

ORDINANCE AUTHORIZING THE ISSUANCE OF \$1,500,000 CITY OF
MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES
OF OBLIGATION, SERIES 2003

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 August 12, 2003, 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 on 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 constructing improvements to the City's sewage treatment plant, and the cost of professional services incurred in connection therewith; and

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

WHEREAS, no petition or other request has been filed with or presented to any official of the City requesting that any of the proceedings authorizing such certificates of obligation be submitted to a referendum or other election; therefore

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

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:

"Acts" shall mean Chapter 271, Texas Local Government Code, as amended, and Chapter 1502, Texas Government Code, as amended.

"Attorney General" means the Attorney General of the State of Texas.

"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, or a day on which the Registrar is authorized by law or executive order to close, or a legal holiday.

"Certificate" or "Certificates" means the City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2003 authorized in this Ordinance, unless the context clearly indicates otherwise.

"City" means the City of Magnolia, Texas.

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

"Comptroller" means the Comptroller of Public Accounts of the State of Texas.

"Construction Fund" shall mean the construction fund established by the City pursuant to Section 27 of this Ordinance.

"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 18 of this Ordinance.

"Interest Payment Date", when used in connection with any Certificate, means February 15, 2004, and each August 15 and February 15 thereafter until maturity or earlier redemption.

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

"Issuance Date", with respect to the Certificates initially delivered to TWDB, shall mean the date on which each such Certificate is authenticated by the Registrar and delivered to and paid for by TWDB. Certificates delivered on transfer of or in exchange for other Certificates shall bear the same Issuance Date as the Certificate or Certificates in lieu of or in exchange for which the new Certificate is delivered.

"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.

"Record Date" means, for any Interest Payment Date, 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 Texas, 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.

"TWDB" means the Texas Water Development Board.

3. Authorization. The Certificates shall be issued pursuant to the Acts in fully registered form, without coupons, in the total authorized principal amount of \$1,500,000 for the purpose of evidencing the indebtedness of the City for all or any part of the cost of constructing improvements to the City's sewage treatment plant, and the cost of professional services incurred in connection therewith.

4. Designation and Date. The Certificates shall be designated as the "CITY OF MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2003", and shall be dated August 15, 2003. The Certificates shall bear interest at the rates set out in Section 5 of this Ordinance, from the later of the Issuance Date or the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360 day year of twelve 30 day months.

5. Initial Certificates; Numbers and Denominations. The Certificates 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 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 the denomination of \$5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Certificate or Certificates in lieu of which they are delivered.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2004	\$ 55,000	0.70%
2005	55,000	1.10%
2006	55,000	1.60%
2007	60,000	2.10%
2008	60,000	2.40%
2009	60,000	2.85%
2010	65,000	3.15%
2011	65,000	3.45%
2012	70,000	3.60%
2013	70,000	3.70%
2014	75,000	3.85%

2015	75,000	3.95%
2016	80,000	4.05%
2017	85,000	4.15%
2018	85,000	4.25%
2019	90,000	4.35%
2020	95,000	4.40%
2021	95,000	4.50%
2022	100,000	4.55%
2023	105,000	4.60%

6. Execution and Registration of Certificates. (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 his 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 TWDB or its designee, executed by manual or facsimile signature of the Mayor and City Secretary, approved by the Attorney General, and registered and manually signed by the Comptroller, shall be delivered to the TWDB 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 principal payment office of the Registrar in Minneapolis, Minnesota. The interest on each Certificate shall be payable by check 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; provided, however, that for so long as the TWDB is the Owner of the Certificates, all payments of principal and interest will be made in wire transfer form at no cost to the TWDB.

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 which is duly qualified and legally authorized to serve as and perform the duties and services of 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 principal payment 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. The Issuance Date of each Certificate originally delivered to and paid for by TWDB shall be recorded in the Register.

Each Certificate shall be transferable only upon the presentation and surrender thereof at the principal payment 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 for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three (3) Business Days after such presentation, a new Certificate or Certificates, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, aggregate principal amount, and Issuance Date, bearing interest at the same rate as the Certificate or Certificates so presented.

All Certificates shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Registrar in Minneapolis, Minnesota, for a Certificate or Certificates of the same maturity, Issuance Date, and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Certificate or Certificates presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Certificates in accordance with the provisions of this Section. 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, Issuance Date, 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, Issuance Date, 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. The Initial Certificates shall be delivered against payment to the TWDB. The TWDB shall be required to promptly surrender the Initial Certificates to the Registrar for exchange. Certificates issued in exchange shall be registered in the name of Cede & Co., as

nominee of DTC, as registered owner of the Certificates, and held in the custody of DTC. Unless otherwise requested by DTC, a single certificate will be issued and delivered to DTC for each maturity of the Certificates. Beneficial owners of Certificates will not receive physical delivery of Certificates except as provided hereinafter. For so long as DTC shall continue to serve as securities depository for the certificates as provided herein, all transfers of beneficial ownership interest will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of Certificates is to receive, hold or deliver any Certificate.

