1811 Buddy Riley Blvd., Magnolia, Texas, to be used as the new City Hall, and the cost of professional services incurred in connection therewith;

WHEREAS, such notice was published at the times and in the manner required by the Constitution and laws of the State of Texas and of the United States of America, respectively, particularly Chapter 271, Texas Local Government Code as amended;

WHEREAS, the City Council timely received a petition requesting that the proceedings authorizing such certificates of obligation be submitted to a referendum or other election;

WHEREAS, the certificates of obligation hereinafter authorized were duly and favorably voted at an election held in the City of Magnolia, Texas (the "City") on the 13th day of May, 2006; Now, therefore

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

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

2. Definitions. Throughout this ordinance the following terms and expressions as used herein shall have the meanings set forth below:

"Act" shall mean Chapter 271, Texas Local Government Code, as amended.

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

"Business Day" means any day which is not a Saturday, Sunday, a day on which banking institutions are authorized by law or executive order to close, or a legal holiday.

"Certificate" or "Certificates" means the City of Magnolia, Texas, Certificates of Obligation, Series 2006 authorized in this Ordinance, unless the context clearly indicates otherwise.

"City" means the City of Magnolia, Texas.

"Closing Date" means the date of the initial delivery of and payment for the Certificates.

"Code" means the Internal Revenue Code of 1986, as amended.

"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.

"Interest and Sinking Fund" means the interest and sinking fund for payment of the Certificates established by the City in Section 20 of this Ordinance.

"Interest Payment Date", when used in connection with any Certificate, means February 15, 2007, and each August 15 and February 15 thereafter until maturity or earlier redemption.

"Initial Certificate" means the Initial Certificate authorized by Section 6(d).

"MSRB" means the Municipal Securities Rulemaking Board.

"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" as used herein and in the Certificates means this ordinance authorizing the Certificates.

"Owner" means any person who shall be the registered owner of any outstanding Certificate.

"Purchase Contract" means the agreement between the City and the Underwriter described in Section 24 of this Ordinance.

"Record Date" means, for any Interest Payment Date, the close of business on the last Business Day of the month next preceding such Interest Payment Date.

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

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

"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.

"Underwriter" means First Southwest Company.

3. Authorization. The Certificates shall be issued pursuant to the Act and an election held within the District on May 13, 2006, in fully registered form, without coupons, in the total authorized principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) for all or any part of the cost of repairing the water well and the acquisition and renovation of a building located at 1811 Buddy Riley Blvd., Magnolia, Texas, to be used as the new City Hall and the cost of professional services incurred in connection therewith.

4. Designation, Date, and Interest Payment Dates. The Certificates shall be designated as the "CITY OF MAGNOLIA, TEXAS, CERTIFICATES OF OBLIGATION, SERIES 2006", and shall be dated August 1, 2006. The Certificates shall bear interest at the rates set forth in Section 5 of this Ordinance from the later of August 1, 2006, or the most recent Interest Payment Date to which such interest has been paid or duly provided for, calculated on the basis of a 360 day year of twelve 30 day months, interest payable on February 15, 2007, and semiannually thereafter on August 15 and February 15 of each year until maturity or earlier redemption.

5. Initial Certificates; Numbers and Denominations. The Certificates shall be initially issued bearing the numbers, in the principal amounts, and bearing interest at the rates set forth in the following schedule, and may be transferred and exchanged as set out in this Ordinance. The Certificates shall mature on August 15 in each of the years and in the amounts set out in such schedule. The Initial Certificate shall be numbered I-1 and all other Certificates shall be numbered in sequence beginning with R-1. Certificates delivered on transfer of or in exchange for other Certificates shall be numbered in order of their authentication by the Registrar, shall be in denominations of \$5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Certificate or Certificates in lieu of which they are delivered.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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2007	\$ 10,000	_____ %
2008	10,000	_____ %
2009	10,000	_____ %
2010	10,000	_____ %
2011	15,000	_____ %
2012	15,000	_____ %
2013	15,000	_____ %
2014	15,000	_____ %
2015	15,000	_____ %
2016	15,000	_____ %
2017	15,000	_____ %
2018	45,000	_____ %
2019	45,000	_____ %
2020	135,000	_____ %
2021	140,000	_____ %
2022	145,000	_____ %
2023	155,000	_____ %
2024	160,000	_____ %
2025	170,000	_____ %
2026	175,000	_____ %
2027	185,000	_____ %

