

SECURITY, AND DELIVERY OF SUCH SHORT TERM OBLIGATIONS, INCLUDING THE APPROVAL OF AMENDMENTS TO THE ISSUING AND PAYING AGENCY AGREEMENT, THE REVOLVING CREDIT AGREEMENT, AND THE DEALER AGREEMENTS; APPROVING THE USE OF AN OFFERING MEMORANDUM IN CONNECTION WITH THIS MATTER; ENACTING OTHER PROVISIONS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS ORDINANCE; AND PROVIDING FOR AN EFFECTIVE DATE

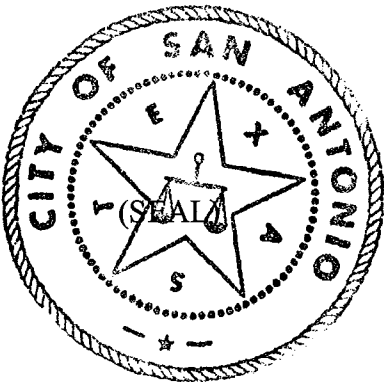
was introduced and submitted to the Council for passage and adoption. After presentation and due consideration of the Ordinance, a motion was made by Councilmember Perez that the Ordinance be finally passed and adopted in accordance with the City's Home Rule Charter. The motion was seconded by Councilmember Gutierrez and carried by the following vote:

10 voted "For" 0 voted "Against" 0 abstained

all as shown in the official Minutes of the Council for the Meeting.

2. The attached Ordinance is a true and correct copy of the original on file in the official records of the City; the duly qualified and acting members of the Council of the City on the date of the Meeting are those persons shown above, and, according to the records of my office, each member of the Council was given actual notice of the time, place, and purpose of the Meeting and had actual notice that the Ordinance would be considered; and the Meeting and deliberation of the aforesaid public business, including the subject of the Ordinance, was posted and given in advance thereof in compliance with the provisions of Chapter 551, as amended, Texas Government Code.

IN WITNESS WHEREOF, I have signed my name officially and affixed the seal of the City, this 17th day of November, 2005.



Leticia M. Vaca
City Clerk, City of San Antonio, Texas

**AMENDED AND RESTATED ORDINANCE AUTHORIZING
\$500,000,000
CITY OF SAN ANTONIO, TEXAS
WATER SYSTEM COMMERCIAL PAPER NOTES,
SERIES A**

ORDINANCE NO. 101687

AN AMENDED AND RESTATED ORDINANCE AUTHORIZING THE ISSUANCE OF SHORT TERM OBLIGATIONS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$500,000,000 TO PROVIDE INTERIM FINANCING TO PAY PROJECT COSTS FOR ELIGIBLE PROJECTS FOR THE CITY'S WATER SYSTEM; AUTHORIZING SUCH SHORT TERM OBLIGATIONS TO BE ISSUED, SOLD, AND DELIVERED AS COMMERCIAL PAPER NOTES, AND THE EXECUTION OF LOAN NOTES, AND PRESCRIBING THE TERMS, FEATURES, AND CHARACTERISTICS OF SUCH INSTRUMENTS; APPROVING AND AUTHORIZING CERTAIN AUTHORIZED OFFICERS AND EMPLOYEES TO ACT ON BEHALF OF THE CITY AND THE SAN ANTONIO WATER SYSTEM IN THE SELLING AND DELIVERY OF SUCH SHORT TERM OBLIGATIONS, WITHIN THE LIMITATIONS AND PROCEDURES SPECIFIED HEREIN; MAKING CERTAIN COVENANTS AND AGREEMENTS IN CONNECTION THEREWITH; RESOLVING OTHER MATTERS INCIDENT AND RELATED TO THE ISSUANCE, SALE, SECURITY, AND DELIVERY OF SUCH SHORT TERM OBLIGATIONS, INCLUDING THE APPROVAL OF AMENDMENTS TO THE ISSUING AND PAYING AGENCY AGREEMENT, THE REVOLVING CREDIT AGREEMENT, AND THE DEALER AGREEMENTS; APPROVING THE USE OF AN OFFERING MEMORANDUM IN CONNECTION WITH THIS MATTER; ENACTING OTHER PROVISIONS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS ORDINANCE; AND PROVIDING FOR AN EFFECTIVE DATE

WHEREAS, the City of San Antonio, Texas (the "City") is a "Home-Rule City", acting as such under the Constitution and laws of the State of Texas, and has a population in excess of 90,000; and

WHEREAS, the City Council (the "City Council") of the City of San Antonio, Texas (the "City") previously established an agency of the City known as the San Antonio Water System (the "System"), which agency is under the management and control of the Board of Trustees (the "Board") established and created pursuant to the provisions of an ordinance adopted by the City Council on April 30, 1992 (the "Bond Ordinance") and Chapter 1502, as amended, Texas Government Code; and

WHEREAS, pursuant to State law, the City Council of the City has heretofore issued, and there are currently outstanding, revenue obligations designated as "City of San Antonio, Texas Water System Commercial Paper Notes, Series A" (herein referred to as the "Commercial Paper Notes") issued pursuant to the ordinance adopted by the City Council on June 28, 2001 (the "Original Note Ordinance") authorizing the Commercial Paper Notes in the principal amount of \$350,000,000 (the "Existing Commercial Paper Program"); and

WHEREAS, in order to provide certain credit and liquidity support for the Commercial Paper Notes, the City Council, acting through the Board (hereinafter defined), previously entered

into a revolving credit agreement in connection with the issuance of the Commercial Paper Notes with Bank of America, N.A.; and

WHEREAS, the City now seeks to amend and restate the Existing Commercial Paper Program by increasing the principal amount of commercial paper notes authorized to be issued at any one time and authorize the issuance of obligations designated as "City of San Antonio, Texas Water System Commercial Paper Notes, Series A" (the "Commercial Paper Notes") to provide interim financing for additions, improvements, and extensions to the System pursuant to the provisions of Chapter 1371, as amended, Texas Government Code (the *Act*) in the principal amount of \$500,000,000; and

WHEREAS pursuant to 7.1(a)(iii) of the ordinance authorizing the Existing Commercial Paper Program, the City is permitted to amend the ordinance authorizing the Existing Commercial Paper Program without the consent of the Holders of the Notes or make such other changes in the provisions thereof as the City may deem necessary or desirable and which shall not materially adversely affect the interests of the Holders of the Notes and the adoption of this Ordinance will not adversely affect the interest of the Holders ; and

WHEREAS, the City Council hereby finds and determines that the ordinances authorizing the Existing Commercial Paper Program should be repealed and this Ordinance should be adopted to (i) provide for the issuance of short-term obligations in an amount not to exceed \$500,000,000, (ii) provide that these obligations may be issued pursuant to The Depository Trust Company's Book-Entry-Only System, and (iii) delegate certain matters relating to the sale, issuance, delivery, and payment of these obligations to the Board, or its authorized officers, in a manner consistent with the City's Home Rule Charter and with applicable law; and

WHEREAS, such short-term obligations proposed to be issued constitute bond anticipation notes which the City intends to fund through the issuance of its revenue bonds; and

WHEREAS, arrangements relating to such interim financing have been settled and the City Council hereby finds and determines that the issuance of short-term obligations in the form of commercial paper notes, and loan notes subject to the terms, conditions and limitations hereinafter prescribed, should be approved and authorized at this time;

WHEREAS, the City Council hereby finds and determines that the authorization of the aforementioned short-term obligations and the adoption of this Ordinance are in the best interests of the citizens of the City and the ratepayers of the System, now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:

ARTICLE I

DEFINITIONS

SECTION 1.1 DEFINITIONS. Unless the context shall indicate a contrary meaning or intent, the terms below defined, for all purposes of this Ordinance or any ordinance amendatory or supplemental hereto, shall be construed, are used and are intended to have the following meanings, to-wit:

“Act” shall mean Chapter 1371, as amended, Texas Government Code.

“Additional Junior Lien Obligations” shall mean bonds, notes, warrants, certificates of obligations or other Debt which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in the Junior Lien Obligations Ordinances and which obligations are equally and ratably secured solely by a junior and inferior lien on and pledge of the Net Revenues on a parity with the currently outstanding Junior Lien Obligations.

“Additional Senior Lien Obligations” shall mean bonds, notes, warrants, certificates of obligations or other Debt which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in the Senior Lien Obligations Ordinances and which obligations are equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues on a parity with the currently outstanding Senior Lien Bonds and Previously Issued Senior Lien Obligations.

“Additional Subordinate Lien Obligations” shall mean any bonds, notes, warrants, certificates of obligation, or other Debt issued from time to time by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Senior Lien Obligations or Junior Lien Obligations issued from time to time by the City and which obligations are on a parity with the Commercial Paper Notes and the Loan Notes, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Inferior Lien Obligations issued from time to time by the City.

“Agreement” shall mean the Revolving Credit Agreement, approved and authorized pursuant to Section 2.15 hereof, as from time to time amended or supplemented, or an Alternate Credit Facility.

“Alternate Credit Facility” shall mean the substitute for the Revolving Credit Agreement as contemplated by Section 2.15(b) and Section 4.5(a) hereof which Revolving Credit Agreement shall be approved by the Attorney General of Texas to the extent required by law.

