

ORDINANCE AUTHORIZING THE ISSUANCE OF \$900,000 CITY OF
MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2004

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 July 27, 2004, 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 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 and of the United States of America, respectively, particularly Chapter 271, Texas Local Government Code as amended; and

WHEREAS, the City Council was unable to authorize the issuance of the certificates on the date tentatively set in such notice and postponed the sale of the Certificates to the date of this meeting; 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:

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

"Act" means 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, or a day on the Registrar is authorized by law or executive order to be closed.

"Certificates" or "Series 2004 Certificates" means the Series 2004 Certificates 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.

"Debt Service Fund" means the debt service fund for payment of the Certificates established by the City in Section 19 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 Payment Date", when used in connection with any Certificate, means February 15, 2005, and each August 15 and February 15 thereafter until maturity or earlier redemption.

"Initial Certificate" means the Initial Certificate authorized by Section 5(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.

"Placement Agent" means First Southwest Company.

"Record Date" means, for any Interest Payment Date, the last Business Day of the calendar 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 of the Certificates registered to, each Owner.

"Registrar" means _____, 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.

2. Authorization. The matters and facts stated in the preamble to this Ordinance are hereby found to be true and correct. The Certificates shall be issued, pursuant to the Act, in fully registered form in the aggregate principal amount of Nine Hundred Thousand Dollars (\$900,000), 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.

3. Designation, Date, and Interest Payment Dates. The Certificates shall be designated as "CITY OF MAGNOLIA, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2004" and shall be dated September 15, 2004. The Certificates shall bear interest at the rates set forth in Section 4 of this Ordinance from the later of September 15, 2004, 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, 2005, and semiannually thereafter on August 15 and February 15 of each year until maturity or earlier redemption.

4. 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 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>
2005	\$40,000	____%
2006	45,000	____%
2007	45,000	____%
2008	45,000	____%
2009	50,000	____%
2010	55,000	____%
2011	55,000	____%

2012	60,000	_____ %
2013	60,000	_____ %
2014	65,000	_____ %
2015	70,000	_____ %
2016	70,000	_____ %
2017	75,000	_____ %
2018	80,000	_____ %
2019	85,000	_____ %

5. Execution of Certificates; Seal. (a) The Certificates shall be signed on behalf of the City by the Mayor and countersigned by the Assistant 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 Initial Purchaser or its designee, executed by manual or facsimile signature of the Mayor and Assistant City Secretary of the City, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, shall be delivered to the Initial Purchaser or its designee. Upon payment for the Initial Certificate, the Registrar shall cancel the Initial Certificate and deliver Definitive Certificates to DTC.

6. Payment of Principal and Interest. The Registrar is hereby appointed as the paying agent and registrar 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 respectively become due and payable to the Registrar at its principal payment office in _____, _____. The interest on each Certificate shall be payable on each Interest Payment Date, by check mailed by the Registrar on or before the Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register, or by such other method, requested by the Owner, acceptable to the Registrar.

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 date payment was originally due.

7. Successor Registrars. The City covenants that at all times while any Certificates are outstanding it will provide a commercial bank, trust company, financial institution or other entity 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.

8. 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.

9. 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 and receiving payment of the principal of 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.

10. Registration, Transfer, and Exchange. So long as any Certificates remain outstanding, the Registrar shall keep the Register at its principal payment office in _____, _____, 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 principal payment office of the Registrar in _____, _____, 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 principal payment office of the Registrar in _____, _____, 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.

11. 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.

12. 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 cancelled and destroyed upon the making of proper records regarding such payment. The Registrar shall furnish the City with appropriate certificates of destruction of such Certificates.

[13. Book-Entry System. (a) The Initial Certificate shall be registered in the name of _____. Except as provided in Section 14 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.]

[14. 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 not longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.]

[15. 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.]

16. 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, in accordance with Section 10 hereof, 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.

17. 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

REGISTERED
NUMBER

REGISTERED
DENOMINATION
\$ _____

CITY OF MAGNOLIA, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATE OF OBLIGATION
SERIES 2004

INTEREST RATE: MATURITY DATE: ISSUE DATE: CUSIP:
 August 15, 20__ September 15, 2004

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

The City of Magnolia, Texas (the "City") promises to pay to the registered owner identified above, or registered assigns, on the maturity date specified above, upon presentation and surrender of this Certificate at _____ (the "Registrar") at its principal payment office in _____, _____, the principal amount identified above, payable in any coin or currency of the United States of America which on the date of payment is legal tender for the payment of debts due the United States of America, and to pay 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 September 15, 2004, 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, 2005, mailed to the registered owner of record as of the last business day of the calendar month next preceding each interest payment date.