6. Execution of Certificates; Seal. (a) The Certificates shall be signed on behalf of the City by the Mayor and countersigned by the 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 Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates.

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

(c) Except as provided below, no Certificate 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 Certificate 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 Certificate described above, the Initial Certificate 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 her duly authorized agent, which certificate shall be evidence that the Initial Certificate 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 Certificate, being a single certificate representing the entire principal amount of the Certificates, payable in stated installments to the Underwriter or its designee, executed by manual or facsimile signature of the Mayor and 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 Certificate, the Registrar shall cancel the Initial Certificate and deliver definitive Certificates to DTC.

7. Payment of Principal and Interest. The Registrar is hereby appointed as the paying agent for the Certificates. The principal of the Certificates shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they become due and payable at the operations office of the Registrar in Minneapolis, Minnesota. The interest on each Certificate shall be payable by check payable on the Interest Payment Date, mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register.

If the date for payment of the principal of or interest on any Certificate 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 original date payment was due.

8. Successor Registrars. The City covenants that at all times while any Certificates are outstanding it will provide a commercial bank or trust company organized under the laws of the United States or any state and duly qualified and legally authorized to serve as Registrar for the Certificates. 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 Certificates. 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.

9. Special Record Date. If interest on any Certificate 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.

10. Ownership; Unclaimed Principal and Interest. The City, the Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute Owner of such Certificate for the purpose of making payment of principal or interest on such Certificate, and

for all other purposes, whether or not such Certificate is overdue, and neither the City nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Certificate in accordance with this Section shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Certificate to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Certificates remaining unclaimed by the Owner after the expiration of three years from the date such amounts have become due and payable shall be reported and disposed of by the Registrar in accordance with the applicable provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

11. Registration, Transfer, and Exchange. So long as any Certificates 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 Certificates in accordance with the terms of this Ordinance.

Each Certificate 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 Certificate in proper form for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three Business Days after such presentation, a new Certificate or Certificates, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Certificate or Certificates so presented.

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

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

12. Mutilated, Lost, or Stolen Certificates. Upon the presentation and surrender to the Registrar of a mutilated Certificate, the Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding. If any Certificate is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or

knowledge that such Certificate has been acquired by a bona fide purchaser, shall authorize and the Registrar shall authenticate and deliver a replacement Certificate of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding.

The City or the Registrar may require the Owner of a mutilated Certificate to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

The City or the Registrar may require the Owner of a lost, apparently destroyed or wrongfully taken Certificate, before any replacement Certificate 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 Certificate;
- (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 Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Registrar in connection therewith.

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

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

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

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

(b) With respect to Certificates 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 Certificates, 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 Certificates, (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 Certificates, 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 Certificates. 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 Certificate is registered in the Register as the absolute Owner of such Certificate for the purpose of payment of principal of and interest on the Certificates, for the purpose of giving notices of redemption and other matters with respect to such Certificate, for the purpose of registering transfer with respect to such Certificate, and for all other purposes whatsoever. The Registrar shall pay all principal of, premium, if any, and interest on the Certificates 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 Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a 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.

15. 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 Certificates shall be able to obtain certificated Certificates, 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 Certificates to such successor securities depository or (ii) notify DTC and DTC Participants, as identified by DTC, of the availability through DTC of Certificates and transfer one or more separate Certificates to DTC Participants having Certificates credited to their DTC accounts, as identified by DTC. In such event, the Certificates shall no 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 Certificates shall designate, in accordance with the provisions of this Ordinance.

16. Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Certificates 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 Certificates, and all notices with respect to such Certificates, shall be made and given, respectively, in the manner provided in the Blanket Letter of Representations.

17. Optional [and Mandatory] Redemption. The Certificates are subject to optional [and mandatory] redemption as set forth in the Form of Certificate in this Ordinance.

Principal amounts may be redeemed only in integral multiples of \$5,000. If a Certificate subject to redemption is in a denomination larger than \$5,000, a portion of such Certificate may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Certificate for redemption in part, the Registrar, in accordance with Section 11 hereof, shall authenticate and deliver in exchange therefor a Certificate or Certificates of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered.

Notice of any redemption identifying the Certificates 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 Certificate 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 Certificates are to be surrendered for payment and, if less than all Certificates outstanding of a particular maturity are to be redeemed, the numbers of the Certificates 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 Certificates or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Certificates have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Certificates or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Certificate or portion thereof called for redemption shall terminate on the date fixed for redemption.

18. Forms. The form of the Certificates, including the form of the Registrar's Authentication Certificate, the form of Assignment, the form of Statement of Insurance, and the form of Registration Certificate of the Comptroller 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 Certificate.

UNITED STATES OF AMERICA  
STATE OF TEXAS  
COUNTY OF MONTGOMERY

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

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

CITY OF MAGNOLIA, TEXAS  
TAX AND REVENUE  
CERTIFICATE OF OBLIGATION  
SERIES 2006

INTEREST RATE:      MATURITY DATE:      ISSUE DATE:      CUSIP:  
                         August 15, 20\_\_      August 1, 2006

REGISTERED OWNER:

PRINCIPAL AMOUNT:      DOLLARS

The City of Magnolia, Texas (the "City") promises to pay to the registered owner identified above, or registered assigns, on the maturity date specified above, upon presentation and surrender of this Certificate 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 of such principal is legal tender for the payment of debts due the United States of America, and to pay interest thereon at the rate shown above, calculated on the basis of a 360 day year of twelve 30 day months, from the later of August 1, 2006, or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this Certificate is payable by check on February 15 and August 15, beginning on February 15, 2007, mailed to the registered owner of record as of the close of business on the last business day of the month next preceding each interest payment date.

THIS CERTIFICATE is one of a duly authorized issue of certificates of obligation, aggregating \$1,500,000 (the "Certificates"), issued in accordance with an election held in the City on May 13, 2006 and the Constitution and laws of the State of Texas, particularly Chapter 271, Texas Local Government Code, as amended, for the purpose of evidencing the indebtedness of the City for all or any part of the cost of repairing the water well and the acquisition and renovation of a building located at 1811 Buddy Riley Blvd., Magnolia, Texas, to be used as the new City Hall and the cost of professional services incurred in connection therewith, and pursuant to an ordinance duly adopted by

the City Council of the City (the "Ordinance"), which Ordinance is of record in the official minutes of the City Council.

THE CITY RESERVES THE RIGHT to redeem Certificates maturing on and after August 15, 20\_\_, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on August 15, 20\_\_, 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 Certificates.

[Mandatory redemption language, if applicable]

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 owner of each Certificate to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar.

When Certificates or portions thereof have been called for redemption, and due provision has been made to redeem the same, the principal amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the amounts called for redemption shall terminate on the date fixed for redemption.

THIS CERTIFICATE is transferable only upon presentation and surrender at the 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 CERTIFICATES are exchangeable at the operations office of the Registrar in Minneapolis, Minnesota, for Certificates in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THIS CERTIFICATE shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this Certificate 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 Certificate, 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 Certificates and will cause notice of any change of registrar to be mailed to each registered owner.