“Authorized Representative” shall mean that person designated as the Authorized Representative in writing and delivered to the Bank, the Issuing and Paying Agent, and the Dealers. The Authorized Representative of the City shall be one or more of the following officers or employees of the City, acting in concert or individually, to-wit: the Chairman of the Board, the chief executive officer of the Board, the chief financial officer of the Board, or such other officer or employee of the City designated by the City to act as an Authorized Representative.

“Bank” shall mean the Bank of America, N.A., as the party that has executed and delivered the Revolving Credit Agreement, or any subsequent banking institution which becomes a party to the Revolving Credit Agreement.

“Board” shall mean the San Antonio Water System Board of Trustees to which the City Council has delegated management and control of the System pursuant to the Senior Lien Obligations Ordinances and Chapter 1502, as amended, Texas Government Code.

“Bond Counsel” shall mean any firm or firms (including co-bond counsel) of nationally recognized bond counsel selected by the Board on behalf of the City.

“Bond Ordinances” shall mean collectively the ordinances authorizing the issuance of the Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, or Inferior Lien Obligations.

“Bonds” shall mean a series or issue of bonds, notes or similar obligations (other than the Notes or the Revolving Credit Agreement [including the Loan Note]) issued by the City subsequent to the date of passage of this Ordinance, which bonds, notes or similar obligations are payable from and secured solely by a lien on and pledge of the Pledged Revenues or Net Revenues, on a parity in rank and dignity, or subordinate in rank and dignity to the lien and pledge securing the payment of the currently outstanding Senior Lien Obligations.

“Business Day” shall mean any day (i) when banks are not required or authorized by law or executive order to be closed in San Antonio, Texas or New York, New York, or (ii) when the New York Stock Exchange is not required or authorized by law or executive order to be closed.

“City” shall mean the City of San Antonio, Texas, or any successor thereto.

“City Council” shall mean the governing body of the City.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and when reference is made to a particular section thereof, the applicable Treasury Regulations from time to time promulgated or proposed thereunder.

“Commercial Paper Notes” shall mean a note or notes issued pursuant to the provisions of this Ordinance, having the terms and characteristics specified in Section 2.3 hereof and in the form described in Section 2.5 hereof.

“CPS Contract” shall mean the Wastewater Contract executed on September 20, 1990 between the Alamo Conservation and Reuse District and the City Public Service Board of San Antonio. Pursuant to Ordinance No. 74983 the City Council abolished the Alamo Conservation and Reuse District and assumed all of such entity’s assets and obligations by creating the Department of Water Reuse as a new City department pursuant to the provisions of the City’s Home Rule Charter, and pursuant to the provisions of the Senior Lien Bond Ordinance, such department has become a component of the System.

“Credit Agreement” shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Debt.

“Credit Facility” shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a rating agency having an outstanding rating on any Debt would rate such Debt fully insured by a standard policy issued by the insurer in its highest generic rating category for such obligations; or (ii) a letter or line of credit issued by any financial institution, provided that a rating agency having an outstanding rating on any Debt would rate such Debt in one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of such Debt and the interest thereon.

“Dealer” or “Dealers” shall mean Goldman, Sachs & Co. executing the Dealer Agreement and an amendment dated November 17, 2005 attached hereto as Exhibit C-1, J.P. Morgan Securities Inc. executing the Dealer Agreement and an amendment dated November 17, 2005 attached hereto as Exhibit C-2, and Ramirez & Co., Inc. executing the Dealer Agreement and an amendment dated November 17, 2005 attached hereto as Exhibit C-3, and any other nationally recognized commercial paper dealer or co-dealer selected by the City.

“Dealer Agreement(s)” shall mean one or all, as applicable, of the Dealer Agreements, by and among the City and the Dealers as approved and authorized to be executed pursuant to Section 3.4, substantially in the forms and substance attached hereto as Exhibits C-1, C-2, and C-3, as they may be amended, supplemented or otherwise modified from time to time in accordance with their terms, or any similar agreement with a substitute or successor Dealer or Dealers.

“Debt” shall mean

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money (including indebtedness payable from Pledged Revenues and/or Net Revenues arising under Credit Agreements) and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered) or otherwise.

For the purpose of determining “Debt”, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in

trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

“Depository” shall mean one or more official depository banks of the Board.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Eligible Investments” shall mean any or all of the authorized investments described in the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, in which the City or the Board may purchase, sell and invest its funds and funds under its control or any other authorized investments are provided by the laws of the State of Texas.

“Eligible Project” shall mean the acquisition or construction of improvements, additions or extensions for the System, including capital assets and facilities incident and related to the operation, maintenance and administration thereof, all as provided in the Act.

“Excess Earnings” shall mean the excess and any income attributable to such excess described in section 148(f)(2) of the Code.

“Fiscal Year” shall mean the fiscal year used by the Board in connection with the operation of the System.

“Gross Revenues” shall mean for any period all revenue during such period in respect or on account of the operation or ownership of the System, excluding (i) refundable meter deposits, (ii) restricted gifts, (iii) grants in aid of construction, (iv) any amounts payable to the United States as rebate pursuant to the provisions of the Senior Lien Obligations Ordinances and Section 4.8 of this Ordinance, (v) any impact fees charged by the System pursuant to the provisions of Chapter 395, as amended, Local Government Code, (vi) payments received pursuant to the CPS Contract together with earnings and interest thereon, and (vii) earnings and income derived from the investment or deposit of money in the Project Fund (as defined in, and created pursuant to, the Senior Lien Obligations Ordinances) and, until the Reserve Fund (as defined in the Senior Lien Obligations Ordinances) contains the Required Reserve Amount (as defined in the Senior Lien Obligations Ordinances), the Reserve Fund, but including earnings and income derived from the investment or deposit of money in the Debt Service Fund (as defined in, and created pursuant to, the Senior Lien Obligations Ordinances), the Reserve Fund after it contains the Required Reserve Amount, and any earnings and income from any special fund or account created and established for the payment or security of any Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations (unless the ordinance which authorizes the issuance of any such obligations specifically provides that any such earnings and income are to be deposited to another fund or account other than the System Fund).

“Holder” or “Noteholder” shall mean the registered owner of any Note as shown on the registration books maintained by the Registrar, but if a Note is not in registered form, such terms

shall mean any person, firm, association, or corporation who is in possession of any Note drawn, issued or endorsed to such person, firm, association or corporation or to the order of such person, firm, association or corporation or to bearer or in blank.

“Inferior Lien Obligations” shall mean (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of any Senior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations, and (ii) any obligations that are issued subject to the limitations pursuant to Section 1502.052, as amended, Texas Government Code or as required by the provisions of Texas Revised Civil Statutes Annotated Article 1112, as amended (now repealed).

“Issuing and Paying Agent”, “Paying Agent/Registrar” or “Registrar” shall mean the agent appointed pursuant to Section 2.2 hereof, or any successor to such agent.

“Issuing and Paying Agency Agreement” shall mean the Issuing and Paying Agency Agreement, dated as of June 28, 2001, and an amendment thereto dated November 17, 2005, between the City and the Issuing and Paying Agent, with respect to the Notes, approved and authorized to be entered into by Section 3.3 hereof, as from time to time amended or supplemented.

“Junior Lien Obligations” shall mean, collectively, the currently outstanding Previously Issued Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City.

“Junior Lien Obligations Ordinances” shall mean the ordinances authorizing the currently outstanding Previously Issued Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City.

“Loan” shall mean a loan made under and subject to the conditions set forth in the Revolving Credit Agreement.

“Loan Note” shall mean the promissory note or notes issued pursuant to the Revolving Credit Agreement in evidence of loans made pursuant to the Revolving Credit Agreement, having the characteristics contained therein and issued in accordance therewith.

“Maintenance and Operating Expenses” shall mean all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including (i) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, but only if, in the case of repairs and extensions, they are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (ii) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (iii) payments under contracts for the purchase of water supply, treatment of sewage, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (iv) payments to auditors, attorneys, and other consultants incurred in complying with the

obligations of the City or the Board hereunder, (v) the payments made on or in respect of obtaining and maintaining any Credit Facility, and (vi) any legal liability of the City or the Board arising out of the operations, maintenance, or condition of the System, but excluding any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on any Debt.

“Master Notes” means those forms of Notes issued in book-entry form only and registered in the name of Cede & Co., as nominee of DTC or another securities depository pursuant to Section 7.10 hereof which are intended to evidence the City’s aggregate obligations under the Notes.

“Maximum Interest Rate” shall mean the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the City in the exercise of its borrowing powers (currently prescribed by Chapter 1204, as amended, Texas Government Code, or any successor provision).

“Maximum Maturity Date” shall mean forty years following the date of passage of this Ordinance.

“Net Revenues” shall mean Gross Revenues with respect to any period, after deducting the Maintenance and Operating Expenses during such period.

“Note” or “Notes” shall mean the Commercial Paper Notes issued pursuant to the terms of this Ordinance.

“Note Construction Fund” shall mean the account so designated in Section 2.12 hereof.

“Note Payment Fund” shall mean the fund so designated in Section 2.9 hereof.

“Pledged Revenues” shall mean (i) the Net Revenues, plus (ii) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged to the payment of any Senior Lien Obligations, and excluding those revenues excluded from Gross Revenues.