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 any person on whose behalf a DTC participant holds an interest in the Certificates. 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 a registered owner of the Certificates, as shown on the Register, of any notice with respect to the Certificates, including any notice of redemption, and (iii) the payment of any DTC participant or any other person, other than a registered owner of the Certificates, as shown on the Register, of any amount with respect to principal of or premium, if any, or interest on the Certificates.

Replacement Certificates may be issued directly to beneficial owners of Certificates other than DTC, or its nominee, but only in the event that (i) DTC determines not to continue to act as securities depository for the Certificates (which determination shall become effective no less than 90 days after written notice to such effect to the City and the Registrar); or (ii) the City has advised DTC of its determination (which determination is conclusive as to DTC and the beneficial owners of the Certificates) that the interests of the beneficial owners of the Certificates might be adversely affected if such book-entry only system of transfer is continued. Upon occurrence of any of the foregoing events, the City shall use its best efforts to attempt to locate another qualified securities depository. If the City fails to locate another qualified securities depository to replace DTC, the City shall cause to be authenticated and delivered replacement Certificates, in certificate form, to the beneficial owners of the Certificates. In the event that the City makes the determination noted in (ii) above (provided that the City undertakes no obligation to make any investigation to determine the occurrence of any events that would permit the City to make any such determination), and has made provisions to notify the beneficial owners of Certificates of such determination by mailing an appropriate notice to DTC, it shall cause to be issued replacement Certificates in certificate form to beneficial owners of the Certificates as shown on the records of DTC provided to the City.

Whenever, during the term of the Certificates, the beneficial ownership thereof is determined by a book entry at DTC, the requirements in this Ordinance of holding, delivering or transferring Certificates shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect.

If at any time, DTC ceases to hold the Certificates as securities depository, all references herein to DTC shall be of no further force or effect.

Before the City can discontinue the book-entry-only system of registration through DTC, notice must be given to the TWDB and prior written consent of the TWDB must be received by the City.

15. Optional Redemption. The Certificates are subject to optional 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 shall authenticate and deliver in exchange therefor a Certificate or Certificates of like maturity, Issuance Date, 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.

16. Forms. The form of the Certificates, including the form of the Registrar's Authentication Certificate, the form of Assignment, 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

NUMBER

REGISTERED

DENOMINATION

\$ _____
REGISTERED

CITY OF MAGNOLIA, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATE OF OBLIGATION
SERIES 2003

INTEREST RATE: MATURITY DATE: ISSUANCE DATE: CUSIP:
August 15, 20____

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

The City of Magnolia, Texas (the "City") promises to pay to the registered owner identified above, or registered assigns, on the maturity date specified above, upon presentation and surrender of this Certificate at Wells Fargo Bank Texas, N.A. (the "Registrar"), at its principal payment 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 the Issuance Date identified above, or the most recent interest payment date to which interest has been paid or duly provided for. The date of this Certificate is August 15, 2003, but interest shall accrue on the principal amount hereof from the Issuance Date. Interest on this Certificate is payable by check on February 15 and August 15, beginning on February 15, 2004, mailed to the registered owner as shown on the books of registration kept by the Registrar as of the last business day of the month next preceding each interest payment date; provided, however, that for so long as the TWDB is the Owner of the Certificates, all payments of principal and interest will be made in wire transfer form at no cost to the TWDB.

THIS CERTIFICATE is one of a duly authorized issue of certificates of obligation, aggregating \$1,500,000 (the "Certificates"), for the purpose of evidencing the indebtedness of the City for all or any part of the cost of constructing improvements to the City's sewage treatment plant, and the cost of professional services incurred in connection therewith, issued in accordance with the Constitution and laws of the State of Texas, particularly Chapter 271, Texas Local Government Code, as amended, 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, 2014, prior to their scheduled maturities, in whole or from time to time in part, in inverse order of maturity, in integral multiples of \$5,000, on August 15, 2013, 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.

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 principal payment 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.

THIS CERTIFICATE IS EXCHANGEABLE at the principal payment 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 to be derived from the operation of the City's waterworks and sanitary 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 to the extent taxes may ever be insufficient or unavailable for said purpose; provided, however, that such pledge is 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 of the City and countersigned with the manual or facsimile signature of the City Secretary of the City, and the official seal of the City has been duly impressed, or placed in facsimile, on this Certificate.