IT IS HEREBY certified, recited and covenanted that this Certificate has been duly and validly issued and delivered; that all acts, conditions and things required or proper to be performed, to exist and to be done precedent to or in the issuance and delivery of this Certificate have been performed, exist and have been done in accordance with law; and that annual ad valorem taxes, within the limits prescribed by law, sufficient to provide for the payment of the interest on and

principal of this Certificate, as such interest comes due and such principal matures, have been levied and ordered to be levied against all taxable property in the City.

IT IS FURTHER certified, recited and represented that the revenues, in an amount not to exceed \$10,000, to be derived from the operation of the City's water and sewer system, after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), are pledged to the payment of the principal of and interest on the Certificates; provided, however, that such pledge is and shall be junior and subordinate in all respects to the pledge of the Net Revenues to the payment of all outstanding obligations of the City and any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of the Net Revenues to the payment of the Certificates. The City also reserves the right to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind payable in whole or in part from the Net Revenues, secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of the Net Revenues securing the Certificates.

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

(AUTHENTICATION  
CERTIFICATE)

(SEAL)

CITY OF MAGNOLIA, TEXAS

Mayor

City Secretary

(b) Form of Registration Certificate.

COMPTROLLER'S REGISTRATION CERTIFICATE:

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

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

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

(SEAL)

Comptroller of Public Accounts  
of the State of Texas

(c) Form of Registrar's Authentication Certificate.

AUTHENTICATION CERTIFICATE

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

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 Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints  
\_\_\_\_\_  
attorney to transfer said Certificate on the books kept for registration thereof, with full power of  
substitution in the premises.

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

Signature Guaranteed:

\_\_\_\_\_  
\_\_\_\_\_  
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 Certificate in every particular,  
without any alteration, enlargement or change  
whatsoever.

- (e) Form of Statement of Insurance.

***STATEMENT OF INSURANCE***

Radian Asset Assurance Inc. ("Radian"), a New York corporation, has issued its Policy (the "Policy") insuring the payment of principal of and interest on this Certificate on the "due date", as defined in the Policy. Reference is made to the Policy for the complete provisions thereof. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Certificate acknowledges and consents to the subrogation and transfer rights of Radian as more fully set forth in the Policy.

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

(i) immediately under the name of the Certificate, 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 Certificate, 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 August 15 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 5]

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

19. CUSIP Numbers; Bond Insurance. CUSIP Numbers may be printed on the Certificates, but errors or omissions in the printing of such numbers shall have no effect on the validity of the Certificates.

The purchase of and payment of the premium for municipal bond insurance by the City, in accordance with the terms of a commitment for such insurance from Radian Asset Assurance Inc. presented to and hereby approved by the City Council, is hereby authorized. All officials and representatives of the City are authorized and directed to execute such documents and to do any and all things necessary or desirable to obtain such insurance. The provisions regarding the Certificate Documentation Requirements attached as Exhibit A are incorporated herein by reference and made part of this Ordinance.

20. Interest and Sinking Fund; Tax Levy. There is hereby established a separate fund of the City to be known as the City of Magnolia, Texas, Certificates of Obligation, Series 2006 Interest and Sinking Fund (the "Interest and Sinking Fund"), which shall be kept separate and apart from all

other funds of the City. The proceeds from all taxes levied, assessed and collected for and on account of the Certificates authorized by this Ordinance shall be deposited, as collected, in the Interest and Sinking Fund. While the Certificates or any part of the principal thereof or interest thereon remain outstanding and unpaid, there is hereby levied and there shall be annually assessed and collected in due time, form and manner, and at the same time as other City taxes are assessed, levied and collected, in each year, a continuing direct annual ad valorem tax, within the limits prescribed by law, upon all taxable property in the City, sufficient to pay the current interest on the Certificates as the same becomes due and to provide and maintain a sinking fund of not less than two percent of the principal amount of the Certificates or the amount required to pay each installment of principal of the Certificates as the same matures, whichever is greater, full allowance being made for delinquencies and costs of collection, and said taxes are hereby irrevocably pledged to the payment of the interest on and principal of the Certificates.