THIS CERTIFICATE is one of a duly authorized issue of Certificates of Obligation, aggregating \$900,000 (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, 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, at its option, to redeem Certificates maturing on or 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.

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

THE CERTIFICATES are exchangeable at the principal payment office of the Registrar in _____, _____, 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, and have been pledged irrevocably for such payment.

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 that 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 of its waterworks and sanitary sewer system, 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 Assistant 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

Assistant 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.

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 4]

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

18. 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.

19. Debt Service Fund; Tax Levy. There is hereby established a separate fund of the City to be known as the City of Magnolia, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2004 Debt Service Fund (the "Debt Service 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 Debt Service 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 and to no other purpose.

20. Pledge of Revenues. The revenues, in an amount not to exceed \$10,000, 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, to the extent that the taxes mentioned in Section 19 of this Ordinance may ever be insufficient or unavailable for said purpose; 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.

21. 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 19 and 20 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 an unpaid such that the pledge of the taxes and revenues granted by the City under Sections 19 and 20 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.

22. 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.

23. Sale and Delivery of Certificates; Execution of Placement Agency Agreement. The sale of the Certificates to _____ (the "Initial Purchaser") at a price of the par value thereof, plus accrued interest to the date of delivery, is hereby approved. Delivery of the Certificates to the Initial Purchaser shall be made in accordance with the terms of and conditions in the Placement Agency Agreement, dated September 15, 2004, between the City and First Southwest Company (the "Placement Agency Agreement"). The Placement Agency Agreement is hereby approved and the Mayor or Assistant City Secretary are hereby authorized and directed to execute the Placement Agency Agreement on behalf of the City, and the Mayor or Assistant City Secretary and all other appropriate officials, 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. It is hereby found and determined that the sale of the Certificates to the Initial Purchaser on the terms contained in the Placement Agency Agreement and this Ordinance is in the best interests of the City and that such terms are the most advantageous terms reasonably obtainable by the City at this time.

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 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.

25. Qualified Tax-Exempt Obligations. The City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b) of the Code. In connection therewith, the City represents (a) that the aggregate amount of tax-exempt obligations issued by the City during calendar year 2004, including the Bonds, which have been designated as "qualified tax-exempt obligations" under section 265(b)(3) of the Code does not exceed \$10,000,000, and (b) that the reasonably anticipated amount of tax-exempt obligations which will be issued by the City during calendar year 2004, including the Bonds, will not exceed \$10,000,000. For purposes of this Section, the term "tax-exempt obligation" does not include "private activity bonds" within the meaning of section 141 of the Code, other than "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code. In addition, for purposes of this Section, the City includes all entities which are aggregated with the City under the Code.

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

- (a) Accrued interest on the Certificates shall be deposited into the Debt Service Fund.
- (b) The remaining proceeds of the Certificates shall be used for the purposes described in Section 2 of this Ordinance and for paying the costs of issuance of the Certificates. Any bond proceeds remaining after accomplishing the purposes set out in Section 2 and paying costs of issuance, plus earnings on investments of such proceeds, shall be transferred to the Debt Service Fund.

27. Private Placement Memorandum. The City ratifies and confirms its prior approval of the form and content of the Preliminary Private Placement Memorandum prepared in the offering and sale of the Certificates and hereby authorizes the preparation of a final Private Placement Memorandum reflecting the terms of the sale to the purchaser and other relevant information. The proper officials of the City are hereby authorized to execute and deliver a certificate pertaining to such Private Placement Memorandum as prescribed therein, dated as of the date of payment for and delivery of the Certificates.

28. Related Matters. The Mayor, the Interim City Manager, the Assistant 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.

29. 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.

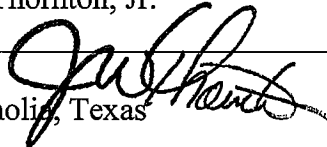
30. No Personal Liability. No recourse shall be had for payment of the principal of or interest on any Certificates or for any claim based thereon, or on this Ordinance, against any official or employee of the City or any person executing any Certificates.

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

PASSED AND APPROVED this 14th day of September, 2004.

/s/ Jerry W. Thornton, Jr.