“Previously Issued Junior Lien Obligations” shall mean the (1) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999”, dated April 15, 1999, in the original principal amount of \$71,410,000; (2) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A”, dated November 1, 1999, in the original principal amount of \$47,500,000; (3) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001”, dated March 1, 2001, in the original principal amount of \$9,715,000; (4) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001-A”, dated March 1, 2001, in the original principal amount of \$15,435,000; (5) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002”, dated March 1, 2002, in the original principal amount of \$15,650,000; and (6) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002-A”, dated March 1, 2002, in the original principal amount of \$12,090,000; and (7) “City of San Antonio, Texas Water System Junior Lien

Revenue Bonds, Series 2003”, dated March 1, 2003, in the original principal amount of \$34,000,000; and (8) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2004”, dated July 1, 2004, in the original principal amount of \$10,635,000, anticipated to be delivered on July 7, 2004; and (9) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2004-A”, dated July 1, 2004, in the original principal amount of \$26,365,000, anticipated to be delivered on July 7, 2004; and (10) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

“Previously Issued Senior Lien Obligations” shall mean the (1) “City of San Antonio, Texas Water System Revenue Improvement and Refunding Bonds, Series 1996”, dated October 15, 1996, in the original principal amount of \$68,000,000; and (2) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1997”, dated October 1, 1997, in the original principal amount of \$106,735,000; and (3) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2001”, dated March 1, 2001, in the original principal amount of \$58,700,000; and (4) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002” dated February 1, 2002 in the aggregate principal amount of \$300,510,000; and (5) “City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A” dated February 15, 2002 in the aggregate principal amount of \$137,820,000; and (6) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004”, dated May 15, 2004 in the aggregate principal amount of \$84,700,000; and (7) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005”, dated November 15, 2005 in the aggregate principal amount of \$298,220,000 and (8) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues of the System as determined by the City Council in accordance with any applicable law.

“Project Costs” shall mean all costs and expenses incurred in relation to Eligible Projects, including without limitation design, planning, engineering and legal costs, acquisition costs of land, interests in land, right-of-way and easements, construction costs, costs of machinery, equipment, and other capital assets incident and related to the operation, maintenance, and administration of an Eligible Project, financing costs, including interest during construction and thereafter, underwriter’s discount and/or fees, legal, financial, and other professional services, and reimbursement for such Project Costs attributable to Eligible Projects incurred prior to the issuance of any Notes.

“Revolving Credit Agreement” shall mean the Revolving Credit Agreement, dated as of July 1, 2004, between the City and the Bank, and an amendment dated as of December 22, 2005, approved and authorized to be entered into by Section 2.15 hereof, as from time to time amended or supplemented, or other credit facility provided in lieu thereof in accordance with the provisions of Section 4.5 hereof, providing a line of credit or similar type loan arrangement, including any Loan Notes to be issued and delivered under such agreement evidencing any loans made or to be made to the City, providing additional security and liquidity for the payment of the Notes.

“Revolving Credit Period” shall have the same meaning as set forth in the Revolving Credit Agreement.

“Senior Lien Bond Ordinance” shall mean Ordinance Number 75686 adopted by the City Council of the City on April 30, 1992 authorizing the issuance of the Senior Lien Bonds.

“Senior Lien Bonds” shall mean the \$635,925,000 in aggregate principal amount of the City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1992 authorized to be issued by the Senior Lien Bond Ordinance.

“Senior Lien Obligations” shall mean, collectively, the currently outstanding Senior Lien Bonds, the currently outstanding Previously Issued Senior Lien Obligations, and any Additional Senior Lien Obligations hereafter issued by the City.

“Senior Lien Obligations Ordinances” shall mean the ordinances authorizing the currently outstanding Senior Lien Bonds, the currently outstanding Previously Issued Senior Lien Obligations, and any Additional Senior Lien Obligations hereafter issued by the City.

“Special Project” shall mean to the extent permitted by law, any water, sewer, wastewater reuse, or municipal drainage system property, improvement, or facility declared by the City, upon the recommendation of the Board, not to be part of the System, for which the costs or acquisition, construction, and installation are paid from proceed of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues, or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues, or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

“Subordinate Lien Obligations” shall mean the Commercial Paper Notes and the Loan Notes.

“System” shall mean all properties, facilities, and plants currently owned, operated and maintained by the City and/or Board for the supply, treatment, and transmission and distribution of treated potable water, chilled water, and steam, for the collection and treatment of wastewater, and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the City, all water (in any form) owned by the City, and any other projects and programs of the Board; provided, however, that the City expressly retains the right to incorporate (i) a stormwater system as provided by the provisions of Section 402.041 through 402.054, as amended, Local Government Code, or other similar law, and (ii) any other related system as provided by the laws of the State of Texas as part of the System. The System shall not include any Special Project or any water or water-related properties and facilities owned by the City as part of its electric and gas systems.

“Taxable Note” shall mean any Note, the interest on which cannot be excluded from gross income for federal income tax purposes.

“Tax-Exempt Note” shall mean any Note, the interest on which is excludable from gross income for federal income tax purposes.

“Term Loans” shall mean the unpaid principal amount of the Loans that are converted to “term loans” pursuant to the Revolving Credit Agreement.

SECTION 1.2 CONSTRUCTION OF TERMS UTILIZED IN THIS ORDINANCE.

If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

ARTICLE II

AUTHORIZATION OF NOTES

SECTION 2.1 GENERAL AUTHORIZATION. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, particularly the Act, Commercial Paper Notes shall be and are hereby authorized to be issued in an aggregate principal amount not to exceed FIVE HUNDRED MILLION DOLLARS (\$500,000,000) to be designated and bear the title of “CITY OF SAN ANTONIO, TEXAS WATER SYSTEM COMMERCIAL PAPER NOTES, SERIES A” at any one time outstanding for the purpose of financing Project Costs of Eligible Projects; to refinance, renew or refund Notes issued pursuant to the provisions hereof and any Loan Notes issued pursuant to the Revolving Credit Agreement; and the Loan Note shall be and is hereby authorized to be issued in the aggregate principal amount of FIVE HUNDRED MILLION DOLLARS (\$500,000,000) at any one time outstanding for the purpose of evidencing Loans to pay the principal of the Notes; all in accordance with and subject to the terms, conditions and limitations contained herein and in the Credit Agreement. For purposes of this Section 2.1, any portion of outstanding Notes to be paid from money on deposit in the Note Payment Fund, the Bank Note Fund, and from the available proceeds of Notes or Bonds on the day of calculation shall not be considered outstanding. The authority to issue Notes from time to time under the provisions of this Ordinance shall exist until the Maximum Maturity Date, regardless of whether prior to the Maximum Maturity Date there are at any time no Notes outstanding. The designation of the Notes shall be made in accordance with the requirements of Section 2.5 and the instructions to the Issuing and Paying Agent as described in Section 3.1 hereof.

SECTION 2.2 TERMS APPLICABLE TO NOTES - GENERAL. Subject to the limitations contained herein, Notes herein authorized shall be dated as of their date of issuance or prior thereto, but within 30 days of the date of issuance (the “Note Date”), as determined by an Authorized Representative; shall bear no interest or bear interest at such rate or rates per annum computed on the basis of either actual days elapsed or twelve 30-day months whichever is applicable, and on a 365-day or 366-day year, or a 360-day year, whichever is applicable (but in no event in any case to exceed the Maximum Interest Rate in effect on the date of issuance thereof) as may be determined by an Authorized Representative, and all Notes authorized herein shall mature on or prior to the Maximum Maturity Date.

Subject to the Maximum Interest Rate limitation, Notes authorized to be issued hereunder without a fixed numerical rate of interest for the term thereof shall bear interest in accordance with any clearly stated formula or method of calculation as determined by an Authorized Representative and such formula or method of calculation shall be set forth in the Note.

Notes issued hereunder may contain terms and provisions for the redemption or prepayment thereof prior to maturity, subject to any applicable limitations contained herein, as shall be determined by an Authorized Representative.

Subject to applicable terms, limitations and procedures contained herein, Notes may be sold in such manner at public or private sale and at par or at such discount (within the interest rate and yield restrictions provided herein) as an Authorized Representative shall approve at the time of the sale thereof.

The Notes shall be issued in registered form, without coupons. The principal of, premium, if any, and interest on the Notes shall be payable in lawful money of the United States of America, without exchange or collection charges to the Holder of the Note; the principal thereof to be payable upon presentation and surrender of the Note at the corporate trust office of the Paying Agent/Registrar and interest thereon to be payable to the registered owner thereof either (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on the Registration Books of the City maintained by the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by the registered owner, but interest on a Note registered to bearer shall be payable only upon presentation of the Note at the principal corporate trust office of the Paying Agent/Registrar.

The selection and appointment of JPMorgan Chase Bank, National Association, Chicago, Illinois, to serve as Issuing and Paying Agent, Paying Agent/Registrar and Registrar for the Notes, is hereby confirmed. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Notes are outstanding, which shall be a national or state banking association or corporation or trust company organized and doing business under the laws of the United States of America or of any State and authorized under such laws to exercise trust powers. Should a change in the Paying Agent/Registrar for the Notes occur, the City, acting through the Authorized Representative, agrees to promptly cause a written notice thereof to be (i) sent to each registered owner of the Notes then outstanding by United States mail, first class, postage prepaid and (ii) published in a financial newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two calendar weeks; provided, however, the publication of such notice shall not be required if notice is sent to each registered owner of the Notes. Such notice shall give the address of the successor Paying Agent/Registrar. A successor Paying Agent/Registrar may be appointed without the consent of the Holders.