21. Pledge of Revenues. The revenues, in an amount not to exceed \$10,000, to be derived from the operation of the City's water and sewer system, after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), are hereby pledged to the payment of the principal of and interest on the Certificates as the same come due; provided, however, that such pledge is and shall be junior and subordinate in all respects to the pledge of the Net Revenues to the payment of all outstanding obligations of the City and any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of the Net Revenues to the payment of the Certificates. The City also reserves the right to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind payable in whole or in part from the Net Revenues, secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of the Net Revenues securing the Certificates.

22. Application of Chapter 1208, Government Code. Chapter 1208, Government Code, applies to the issuance of the Certificates and the pledge of the taxes and revenues granted by the City under Sections 20 and 21 of this Ordinance, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Certificates are outstanding and unpaid such that the pledge of the taxes and revenues granted by the City under Sections 20 and 21 of this Ordinance is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Certificates the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

23. Further Proceedings. After the Initial Certificate has been executed, it shall be the duty of the Mayor and other appropriate officials and agents of the City to deliver the Initial Certificate and all pertinent records and proceedings to the Attorney General of the State of Texas, for examination and approval. After the Initial Certificate has been approved by the Attorney General, it shall be delivered to the Comptroller for registration. Upon registration of the Initial Certificate, the Comptroller (or the Comptroller's bond clerk or an assistant bond clerk lawfully designated in writing to act for the Comptroller) shall manually sign the Comptroller's Registration

Certificate prescribed herein and the seal of said Comptroller shall be impressed, or placed in facsimile, thereon.

24. Sale; Purchase Contract. The Certificates shall be sold and delivered to the Underwriter at a price of \$ \_\_\_\_\_, in accordance with the terms of a Purchase Contract, the form of which is hereby approved by the City Council. The Mayor and City Secretary are hereby authorized and directed to execute the Purchase Contract on behalf of the City, and the Mayor, City Manager 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 Certificates.

25. Federal Income Tax Inclusion.

(a) General Tax Covenant. The City intends that the interest on the Certificates shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and 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 Certificates 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 Certificates or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Section will satisfy the applicable requirements of the Code and 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 Certificates are delivered, that the proceeds of the Certificates will not be used in a manner that would cause the Certificates 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 Certificates including interest or other investment income derived from Certificate 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 Certificates 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 not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Certificates to be "federally guaranteed" within the meaning of section 149(b) of the Code and 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 Certificates 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 Certificates are delivered, the City will reasonably expect that the proceeds of the Certificates will not be used in a manner that would cause the Certificates to be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Certificates including interest or other investment income derived from Certificate proceeds, regulate investments of proceeds of the Certificates, and take such other and further action as may be required so that the Certificates will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and 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 Certificates (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Certificates as may be required to calculate the amount earned on the investment of the gross proceeds of the Certificates separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issues of the City or moneys which do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Certificates which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Certificates 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 Certificates 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 Certificates are issued, an information statement concerning the Certificates, 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 Certificates.

26. Qualified Tax-Exempt Obligations. The City hereby designates the Certificates 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 2005, including the Certificates, 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 2005, including the Certificates, 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 entities which are aggregated with the City under the Code.

27. Use of Proceeds. Proceeds from the sale of the Certificates shall, promptly upon receipt by the City, be applied as follows:

- (a) Accrued interest and \$\_\_\_\_\_ in net premium on the Certificates shall be deposited into the Interest and Sinking Fund;
- (b) \$\_\_\_\_\_ in net premium on the Certificates, shall be used to pay the costs of issuance of the Certificates; and
- (c) The remaining proceeds of the Certificates shall be used for the purposes described in Section 3 of this Ordinance and for paying the costs of issuance of the Certificates. Any certificate proceeds remaining after accomplishing the purposes set out in Section 3 and paying costs of issuance, including earnings on investments of such proceeds, shall be transferred to the Interest and Sinking Fund.