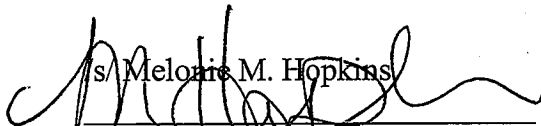
Mayor
City of Magnolia, Texas



ATTEST:

/s/ Melonie M. Hopkins

Assistant 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:

NOTICE OF INTENTION TO ISSUE CERTIFICATES OF OBLIGATION

NOTICE IS HEREBY GIVEN that the City Council of the City of Magnolia, Texas (the "City"), will meet at the City Hall, 16835 FM 1488, Bldg. 3, Magnolia, Texas at 7:00 p.m. on the 27th day of July, 2004, which is the time and place tentatively set for the passage of an ordinance and such other actions as may be deemed necessary to authorize the issuance of the City's certificates of obligation, payable from ad valorem taxation and from a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sanitary sewer system, in the maximum aggregate principal amount of \$1,000,000, bearing interest at any rate or rates not to exceed the maximum interest rate now or hereafter authorized by law, as shall be determined within the discretion of the City Council at the time of issuance, and maturing over a period of years not to exceed thirty (30) years from the date thereof, 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.

WITNESS MY HAND this 22nd day of June, 2004.

/s/ Melonie M. Hopkins

Assistant City Secretary
City of Magnolia, Texas



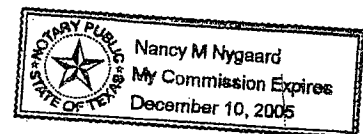
I am the Editor of the Tomball News, Texas and now the facts stated in publication of the citation of newspaper in the respective issue

6/28, 2004
7/5, 2004

Denny O'Brien, Editor

published in Montgomery County, Texas, and the latter is a true and correct copy of the same as the same appeared in such

Subscribed and sworn to this 30 day of Sept, 2004



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are

**NOTICE OF INTENTION
TO ISSUE CERTIFICATES
OF OBLIGATION**

AFFIDAVIT OF PUBLIC

THE STATE OF TEXAS §
COUNTY OF MONTGOMERY §

BEFORE ME, the undersigned authority,
Denny O'Brien (Editor/Publ
who being by me duly sworn, upon oath, deposes and say

The attached clipping of a NOTICE OF
CERTIFICATES OF OBLIGATION was publish
a newspaper meeting the requirements of Section
which are:

- (1) devotes not less than twenty-five p
column lineage to the carrying of it
- (2) is published not less frequently than
- (3) is entered as second-class postal m
published, and
- (4) has been published regularly and
than twelve (12) months prior to th
publication,

published in the English language in Montgomer
circulation in the City of Magnolia, Texas, on
successive weeks, in the issues of:

6/28, 200

7/5, 200

and the attached newspaper clipping is a true and
notice.

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that the City Council of the City
of Magnolia, Texas (the "City"),
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sanitary sewer system, in the
maximum aggregate principal
amount of \$1,000,000, bearing
interest at any rate or rates not to
exceed the maximum interest rate
now or hereafter authorized by
law, as shall be determined
within the discretion of the City
Council at the time of issuance,
and maturing over a period of
years not to exceed thirty (30)
years from the date thereof, for
the purpose of evidencing the
indebtedness of the City for all or
any part of the cost of construct-
ing improvements to the City's
sewage treatment plant, and the
cost of professional services
incurred in connection therewith.

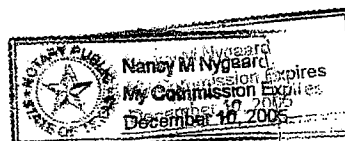
WITNESS MY HAND this 22nd
day of June, 2004.

/s/ Melonie M. Hopkins

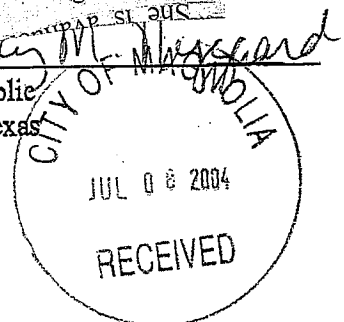
SWORN TO AND SUBSCRIBED BEFORE ME,

Assistant City Secretary, 2004.
City of Magnolia, Texas

(NOTARY SEAL)



Notary Public
State of Texas



appeared
MAGNOLIA
INE

MAGNOLIA
TRIBUNE