The City, the Board and the Paying Agent/Registrar shall treat the registered owner thereof as the absolute owner of any Note for the purpose of receiving payment thereof and for all purposes, and the City, the Board and the Paying Agent/Registrar shall not be affected by any notice or knowledge to the contrary.

SECTION 2.3 COMMERCIAL PAPER NOTES. Under and pursuant to the authority granted hereby and subject to the limitations contained herein, Notes in the form of Commercial Paper Notes to be designated “City of San Antonio, Texas Water System Commercial Paper Notes, Series A” are hereby authorized to be issued and sold and delivered from time to time in such principal amounts as determined by an Authorized Representative in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof, numbered in ascending consecutive numerical order in the order of their issuance and to mature and become due and payable on such dates as an Authorized Representative shall determine at the time of sale; provided, however, that no Commercial Paper Note shall (i) mature after the Maximum Maturity Date or (ii) have a term in excess of two hundred seventy (270) days. Interest, if any, on Commercial Paper Notes shall be payable at maturity with principal.

SECTION 2.4 LOAN NOTE. Under and pursuant to authority granted hereby and subject to the limitations contained herein and in the Revolving Credit Agreement, Loan Notes to be designated “City of San Antonio, Texas Water System Credit Agreement Loan Note, Series A” are hereby authorized and approved in accordance with the terms of this Ordinance, the Revolving Credit Agreement and the form thereof shall be as set forth in the Revolving Credit Agreement.

SECTION 2.5 FORMS OF NOTES. The Notes and the Certificate of Authentication to appear on each of the Notes shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions and other variations as are permitted or required by this Ordinance and may have such letters, numbers or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Banker Association) and such legends (including insurance companies) and endorsements thereon as may, consistent herewith, be approved by an Authorized Representative. Any portion of the text of any Notes may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Notes.

The Notes shall be printed, lithographed, or engraved or produced in any other similar manner, or typewritten, all as determined and approved by an Authorized Representative.

[The remainder of this page intentionally left blank.]

(a) Form of Tax-Exempt Notes.

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF SAN ANTONIO, TEXAS
WATER SYSTEM COMMERCIAL PAPER NOTE,
SERIES A (TAX-EXEMPT)

No.: _____
Principal Amount: _____
Interest to Maturity: _____
Due at Maturity: _____

Note Date: _____
Maturity Date: _____
Number of Days: _____
Interest Rate (%): _____

Owner: _____

The City of San Antonio, Texas (the *City*), FOR VALUE RECEIVED, hereby promises to pay, solely from the sources hereinafter identified and as hereinafter stated, to the order of the Owner specified above on the Maturity Date specified above, the Principal Amount specified above and to pay interest, if any, on said Principal Amount at said Maturity Date, from the above specified Note Date to said Maturity Date at the per annum Interest Rate shown above (computed on the basis of actual days elapsed and a 365-day or 366-day year, as may be applicable); both principal and interest on this note being payable in lawful money of the United States of America at the principal corporate trust office of the Issuing and Paying Agent executing the "Certificate of Authentication" endorsed hereon and appearing below, or its successor. No interest will accrue on the Principal Amount hereof after said Maturity Date.

This note is one of an issue of commercial paper notes (the "Tax-Exempt Notes") which, together with other forms of short-term obligations, including the below referenced Loan Note, has been duly authorized and issued in accordance with the provisions of an ordinance passed by the City Council of the City on November 17, 2005 (the "Ordinance"), for the purpose of financing "Project Costs" of "Eligible Projects" (as such terms are defined in the Ordinance) for the City's Water System (the "System"); and to refinance, renew or refund the Tax-Exempt Notes issued pursuant to the provisions of the Ordinance; all in accordance and in strict conformity with the provisions of Chapter 1371, as amended, Texas Government Code (the *Act*).

This Tax-Exempt Note, together with the other Tax-Exempt Notes, is payable from and equally and ratably secured by a lien on and pledge of (i) the proceeds from (a) the sale of other Tax-Exempt Notes issued for such purpose and (b) the sale of a series or issue of "Bonds" (as defined in the Ordinance) to be issued by the City for such purpose, (ii) "Loans" under and pursuant to the Revolving Credit Agreement (the "Revolving Credit Agreement"), dated as of July 1, 2004, and an amendment dated December 22, 2005, between the City and Bank of America, N.A. (the "Bank"), as amended, revised, supplemented, or substituted, pursuant to which the Bank has agreed to provide credit to the City under the terms and conditions set forth therein, which Loans are to be evidenced by a "Loan Note" (as defined in the Revolving Credit Agreement) provided, however, that the proceeds of Loans may only be used to pay the principal of Tax-Exempt Notes (including this Tax-Exempt Note), (iii) a lien on and pledge of the "Net Revenues" of the System, such lien on and pledge of the Net Revenues, however, being

subordinate to the lien and pledge securing the payment of any "Senior Lien Obligations" and "Junior Lien Obligations" issued from time to time by the City (as such terms are defined in the Ordinance); and (iv) amounts in certain funds established pursuant to the Ordinance.

This Tax-Exempt Note, together with the other Tax-Exempt Notes, is payable solely from the sources hereinabove identified securing the payment thereof, and the Tax-Exempt Notes do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any other property of the City or the System. The holder hereof shall never have the right to demand payment of this obligation from any funds raised or to be raised by taxation or from any other sources or properties of the City or the System except as identified above.

It is hereby certified and recited that all acts, conditions and things required by law and the Ordinance to exist, to have happened and to have been performed precedent to and in the issuance of this Tax-Exempt Note, do exist, have happened and have been performed in regular and in due time, form and manner as required by law and that the issuance of this Tax-Exempt Note, together with all other Tax-Exempt Notes, is not in excess of the principal amount of Tax-Exempt Notes permitted to be issued under the Ordinance.

This Tax-Exempt Note is, and has all the qualities and incidents of, a negotiable instrument under the laws of the State of Texas.

This Tax-Exempt Note shall not be entitled to any benefit under the Ordinance or be valid or become obligatory for any purpose until this Tax-Exempt Note shall have been authenticated by the execution by the Issuing and Paying Agent of the Certificate of Authentication hereon.

IN TESTIMONY WHEREOF, the City has authorized and caused this Tax-Exempt Note to be executed on its behalf by the manual or facsimile signature of the Mayor and countersigned by the manual or facsimile signature of the City Clerk and its official seal to be impressed or a facsimile thereof to be printed hereon.

COUNTERSIGNED:

City Clerk, City of San Antonio, Texas

Mayor, City of San Antonio, Texas

(SEAL)

ISSUING AND PAYING AGENT'S
CERTIFICATE OF AUTHENTICATION

This Tax-Exempt Note is one of the Tax-Exempt Notes delivered pursuant to the within mentioned Ordinance.

JPMorgan Chase Bank, National
Association
as Issuing and Paying Agent

By _____
Authorized Signatory

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number: _____)
the within Tax-Exempt Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____

attorney to transfer the within Tax-Exempt Note on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature Guaranteed:

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

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within Tax-Exempt Note in every particular.

[The remainder of this page intentionally left blank.]

(b) Form of Taxable Notes.

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF SAN ANTONIO, TEXAS
WATER SYSTEM COMMERCIAL PAPER NOTE,
SERIES A (TAXABLE)

No.: _____
Principal Amount: _____
Interest to Maturity: _____
Due at Maturity: _____

Note Date: _____
Maturity Date: _____
Number of Days: _____
Interest Rate (%): _____

Owner: _____

The City of San Antonio, Texas (the *City*), FOR VALUE RECEIVED, hereby promises to pay, solely from the sources hereinafter identified and as hereinafter stated, to the order of the Owner specified above on the Maturity Date specified above, the Principal Amount specified above and to pay interest, if any, on said Principal Amount at said Maturity Date, from the above specified Note Date to said Maturity Date at the per annum Interest Rate shown above (computed on the basis of actual days elapsed and a 365-day or 366-day year, as may be applicable); both principal and interest on this note being payable in lawful money of the United States of America at the principal corporate trust office of the Issuing and Paying Agent executing the "Certificate of Authentication" endorsed hereon and appearing below, or its successor. No interest will accrue on the Principal Amount hereof after said Maturity Date.

This note is one of an issue of commercial paper notes (the "Taxable Notes") which, together with other forms of short-term obligations, including the below referenced Loan Note, has been duly authorized and issued in accordance with the provisions of an ordinance passed by the City Council of the City on November 17, 2005 (the *Ordinance*), for the purpose of financing "Project Costs" of "Eligible Projects" (as such terms are defined in the Ordinance) for the City's Water System (the "System"); and to refinance, renew or refund the Taxable Notes issued pursuant to the provisions of the Ordinance; all in accordance and in strict conformity with the provisions of Chapter 1371, as amended, Texas Government Code (the *Act*).