28. Official Statement. The City 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 Certificates and hereby authorizes the preparation of a final Official Statement reflecting the terms of the Underwriter's bid and other relevant information. The use of such Official Statement in the reoffering of the Certificates by the Underwriter is hereby approved and authorized. The proper officials of the City are hereby authorized to execute and deliver a certificate pertaining to such Official Statement as prescribed therein, dated as of the date of payment for and delivery of the Certificates.

29. 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 Certificates) and no person is committed by contract or other arrangement with respect to payment of the Certificates.

(a) Financial Information and Operating Data. The City will provide certain financial information and operating data which is customarily prepared by the City and is publicly available to any person upon request made to the City in writing; provided, however, that the City reserves the right at any time to commence making filings of such information with the SID in lieu of providing such information to persons upon request. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the Official Statement in APPENDIX A. The City will update and provide this information within 6 months after the end of each fiscal year and the response to an information request will be with the latest information available.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available.

The City's current fiscal year end is September 30. If the City changes its fiscal year, it will notify the SID of the change.

Information agreed to be provided by the City on request may be obtained by contacting the City at: City of Magnolia, Attention: Roger Carlisle, City Manager, P.O. Box 396, Magnolia, Texas 77354 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 Certificates, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- G. Modifications to rights of holders of the Certificates;
- H. Certificate calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Certificates; 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 29(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 Certificates 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 Certificates no longer to be outstanding.

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

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY CERTIFICATE 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 adopt 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, but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to such amendment, or (b) a 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 Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If any such amendment is made, the City will include in its next annual update an explanation in narrative form of the reasons for the change and its impact on the type of operating data or financial information being provided.

30. Related Matters. The Mayor, the City Manager, the 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.

31. Registrar. The form of agreement setting forth the duties of the Registrar is hereby approved, and the appropriate officials of the City are hereby authorized to execute such agreement for and on behalf of the City.

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

33. 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.

## EXHIBIT A

### CERTIFICATE DOCUMENTATION REQUIREMENTS

**Payment.** The City shall deposit with the paying agent an amount sufficient to provide for the payment of principal of and interest due on the Certificates at least five(5) days prior to the principal and interest payment dates.

**No Mandatory Call.** Except for mandatory redemption from sinking fund installments, there shall be no mandatory redemption of the Certificates upon an event or determination of taxability of the Certificates or otherwise. Redemption of Certificates for casualty or condemnation shall be extraordinary optional redemptions.

**Insurer's Consent.** The Insurer's consent shall be required for the execution and delivery of any amendment or supplemental to the Certificate Documentation.

**Acceleration.** To the extent the Certificates are subject to acceleration, upon the occurrence of an Event of Default, the indebtedness evidenced by the Certificates shall not be accelerated without the Insurer's prior written consent. At that time, the Insurer may, in its discretion, either direct the accelerated payment of the Certificates or continue to pay principal and interest on the originally scheduled due dates on the Certificates.

**Defeasance.** The City shall provide the Insurer with a copy of any documents associated with the defeasance of the Certificates.

**Subrogation.** Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Certificates shall be paid by Insurer pursuant to the Policy, the Certificates shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and all covenants, agreements and other obligations of the City to the registered owners shall continue to exist and shall run to the benefit of Insurer and Insurer shall be subrogated to the rights of such registered owners.