(AUTHENTICATION
CERTIFICATE)

(SEAL)

CITY OF MAGNOLIA, TEXAS

Mayor

City Secretary

(b) Form of Registration Certificate of Comptroller

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 Texas, 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) The Initial Certificate 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 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.

17. CUSIP Numbers. 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.

18. Interest and Sinking Fund; Tax Levy. 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 a special fund to be designated "City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2003 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 levied, assessed and collected in due time, form and manner, and at the same time other City taxes are levied, assessed and collected, in each year, 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 adequate to pay the principal of the Certificates as such principal matures, but never less than two percent (2%) of the original principal amount of the Certificates each year, full allowance being made for delinquencies and costs of collection, and such taxes when collected shall be applied to the payment of the interest on and principal of the Certificates and to no other purpose.

19. Pledge of Revenues. The revenues to be derived from the operation of the City's waterworks and sanitary 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 Net Revenues hereby pledged shall be transferred to the Interest and Sinking Fund only if the taxes pledged in Section 18 above are ever insufficient or unavailable for the payment of debt service on the Certificates when due. The City 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 Net Revenues securing this series of Certificates.

20. 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 18 and 19 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 18 and 19 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.

21. Further Proceedings. After the Certificates to be initially issued have been executed, it shall be the duty of the Mayor of the City to deliver the Certificates to be initially issued and all pertinent records and proceedings to the Attorney General of Texas, for examination and approval. After the Certificates to be initially issued have been approved by the Attorney General, they shall be delivered to the Comptroller for registration. Upon registration of the Certificates to be initially issued, the Comptroller (or a deputy lawfully designated in writing to act for the Comptroller) shall manually sign the Comptroller's Registration Certificate prescribed herein to be affixed or attached to the Certificates to be initially issued, and the seal of said Comptroller shall be impressed, or placed in facsimile, thereon.

22. Sale. The Certificates are hereby sold and shall be delivered to the TWDB, as soon as practicable after adoption of this Ordinance, at a price of par, less a 1.85 percent loan origination charge to be retained by the TWDB, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., bond counsel. The Mayor and other appropriate officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to provide for the issuance and delivery of the Certificates.

23. Books and Records. So long as any of the Certificates are outstanding the City covenants and agrees that it will keep proper books of record and account in which full, true and correct entries will be made of all transactions relating to the Certificates and the funds created pursuant to this Ordinance, and all books, documents and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any Owner.

24. 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 Certificate issues of the City or moneys which do not represent gross proceeds of any Certificates 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.

25. 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 2003, 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 2003, 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) Certificates" 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.

26. Escrow Agreement. To facilitate the delivery of and payment for the Certificates pending completion of review of plans and specifications, the City Council hereby authorizes an Escrow Agreement to be entered into by and between the City and Wells Fargo Bank Texas, N.A., as the escrow bank, the terms and conditions of which are hereby approved, subject to such insertions, additions, and modifications as shall be necessary to comply with all applicable laws, regulations, and procedures and to carry out the intent and purposes of this Ordinance. The Mayor or Mayor Pro Tem and the City Secretary are authorized to execute and deliver such Escrow Agreement in multiple counterparts on behalf of the City.

27. Construction Fund. There is hereby created and established a special fund of the City, to be known as the "City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2003 Construction Fund", which shall be established at an official depository of the City and kept separate and apart from other funds of the City. The proceeds of the Certificates, as received, shall be deposited in the Construction Fund. Money on deposit in the Construction Fund shall be used only for the purposes set forth in Section 3 of this Ordinance and to pay costs of issuance. Money on deposit in the Construction Fund, may, at the option of the City, be invested as permitted by Texas law including, without limitation, the Public Funds Investment Act; provided that all such deposits and investments shall be made in such manner that the money required to be expended from the Construction Fund will be available at the proper time or times. All interest and income derived from such deposits and investments shall be used for the purposes set forth in Section 3 of this Ordinance and to pay the costs of issuing the Certificates.