This Taxable Note, together with the other Taxable Notes, is payable from and equally and ratably secured by a lien on and pledge of (i) the proceeds from (a) the sale of other Taxable Notes issued for such purpose and (b) the sale of a series or issue of "Bonds" (as defined in the Ordinance) to be issued by the City for such purpose, (ii) "Loans" under and pursuant to the Revolving Credit Agreement (the "Revolving Credit Agreement"), dated as of July 1, 2004, and amendment dated December 22, 2005, between the City and Bank of America, N.A. (the *Bank*), as amended, revised, supplemented, or substituted, pursuant to which the Bank has agreed to provide credit to the City under the terms and conditions set forth therein, which Loans are to be evidenced by a "Loan Note" (as defined in the Revolving Credit Agreement) provided, however, that the proceeds of Loans may only be used to pay the principal of Taxable Notes (including this Taxable Note), (iii) a lien on and pledge of the "Net Revenues" of the System, such lien on and pledge of the Net Revenues, however, being subordinate to the lien and pledge securing the

payment of any "Senior Lien Obligations" and "Junior Lien Obligations" issued from time to time by the City (as such terms are defined in the Ordinance); and (v) amounts in certain funds established pursuant to the Ordinance.

This Taxable Note, together with the other Taxable Notes, is payable solely from the sources hereinabove identified securing the payment thereof, and the Taxable Notes do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any other property of the City or the System. The holder hereof shall never have the right to demand payment of this obligation from any funds raised or to be raised by taxation or from any other sources or properties of the City or the System except as identified above.

It is hereby certified and recited that all acts, conditions and things required by law and the Ordinance to exist, to have happened and to have been performed precedent to and in the issuance of this Taxable Note, do exist, have happened and have been performed in regular and in due time, form and manner as required by law and that the issuance of this Taxable Note, together with all other Taxable Notes, is not in excess of the principal amount of Taxable Notes permitted to be issued under the Ordinance.

This Taxable Note is, and has all the qualities and incidents of, a negotiable instrument under the laws of the State of Texas.

This Taxable Note shall not be entitled to any benefit under the Ordinance or be valid or become obligatory for any purpose until this Taxable Note shall have been authenticated by the execution by the Issuing and Paying Agent of the Certificate of Authentication hereon.

IN TESTIMONY WHEREOF, the City has authorized and caused this Taxable Note to be executed on its behalf by the manual or facsimile signature of the Mayor and countersigned by the manual or facsimile signature of the City Clerk and its official seal to be impressed or a facsimile thereof to be printed hereon.

COUNTERSIGNED:

City Clerk, City of San Antonio, Texas

Mayor, City of San Antonio, Texas

(SEAL)

ISSUING AND PAYING AGENT'S
CERTIFICATE OF AUTHENTICATION

This Taxable Note is one of the Taxable Notes delivered pursuant to the within mentioned Ordinance.

JPMorgan Chase Bank, National
Association
as Issuing and Paying Agent

By _____
Authorized Signatory

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number: _____)
the within Taxable Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____

attorney to transfer the within Taxable Note on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature Guaranteed:

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

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within Taxable Note in every particular.

[The remainder of this page intentionally left blank.]

SECTION 2.6 EXECUTION - AUTHENTICATION.

(a) The Notes shall be executed on behalf of the City by the Mayor and attested by the City Clerk under its seal reproduced or impressed thereon, all as provided in Section 2.5 hereof. The signature of said officers on the Notes may be manual or facsimile. Notes bearing the manual or facsimile signatures of individuals who are or were the proper officers of the City on the date of passage of this Ordinance shall be deemed to be duly executed on behalf of the City, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of the initial sale and delivery of Notes authorized to be issued hereunder and with respect to Notes delivered in subsequent sales, exchanges and transfers, all as authorized and provided in Chapter 1201, as amended, Texas Government Code.

(b) No Note shall be entitled to any right or benefit under this Ordinance, or be valid or obligatory for any purpose, unless there appears on such Note a certificate of authentication substantially in the forms provided in Section 2.5 hereof, executed by the Issuing and Paying Agent or the Paying Agent/Registrar by manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly certified or registered and delivered.

SECTION 2.7 NOTES MUTILATED, LOST, DESTROYED OR STOLEN. If any Note shall become mutilated, the City, at the expense of the Holder of said Note, shall execute and deliver a new Note of like tenor and number in exchange and substitution for the Note so mutilated, but only upon surrender to the City of the Note so mutilated. If any Note shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the City, at the expense of the Holder, shall execute and deliver a new Note of like interest rate and tenor in lieu of and in substitution for the Note so lost, destroyed or stolen. Neither the City nor the Paying Agent/Registrar shall be required to treat both the original Note and any duplicate Note as being outstanding for the purpose of determining the principal amount of Notes which may be issued hereunder, but both the original and the duplicate Note shall be treated as one and the same instrument.

SECTION 2.8 NEGOTIABILITY, REGISTRATION AND EXCHANGEABILITY. The Notes issued hereunder shall be, and shall have all of the qualities and incidents of, a negotiable instrument under the laws of the State of Texas, and each successive Holder, in accepting any of the Notes, shall be conclusively deemed to have agreed that such Notes shall be and have all of the qualities and incidents of a negotiable instrument under the laws of the State of Texas. The Registration Books relating to the registration, payment and transfer or exchange of the Notes shall at all times be kept and maintained by the City at the principal corporate trust office of the Registrar, and the Registrar shall obtain, record and maintain in the Registration Books the name and address of each registered owner of the Notes, except for Notes registered to bearer, issued under and pursuant to the provisions of this Ordinance. The Registrar shall provide the Board as agent of the City with a copy of the Registration Books and shall thereafter provide the Board as agent of the City (at the notice address for the City set forth in the Issuing and Paying Agent Agreement between the City and the Registrar) with copies of any changes in the Registration Books within one (1) Business Day after such change. Any Note may, in accordance with its terms and the terms hereof, be transferred or exchanged for Notes of like

interest rate, tenor and character and of other authorized denominations upon the Registration Books by the Holder in person or by his duly authorized agent, upon surrender of such Note to the Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Registrar. Upon surrender for transfer of any Note at the principal corporate trust office of the Registrar, the Registrar shall register and deliver, in the name of the designated transferee or transferees (or to bearer, as appropriate), one or more new Notes executed on behalf of, and furnished by, the City of like tenor and character and of authorized denominations and having the same maturity, bearing interest at the same rate and of a like aggregate principal amount as the Note or Notes surrendered for transfer. Furthermore, Notes may be exchanged for other Notes of like tenor and character and of authorized denominations and having the same maturity, bearing the same rate of interest and of like aggregate principal amount as the Notes surrendered for exchange, upon surrender of the Notes to be exchanged at the principal corporate trust office of the Registrar. Whenever any Notes are so surrendered for exchange, the Registrar shall register and deliver new Notes of like tenor and character as the Notes exchanged, executed on behalf of, and furnished by, the City to the Holder requesting the exchange. The City and the Registrar may charge the Holder a sum sufficient to reimburse them for any expenses incurred in making any transfer or exchange after the first such transfer or exchange for such Holder. The Registrar or the City may also require payment from the Holder of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. Such charges and expenses shall be paid before any such new Note shall be delivered. The City and the Paying Agent/Registrar shall not be required (i) to issue, transfer or exchange any Note during a period beginning at the opening of business on the 15th day next preceding either any interest payment date of such Note or any date of possible selection of such Note or parts thereof to be redeemed and ending at the close of business on the interest payment date or day on which the applicable notice of redemption is given, or (ii) to transfer or exchange any Note selected, called or being called for redemption in whole or in part. New Notes delivered upon any transfer or exchange shall be valid special obligations of the City, evidencing the same debt as the Notes surrendered by this Ordinance and shall be entitled to all of the security and benefits hereof to the same extent as the Notes surrendered. The City reserves the right to change the above registration and transferability provisions of the Notes at any time on or prior to the delivery thereof in order to comply with applicable laws and regulations of the United States in effect at the time of issuance thereof. No purchase, sale, or transfer of any Notes, as herein provided, nor the setting of interest rates in respect thereof, shall constitute or be construed to be the extinguishment of any security or the indebtedness represented thereby or the reissuance of any security or the refunding of any indebtedness represented thereby.

SECTION 2.9 NOTE PAYMENT FUND.

(a) There is hereby created and established with the Issuing and Paying Agent a separate and special fund to be designated as the "City of San Antonio, Texas Water System Note Payment Fund" (the "Note Payment Fund"). Money on deposit in the Note Payment Fund shall be used to pay principal of, premium, if any, and interest on Notes at the respective interest payment, maturity or redemption dates of each issue of such Notes as provided herein and the repayment of any Loans made pursuant to the Revolving Credit Agreement (evidenced by the Loan Note). Proceeds of Notes remaining in the Note Payment Fund not then necessary for the

purposes thereof may be transferred to the Note Construction Fund (created pursuant to Section 2.12 hereof) upon request of an Authorized Representative.

(b) Pursuant to Section 3.2(i) hereof, all proceeds of Notes, and pursuant to Section 2.02(a) of the Revolving Credit Agreement, all proceeds of Loans (except proceeds of Loans retained by the Bank to repay all or any part of an outstanding Loan as described in Section 2.02(b) of the Revolving Credit Agreement) shall be deposited into the Note Payment Fund and used to pay the principal of, premium, if any and interest on the Notes (provided, however, that the proceeds of Loans pursuant to the Revolving Credit Agreement may only be used to pay principal of Notes) and to pay the principal of any Loan coming due during the Revolving Credit Period.