**Reporting Requirements.** While the Policy is in effect, the City shall furnish to the Insurer:

(i) annual audited financial statements within thirty (30) days of such statements being made available to the City; provided, however, that if the City shall fail to provide such audited financial statements within such time period, the City shall provide such audited financial statements to the Insurer within thirty (30) days of receiving a request for such documents from the Insurer;

(ii) a copy of any notice or report required to be given to the Insurance Trustee, the Paying Agent, the registered owners of the Certificates or any other party to any of the Certificate Documents executed in connection with the issuance of the Certificates, including, without limitation, notice of any redemption of or defeasance of Certificates, and any certificate rendered pursuant to the Certificate Document relating to the security for the Certificates; and

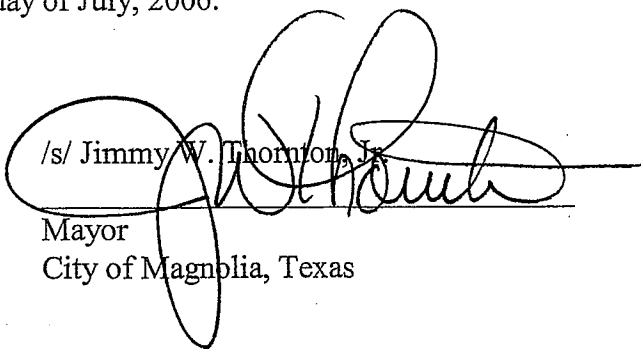
(iii) such additional information as the Insurer may reasonably request.

The City will permit Insurer and/or the Insurance Trustee to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the City. The City will permit the Insurer and/or the Insurance Trustee to have access to and make copies of all books and records relating to the Certificates, and the security therefore at any reasonable time.

**Amendment.** Any rating agency rating the Certificates must receive notice of each amendment to the Certificate Documents and a copy thereof at least fifteen (15) Business Days in advance of its execution or adoption. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment.

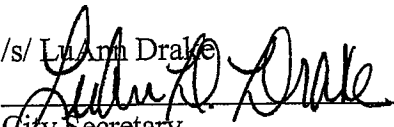
**Notices.** All notices to Radian shall be delivered to Radian Asset Assurance Inc., 335 Madison Avenue, New York, NY 10017, Attention: Chief Risk Officer; telephone number-212-983-5859; facsimile transmission number-212-682-5377; e-mail-Muni\_surveillance@radian.biz.

PASSED AND APPROVED on the 11<sup>th</sup> day of July, 2006.

  
/s/ Jimmy W. Thornton, Jr.

Mayor  
City of Magnolia, Texas

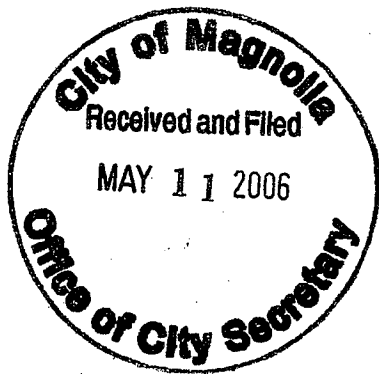
ATTEST:

  
/s/ Lynn Drake

City Secretary  
City of Magnolia, Texas

(SEAL)



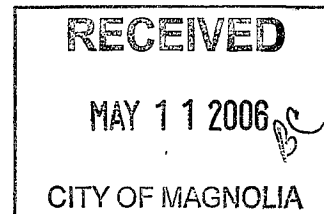


ADDENDUM TO  
OFFICIAL STATEMENT

dated April 11, 2006  
relating to

\$4,780,000  
CITY OF MAGNOLIA, TEXAS  
(MONTGOMERY COUNTY, TEXAS)

WATER AND SEWER SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2006



The following section replaces in its entirety the section of the Official Statement entitled "Debt Service Coverage" located in Appendix A to the Official Statement on Page A-2:

Debt Service Coverage<sup>(1)</sup>

The coverage ratios shown below include debt service requirements for the Bonds and exclude debt service requirements for the Refunded Bonds as set forth in APPENDIX A – Schedule 1 – Debt Service Schedule.