28. TWDB Rules. In compliance with the published rules and regulations of TWDB, the City covenants and agrees that upon final completion of the project to be financed with the proceeds of the Certificates, and if all or any portion of the Certificates shall be held by or on account of TWDB or the State of Texas, the proper officials of the City shall render due and final accounting to TWDB of the total cost of the project. If, following completion of the project, funds remain on hand in the Construction Fund, or if the Development Fund Manager disapproves construction of any portion of the project as not being in accordance with the plans and specifications, the City shall, immediately after filing the final accounting, return to TWDB the amount of such excess and/or the cost as determined by the Development Fund Manager relating to the parts of the project not constructed in accordance with the plans and specifications, to the nearest multiple of \$5,000, and TWDB shall thereupon cancel and deliver to the City, in inverse maturity order, a like amount of Certificates held by TWDB. In the alternative, the City may, at its option, use any such excess funds to pay for additional sewer system improvements within the scope of the approved project, or with the approval of the TWDB, additional improvements not within the scope of the approved project. Any further amounts remaining in the City's Construction Fund thereafter shall be promptly deposited by the City into the Interest and Sinking Fund and applied to the payment of the principal of and interest on the Certificates. Unless otherwise stated in the loan commitment of TWDB with respect to the purchase of the Certificates, in determining the amount of available funds for

constructing the project to be financed, the City shall account for all monies in the Construction Fund, including all loan funds extended by TWDB, all other funds available from the project as described in the project engineer's sufficiency of funds statement required for closing TWDB's loan and all interest earned by the City on money in the Construction Fund. This requirement shall not be interpreted as prohibiting TWDB from enforcing such other rights as it may have under law.

29. Audit. So long as any of the Certificates are held by TWDB, the City shall provide to TWDB's Development Fund Manager a copy of an annual audit of the City's finances within 120 days of the end of the City's fiscal year.

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

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

32. Conservation Program. The City covenants that to the extent required by TWDB, the City will implement any water conservation program adopted by the City and approved by TWDB in connection with the sale of the Certificates to TWDB, together with any amendments to such program which are so adopted and approved, for so long as any outstanding Certificate or Certificates are owned by TWDB.

33. Environmental Determinations. The City covenants that to the extent required by TWDB, the City will comply with any special conditions specified by TWDB's environmental determination in connection with the sale of the Certificates to TWDB, for so long as any outstanding Certificate or Certificates are owned by the TWDB.

34. Compliance with Rules and Statutes. The City covenants that it will comply with TWDB's rules and relevant state statutes in connection with the sale of the Certificates to TWDB and the use of the proceeds in connection with the construction of improvements and extensions to the City's sanitary sewer system project approved by TWDB.

35. Continuing Disclosure Undertaking. (a) Annual Reports. The City shall provide annually to the SID, within six months after the end of each fiscal year, financial information and operating data with respect to the City of the general type included in the City's audit report. The information to be provided shall include the financial statements of the City prepared in accordance with the accounting principles the City may be required to employ from time to time pursuant to State law or regulation and shall be audited, if the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide unaudited financial statements for the applicable fiscal year to the SID

within such six month period, and audited financial statements when the audit report on such statements becomes available.

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

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

(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 35(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.

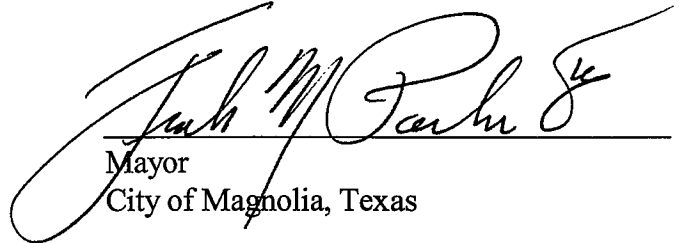
The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, change in law, or change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the original 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 Certificates 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 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 amendment and its impact on the type of operating data or financial information being provided.

36. 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.

37. 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.

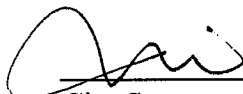
38. Open Meeting. The meeting at which this Ordinance is adopted was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act; and such notice as given is hereby authorized, approved, adopted and ratified.

PASSED AND APPROVED this 12th day of August, 2003.



Mayor
City of Magnolia, Texas

ATTEST:



City Secretary
City of Magnolia, Texas

(SEAL)

AFFIDAVIT OF PUBLICATION

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

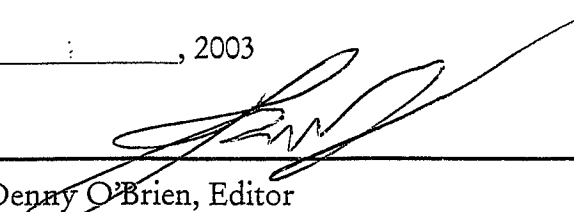
**CITY OF MAGNOLIA
ORDINANCE 326**

Ordinance authorizing the issuance of \$1,500,000 City of Magnolia, combination tax and revenue certificates of obligation, Series 2003.

I am the Editor of the Tomball Magnolia Tribune, a newspaper published in Montgomery 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 issues of:

8-25, 2003

_____, 2003


Denny O'Brien, Editor

Subscribed and sworn to this 26 day of August, 2003