(c) Additionally, all Net Revenues which are to be transferred from the System Fund (as defined in Section 4.3 hereof) to pay principal and/or interest on Notes pursuant to Section 4.4(b) hereof shall be deposited in the Note Payment Fund.

(d) Pending the expenditure of money in the Note Payment Fund for authorized purposes, money deposited in said Fund may be invested at the direction of an Authorized Representative in Eligible Investments. Any income received from such investments shall be deposited, as received, into the System Fund (as defined in Section 4.3 hereof) and shall not, for purposes of this Ordinance, be considered an amount held in the Note Payment Fund.

SECTION 2.10 PAYMENTS; PLEDGE.

(a) The Notes and the Loan Notes are special obligations of the City payable from and secured solely by the funds pledged therefor pursuant to this Section 2.10. The Board on behalf of the City shall make payments into the appropriate account of the Note Payment Fund from proceeds of Notes or Loans (or from Net Revenues on deposit in the System Fund which are transferred to the Note Payment Fund pursuant to Section 4.4 of this Ordinance in order to pay principal and/or interest on the Notes) at such times and in such amounts as are necessary to provide for the full payment of the principal of, premium, if any, and the interest on the Notes when due.

(b) To provide security for the payment of the principal of and interest on the Notes, the Loan Notes, and any other amounts due under the Revolving Credit Agreement as the same shall become due and payable, there is hereby granted a lien on and pledge of, subject only if the provisions of this Ordinance permitting the application thereof for purposes and on the terms and conditions set forth herein:

(i) the proceeds from (a) the sale of the Bonds issued for such purpose and
(b) the sale of Notes issued pursuant to this Ordinance for such purpose;

(ii) the proceeds from Loans (provided, however, that such Loan proceeds pursuant to the Revolving Credit Agreement may only be used to pay the principal of the Notes);

(iii) the amounts held in the Note Payment Fund until the amounts deposited therein are used for authorized purposes; provided, however, that amounts in the Note

Payment Fund attributable to and derived from Loans shall be used only to pay, prior to any application to the payment of the Loan Note, the principal of (but no redemption premium) the Notes in full; and

(iv) the amounts remaining on deposit in the Note Construction Fund after the payment of all Project Costs;

and it is hereby resolved and declared that the principal of and interest on the Notes, the Loan Notes, and any other amounts due under the Revolving Credit Agreement shall be and are hereby equally and ratably secured by and payable from a lien on and pledge of the sources hereinabove identified in clauses (i), (ii), (iii), and (iv) subject and subordinate only to the exceptions noted therein.

(c) To provide additional security for the payment of the principal of and interest on the Notes, the Loan Notes, and other amounts due under the Revolving Credit Agreement as the same shall become due and payable, there is hereby granted a lien on and pledge of the Net Revenues as provided by the Revolving Credit Agreement, such lien on and pledge of Net Revenues to secure the Notes and other amounts due under the Revolving Credit Agreement, however, being subordinate to (i) the lien and pledge of the Pledged Revenues securing the payment of any Senior Lien Obligations, and (ii) the lien and pledge of Net Revenues securing the payment of any Junior Lien Obligations issued from time to time by the City. The Notes and the Loan Notes secured by and payable from the lien on Net Revenues as described in the preceding sentence shall constitute Subordinate Lien Obligations. Unless the Loan Notes are paid from the proceeds of Notes or Bonds issued for such purposes, or amounts available in the Note Payment Fund or the Note Construction Fund, all as described above, such payments are to be made from Net Revenues on deposit in the "Bank Note Fund" in accordance with Section 4.4 hereof.

(d) Unless borrowings made under the Revolving Credit Agreement are paid from the proceeds of Commercial Paper Notes or Bonds issued for such purposes, or amounts available in the Note Payment Fund or the Note Construction Fund, all as described above, such payments are to be made from Net Revenues on deposit in the Bank Note Fund established in Section 4.4 hereof.

SECTION 2.11 APPLICATION OF PRIOR COVENANTS. The covenants and agreements (to the extent the same are not inconsistent herewith) contained in the Senior Lien Obligations Ordinances and the Junior Lien Obligations Ordinances are hereby incorporated herein and shall be deemed to be for the benefit and protection of the Notes, the Loan Note and the respective Holders thereof in like manner as applicable to the Senior Lien Obligations and the Junior Lien Obligations; provided, however, that in the event of any conflict between the terms, covenants and agreements contained herein and the terms, covenants and agreements contained in the Senior Lien Obligations Ordinances and the Junior Lien Obligations Ordinances, the provisions of the Senior Lien Obligations Ordinances and the Junior Lien Obligations Ordinances shall control over the provisions hereof.

SECTION 2.12 NOTE CONSTRUCTION FUND.

(a) There is hereby created and established a separate fund hereby designated as the "City of San Antonio, Texas Water System Note Construction Fund" (the "Note Construction Fund"). The Note Construction Fund shall be held by the Board at a Depository. Money deposited in the Note Construction Fund shall remain therein until from time to time expended to pay for Project Costs, and shall not be used for any other purposes whatsoever, except as otherwise provided below, and pending such expenditure, money in the Note Construction Fund may be invested at the direction of an Authorized Representative in Eligible Investments. Any income received from such investments (except as otherwise required to be rebated to the United States of America in accordance with the provisions of Section 4.8 hereof) shall be deposited into the Note Construction Fund.

(b) Any amounts on deposit in the Note Construction Fund designated by an Authorized Representative as eligible to pay interest during construction and thereafter may be transferred from time to time at the direction of an Authorized Representative to the credit of the Note Payment Fund for use in accordance with the terms of Section 2.9 hereof. Any amounts remaining in the Note Construction Fund after the payment of all Project Costs shall be paid into the Note Payment Fund and used for the payment of such maturities of the Notes coming due at such times as may be selected by an Authorized Representative or for the payment of the Loan Note, as the case may be. In the event no Notes are outstanding and there are no outstanding Loans, any amounts in the Note Construction Fund not anticipated to be needed to pay Project Costs shall be transferred, upon discretion of an Authorized Representative, to the Debt Service Fund established by the Senior Lien Obligations Ordinances and/or the debt service fund to be established for the payment of any Debt.

SECTION 2.13 CANCELLATION. All Notes which at maturity are surrendered to the Paying Agent/Registrar for the collection of the principal and interest thereon or are surrendered for transfer or exchange pursuant to the provisions hereof shall, upon payment or issuance of new Notes, be canceled by the Paying Agent/Registrar, and the Paying Agent/Registrar forthwith shall transmit to the Board as agent of the City a certificate identifying such Notes and that such Notes have been duly canceled and destroyed.

SECTION 2.14 FISCAL AND OTHER AGENTS. In furtherance of the purposes of this Ordinance, the City may from time to time appoint and provide for the payment of such additional fiscal, paying or other agents or trustees as it may deem necessary or appropriate in connection with the Notes.

SECTION 2.15 REVOLVING CREDIT AGREEMENT.

(a) The Revolving Credit Agreement, and the amendment thereto, for the Notes, substantially in the form attached hereto as Exhibit A, is hereby approved, and shall be entered into with the Bank. The form of the Loan Notes contained in the Revolving Credit Agreement is also approved, including the interest rate to be determined as set forth therein. The Mayor and City Clerk are hereby authorized to execute and deliver the Revolving Credit Agreement and any other documents called for thereunder, including the Loan Notes, and the City Clerk is authorized to place the City seal on such instruments.

(b) The City, pursuant to Section 1371.056 of the Act, reserves the right to provide an Alternate Credit Facility (in lieu of the Revolving Credit Agreement) by delivering to the Issuing and Paying Agent (i) an executed copy of such Alternate Credit Facility and (ii) written evidence, to the extent any Notes are outstanding, from any two nationally recognized credit rating agencies (which must include Moody's Investors Service, Inc. and Standard & Poor's Rating Services to the extent the Notes are rated by these rating agencies) which at such time has assigned a rating on the Notes to the effect that the ratings maintained by such credit rating agencies on the Notes will not be revised downward or withdrawn as a result of the surrender of the Revolving Credit Agreement and the delivery of the proposed Alternate Credit Facility. The Board, acting through the Authorized Representative, is expressly authorized to negotiate, secure, and finalize (subject to the written approval of the City Council) the Alternate Credit Facility and to have the Mayor and City Clerk execute and deliver the Alternate Credit Facility and any other documents called for thereunder, including the Loan Note, and to have the City Clerk place the City's seal on such instruments.

SECTION 2.16 FUNDS SECURED. Money in all such Funds, to the extent not invested as permitted hereunder, shall be secured in the manner prescribed by law for securing funds of the City.

ARTICLE III

ISSUANCE AND SALE OF NOTES

SECTION 3.1 ISSUANCE AND SALE OF NOTES.