Net Revenues (Water and Sewer System) Available for Debt Service Fiscal Year End 9/30/2005 <sup>(2)</sup>	\$421,458
Debt Service Coverage – Average Annual Debt Service (\$307,134)	1.37x
Debt Service Coverage – Maximum Annual Debt Service (\$312,198)	1.35x

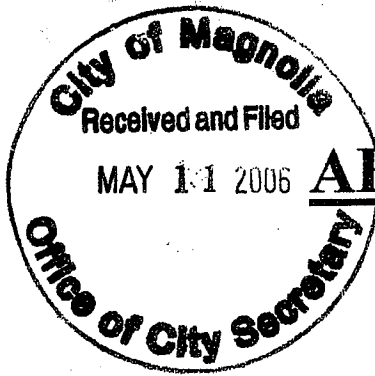
The coverage ratios shown below include debt service requirements for the Bonds and exclude debt service requirements for the Refunded Bonds (see APPENDIX A – Schedule 1 – Debt Service Schedule). The Net Revenues and coverage ratios have also been adjusted to exclude Fiscal Year 2005 revenues and expenses attributable to the City's Gas System (which resulted in a net operating loss). The City is in the process of selling the Gas System to a third party.<sup>(3)</sup>

Net Revenues (Water and Sewer System) Available for Debt Service Fiscal Year End 9/30/2005 (excluding losses attributable to the City's Gas System) <sup>(3)</sup>	\$484,389
Debt Service Coverage – Average Annual Debt Service (\$307,134)	1.58x
Debt Service Coverage – Maximum Annual Debt Service (\$312,198)	1.55x

The coverage ratios shown below include debt service requirements for the Bonds and exclude debt service requirements for the Refunded Bonds (see APPENDIX A – Schedule 1 – Debt Service Schedule). The Net Revenues and coverage ratios have also been adjusted to exclude Fiscal Year 2005 revenues and expenses attributable to the City's Gas System (which resulted in a net operating loss) and to exclude gross revenues received from and attributable to payments made to the City by the Grand Oaks Municipal Utility District for Fiscal Year 2005.<sup>(4)</sup>

Net Revenues (Water and Sewer System) Available for Debt Service Fiscal Year End 9/30/2005 (excluding losses attributable to the City's Gas System and gross revenues received from Grand Oaks Municipal Utility District) <sup>(3)(4)</sup>	\$366,447
Debt Service Coverage – Average Annual Debt Service (\$307,134)	1.19x
Debt Service Coverage – Maximum Annual Debt Service (\$312,198)	1.17x

(1) The historical information shown herein has not been adjusted to include a projection of increased Net Revenues that are expected to result from the recent rate increase described in the section of the Official Statement captioned "APPENDIX A – Water and Sewer Rates" on page A-2 (the "2006 Rates"). See "GENERAL CONSIDERATIONS – Forward Looking Statements" herein for a discussion of assumptions and estimates made by the City in connection with forward looking statements.



# **AFFIDAVIT OF PUBLICATION**

**STATE OF TEXAS:  
COUNTY OF HARRIS:**

Before me, the undersigned authority, a Notary Public in and for the State of Texas, on this day personally appeared: Vicki Eubanks, Who after being duly sworn, says that she is the ACCOUNTS RECEIVABLE - LEAD of the HOUSTON CHRONICLE, a daily newspaper published in Harris, circulated in Harris, Ft. Bend, Galveston, Chambers, Wharton, Brazoria, Waller, Austin, Liberty, Colorado, Montgomery and Matagorda counties, Texas, and that the publication, of which the annexed is a true copy, was published to wit:

**Published on April 30, & May 7, 2006 Ad #20867727**

**Published on April 30, & May 7, 2006 Ad #20867921**

*Vicki Eubanks*

**Vicki Eubanks  
Accounts Receivable-Lead**

Sworn and subscribed to before me, this the 8<sup>th</sup> day of May 2006  
A.D.

*Veronica M. Tyrone*

Notary Public in and for the State of Texas