(a) The Commercial Paper Notes shall be completed and delivered by the Issuing and Paying Agent in accordance with telephonic, computer or written instructions of an Authorized Representative and in the manner specified below and in the Issuing and Paying Agent Agreement. To the extent such instructions are not written, they shall be confirmed in writing by an Authorized Representative within 24 hours. Said instructions shall specify such principal amounts, Note Dates, dates of issue, maturities, rates of discount or interest, and other terms and conditions which are hereby authorized and permitted to be fixed by an Authorized Representative at the time of sale of the Commercial Paper Notes. Such instructions shall include the purchase price of the Commercial Paper Notes, and a request that the Issuing and Paying Agent authenticate such Commercial Paper Notes by counter signature of its authorized officer or employee and deliver them to the named purchaser or purchasers thereof upon receipt of payment in accordance with the custom then prevailing in the New York financial market in regard to such Commercial Paper Notes. Such instructions shall also contain provisions representing that all action on the part of the City necessary for the valid issuance of the Commercial Paper Notes then to be issued has been taken, that all provisions of Texas and federal law necessary for the valid issuance of such Commercial Paper Notes with provision for interest exclusion from federal income taxation have been complied with, and that such Commercial Paper Notes in the hands of the Holders thereof will be valid and enforceable obligations of the City according to their terms, subject to the exercise of judicial discretion in accordance with general principles of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors, rights heretofore or hereafter enacted to the extent constitutionally applicable and that, for Tax-Exempt Notes, based upon the advice of

Bond Counsel, the stated interest on the Commercial Paper Notes is excludable from federal income taxation. Such instructions shall also certify that:

(i) no Event of Default under Section 5.1 hereof has occurred and is continuing as of the date of such Certificate and that the Issuing and Paying Agent has not received a No-Issuance Notice (as defined in the Revolving Credit Agreement);

(ii) the City is in compliance with the covenants set forth in Article IV hereof and in the respective Dealer Agreement as of the date of such instructions;

(iii) the Board as agent of the City has been advised by Bond Counsel that the projects to be financed with the proceeds of the Commercial Paper Notes will constitute Eligible Projects, and, further, that the proposed expenditure of the proceeds of such Commercial Paper Notes which are Tax-Exempt Notes for such projects will not cause the City to be in violation of its covenants set forth in Section 4.8 hereof; and

(iv) the sum of the interest payable on such Commercial Paper Notes will not exceed a yield (calculated on the principal amount of the Commercial Paper Notes on the basis of a 365-day or 366-day year, as may be applicable, and actual number of days elapsed) to the maturity date of such Commercial Paper Notes in excess of the Maximum Interest Rate in effect on the date of issuance of such Commercial Paper Notes.

(b) The Loan Note, as applicable, shall be or has been delivered to the Bank, as applicable, and indebtedness may be incurred thereunder in accordance with the terms of the applicable Revolving Credit Agreement.

SECTION 3.2 PROCEEDS OF SALE OF NOTES. The proceeds of the sale of any Notes (net of all expenses and costs of sale and issuance) shall be applied for any or all of the following purposes as directed by an Authorized Representative:

(i) Proceeds to be used for the payment and redemption of outstanding Notes at or before maturity and the repayment of any Loans (evidenced by the Loan Note) or other amounts due under the Revolving Credit Agreement shall be deposited in the Note Payment Fund, and expended therefor; and

(ii) Proceeds not deposited in the Note Payment Fund as provided in subparagraph (i) above shall be deposited to the Note Construction Fund and used and applied in accordance with the provisions of Section 2.12 hereof.

SECTION 3.3 ISSUING AND PAYING AGENCY AGREEMENT. The Issuing and Paying Agency Agreement, attached hereto as Exhibit B, is hereby approved as to form and content, and the Mayor and the City Clerk are hereby authorized and directed to execute the same for and on behalf of the City and, in connection with the execution thereof, approve such changes, additions, or amendments thereto as may be necessary and proper to carry out the purpose and intent of such respective Issuing and Paying Agency Agreement. The Board, on behalf of the City, is hereby authorized (subject to the written approval of the City Council) to enter into any supplemental agreements with the Issuing and Paying Agent or with any successor Issuing and Paying Agent in order to implement the functions of Paying Agent/Registrar or

Registrar with respect to the Notes and to have the Mayor and City Clerk execute and deliver this document, and any other documents called for thereunder, for and on behalf of the City and the Board.

SECTION 3.4 DEALER AGREEMENTS. The Dealer Agreements and the amendments thereto in the form attached hereto as Exhibit C with each of the Dealers pertaining to the sale, from time to time, of the Commercial Paper Notes or the purchase of Commercial Paper Notes from the City, all for a fee as set forth in said Dealer Agreement, are hereby ratified and approved as to form and content, and the Mayor and the City Clerk are hereby authorized and directed to execute the same for and on behalf of the City. The Board, on behalf of the City, is expressly authorized (subject to written approval of the City Council) to negotiate, secure, and finalize a replacement, substitute, amended, or revised Dealer Agreement and to have the Mayor and City Clerk execute and deliver this document, and any other documents called for thereunder, for and on behalf of the City and the Board.

ARTICLE IV

COVENANTS OF THE CITY

SECTION 4.1 LIMITATION ON ISSUANCE. Unless this Ordinance is amended and modified by the City Council and in accordance with the provisions of Section 7.1 hereof, the City covenants that there will not be issued and outstanding at any time under this Ordinance more than \$500,000,000 in principal amount of Notes. For purposes of this Section 4.1 any portion of outstanding Notes to be paid on a particular day from money on deposit in the Note Payment Fund, the Bank Note Fund, and available proceeds of Notes or Bonds shall not be considered outstanding on such day. Additionally, the City covenants and agrees that the total principal amount of all Notes outstanding at any one time shall not exceed the combined "Commitment" (as defined in the Revolving Credit Agreement).

SECTION 4.2 RATES AND CHARGES. The City hereby agrees and reaffirms its covenants to the holders of the Senior Lien Obligations and the Junior Lien Obligations and covenants to the Holders of the Notes and the Loan Notes that it will at all times maintain rates and charges for the services furnished, provided, and supplied by the System which shall comply with the provisions of the Senior Lien Obligations Ordinances, and produce income and revenues sufficient:

- (a) to pay Maintenance and Operating Expenses;
- (b) to produce Pledged Revenues sufficient to pay (i) 1.25 times the "Annual Debt Service Requirements" (as defined in the Senior Lien Obligations Ordinances) for such Fiscal Year on the Senior Lien Obligations and (ii) the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues;
- (c) to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the

principal and/or interest on any obligations described in this subsection (c)), sufficient to pay (i) the principal of and interest on any Junior Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Junior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues; (ii) the principal of and interest on any Subordinate Lien Obligations and any Additional Subordinate Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Subordinate Lien Obligations, any Additional Subordinate Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues; and (iii) the principal of and interest on any Inferior Lien Obligations as the same become due and payable and to deposit the amounts required to be deposited in any special fund created and established for the payment and security of any Inferior Lien Obligations;

(d) to produce Net Revenues, together with any other lawfully available funds, to fund the transfers to the City's General Fund all as permitted by the provisions of the Senior Lien Obligations Ordinances; and

(e) to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

SECTION 4.3 SYSTEM FUND. Pursuant to Section 2.11 hereof, the City hereby reaffirms its covenant to the holders of the currently outstanding Senior Lien Obligations and the Junior Lien Obligations, and hereby covenants with respect to the Holders of the Notes, that all Gross Revenues shall be deposited as received by the Board in the "City of San Antonio, Texas System Revenue Fund" (as established by the Senior Lien Obligations Ordinances and hereinafter referred to as the "System Fund"), which shall be maintained at a Depository and kept separate and apart from all other funds of the City and the Board.

SECTION 4.4 PRIORITY OF DEPOSITS AND PAYMENTS FROM SYSTEM FUND.

(a) There is hereby created and there shall be established and maintained on the books of the Board at a Depository separate funds to be known as the "Bank Note Fund" for the sole benefit of the Loan Notes. All Net Revenues to be applied by the Board for the payment of principal and/or interest on the Loan Notes shall be deposited into the Bank Note Fund.

(b) The Board on behalf of the City shall make the deposits and payments from the Pledged Revenues and/or Net Revenues in the System Fund when and as required by the Senior Lien Obligations Ordinances, and such deposits shall be made in the order and with the priorities set forth in the Senior Lien Obligations Ordinances. All Net Revenues to be applied by the Board for the payment of principal and/or interest on any Notes (which, for purposes of subparagraph SIXTH of Section 14 of the Senior Lien Obligations Ordinances, are considered Subordinate Lien Obligations) shall be deposited into the Note Payment Fund.

SECTION 4.5 MAINTENANCE OF AVAILABLE CREDIT FACILITIES REQUIREMENT.

(a) The City agrees and covenants that at all times up to and including the Maximum Maturity Date, unless the Notes are no longer outstanding, it will maintain credit facilities with banks in amounts such that, assuming that all then outstanding Notes were to become due and payable immediately, the amount available for borrowing under the credit facilities would be sufficient at that time to pay the principal of all Notes. However, the City reserves the right to provide internal liquidity for the Notes payable from the lawfully available cash balances in its Renewal and Replacement Fund. Such obligation to draw on its own funds prior to entering into a Loan pursuant to the terms of an Alternate Credit Facility will be in accordance with the provisions specified in such Alternate Credit Facility. No Note shall be issued which if, after giving effect to the issuance thereof and, if applicable, the immediate application of the proceeds thereof to retire other Notes secured by the credit facility, the aggregate principal amount of all Notes secured by the credit facility would exceed the amount of the credit commitment under the credit facility. The availability for borrowing of such amounts under the credit facilities may be subject to reasonable conditions precedent, including but not limited to, bankruptcy of the City. In furtherance of the foregoing covenant, the City agrees that it will not issue any Notes or make any borrowings which will result in a violation of such covenant, will not amend the Revolving Credit Agreement in a manner which will cause a violation of such covenant and, if and to the extent necessary to maintain compliance with such covenant, will arrange for an Alternate Credit Facility prior to, or contemporaneously with, the expiration of the Revolving Credit Agreement.

(b) The Revolving Credit Agreement currently satisfies the covenant contained in the first sentence of paragraph (a) above with respect to the issuance of up to \$500,000,000 in aggregate principal amount at any one time outstanding of Notes.

SECTION 4.6 BONDS. The City hereby acknowledges that the Notes are being issued as bond anticipation notes, and therefore the City in good faith shall endeavor to sell a sufficient principal amount of the Bonds in order to have funds available, together with other money available therefor, to pay the Notes and the interest thereon, or any renewals thereof, as the same shall become due and other amounts due under the Revolving Credit Agreement.

SECTION 4.7 PUNCTUAL PAYMENT. The Board on behalf of the City will punctually pay or cause to be paid the principal of and interest, if any, on the Notes (but only from the sources pledged herein), in conformity with the Notes, this Ordinance and the Revolving Credit Agreement.

SECTION 4.8 NOTES TO REMAIN TAX EXEMPT. The City covenants to take any action to assure, or refrain from any action which would adversely affect, the treatment of the Tax-Exempt Notes as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the Holder for purposes of federal income taxation. In furtherance thereof, the City covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Tax-Exempt Notes (less amounts deposited to a reserve fund, if any) are used for any "private business use", as defined in section 141(b)(6) of the Code or, if more than 10 percent of the

proceeds are so used, that amounts, whether or not received by the City, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Tax-Exempt Notes, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the “private business use” described in subsection (a) hereof exceeds 5 percent of the proceeds of the Tax-Exempt Notes (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a “private business use” which is “related” and not “disproportionate”, within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Tax-Exempt Notes (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) to take any action to assure that the “nonqualified amount”, within the meaning of section 141(b)(8) of the Code, does not exceed \$15,000,000 unless the City obtains an allocation of volume cap under section 146 of the Code for such “nonqualified amounts” that exceeds \$15,000,000.

(e) to refrain from taking any action which would otherwise result in the Tax-Exempt Notes being treated as “private activity bonds” within the meaning of section 141(b) of the Code;

(f) to refrain from taking any action that would result in the Tax-Exempt Notes being “federally guaranteed” within the meaning of section 149(b) of the Code;

(g) to refrain from using any portion of the proceeds of the Tax-Exempt Notes, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Tax-Exempt Notes, other than investment property acquired with –

(i) proceeds of the Tax-Exempt Notes invested for a reasonable temporary period of 3 years or less, or in the case of an advance refunding 30 days or less, until such proceeds are needed for the purpose for which the Obligations are issued,

(ii) amounts invested in a bona fide debt service fund, within the meaning of section 1.103-13(b)(12) of the Treasury Regulations, and

(iii) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of 10 percent of the stated principal amount of the Tax-Exempt Notes, the maximum annual principal and interest requirements on the Tax-Exempt Notes, and 125 percent of the average annual principal and interest on the Tax-Exempt Notes;

(h) to otherwise restrict the use of the proceeds of the Tax-Exempt Notes or amounts treated as proceeds of the Tax-Exempt Notes, as may be necessary, so that the Tax-Exempt

Notes do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings);

(i) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Tax-Exempt Notes) an amount that is at least equal to 90 percent of any Excess Earnings, and to pay to the United States of America, not later than 60 days after the Tax-Exempt Notes have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code;

(j) to maintain such records as will enable the City to fulfill its responsibilities under this section and section 148 of the Code and to retain such records for at least six years following the final payment of principal and interest on the Tax-Exempt Notes;

(k) to execute and deliver to the Issuing and Paying Agent a Tax Exemption Certificate in the form prescribed by Bond Counsel in connection with the approval of the Tax-Exempt Notes; and

(l) to timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on such forms and in such places as such Secretary may prescribe.

The City represents and covenants that it will not expend, or permit to be expended, the proceeds of any Tax-Exempt Notes in any manner inconsistent with its reasonable expectations as certified in the Tax Exemption Certificate to be executed with respect to the approval of the Tax-Exempt Notes; provided, however, that the City may expend Tax-Exempt Note proceeds in any manner if the City first obtains an unqualified opinion of Bond Counsel that such expenditure will not impair the exemption from federal income taxation of interest paid on the Tax-Exempt Notes. For purposes of Section 4.8(i) hereof, the City hereby elects to treat those Commercial Paper Notes redeemed during any six-month period as one "issue" in accordance with the provision of section 148(f)(3) of the Code. The City represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon.

It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify, or expand provisions of the Code, as applicable to the Tax-Exempt Notes, the City will not be required to comply with any covenant contained herein to the extent that such modification or expansion, in the opinion of Bond Counsel, will not adversely affect the excludability of interest on the Tax-Exempt Notes from gross income for federal income tax purposes under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Tax-Exempt Notes, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of Bond Counsel, to preserve the excludability of interest on the Tax-Exempt Notes from gross income for federal income tax purposes under section 103 of the Code.

SECTION 4.9 OPINION OF CO-BOND COUNSEL. The City shall cause the legal opinion of Co-Bond Counsel as to the validity of the Tax-Exempt Notes and as to the excludability of interest on the Tax-Exempt Notes from gross income for federal income tax purposes to be furnished to any Tax-Exempt Noteholder without cost. In addition, a copy of said opinion may be printed on each of the Tax-Exempt Notes.

SECTION 4.10 TAXABLE NOTES. The Taxable Notes are not “state or local bonds” within the meaning of section 103(a) and (c) of the Internal Revenue Code of 1986, as amended; therefore, the interest on the Taxable Notes is not excludable from the gross income of the holders thereof for federal income tax purposes.

SECTION 4.11 OPINION OF CO-BOND COUNSEL. The City shall cause the legal opinion of Co-Bond Counsel as to the validity of the Taxable Notes to be furnished to any Taxable Noteholder without cost. In addition, a copy of said opinion may be printed on each of the Taxable Notes.

SECTION 4.12 COMPLIANCE WITH BOND ORDINANCES AND OTHER DOCUMENTS. The City and the Board will comply with the terms and provisions of the Bond Ordinances and any other ordinance or contract to which the City or the Board is a party, the non-compliance with which would materially adversely affect the ability of the Board on behalf of the City to make payments on the Notes when due.

SECTION 4.13 RESERVATION OF RIGHT TO ISSUE ADDITIONAL SENIOR LIEN OBLIGATIONS, ADDITIONAL JUNIOR LIEN OBLIGATIONS, ADDITIONAL SUBORDINATE LIEN OBLIGATIONS AND INFERIOR LIEN OBLIGATIONS.

(a) Additional Senior Lien Obligations. The City hereby expressly reserves the right to hereafter issue Additional Senior Lien Obligations in accordance with the provisions of the Senior Lien Obligations Ordinances, payable from and secured by a lien on and pledge of the Pledged Revenues of the System prior in right and claim to the lien and pledge securing the payment of any Junior Lien Obligations, Subordinate Lien Obligations, Additional Subordinate Lien Obligations and Inferior Lien Obligations.

(b) Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations. Pursuant to the provisions of the Senior Lien Obligations Ordinances and subject to Section 6.03 of the Revolving Credit Agreement, the City has reserved, and the City hereby reserves, the right to issue, at any time, obligations including, but not limited to, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and the pledge of such Net Revenues securing the payment of the Senior Lien Obligations issued from time to time by the City, as may be authorized by the laws of the State of Texas.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES OF NOTEHOLDERS

SECTION 5.1 EVENTS OF DEFAULT. If one or more of the following events shall occur, that is to say:

(a) if default shall be made in the due and punctual payment of any installment of principal of any Note when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if the City shall fail to make due and punctual payment of any installment of interest on any Note when and as such interest installment shall become due and payable and such failure shall continue for five (5) Business Days;

(c) if the principal of the Loan Notes (and interest accrued thereon) shall become due and payable prior to the maturity thereof under the Loan Notes and the Revolving Credit Agreement;

(d) if default shall be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part in this Ordinance or in the Notes contained, and such default shall continue for a period of sixty (60) days after written notice thereof; provided, however, that if such default cannot be cured within the sixty (60) day period but corrective action to cure such default is commenced and diligently pursued until the default is corrected no such Event of Default shall be deemed to have occurred;

(e) if there shall occur the dissolution (without a successor being named to assume the rights and obligations) or liquidation of the City or the filing by the City of a voluntary petition in bankruptcy, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of its creditors, or the entry by the City into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceeding for its reorganization instituted under the provisions of the Bankruptcy Code, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted; or

(f) if an order or decree shall be entered, with the consent or acquiescence of the City, appointing a receiver or receivers of the System, or any part thereof, or of the rents, fees, charges or other revenues therefrom, or if such order or decree, having been entered without the consent or acquiescence of the City shall not be vacated or discharged or stayed within ninety (90) days after the entry thereof;

then such event as described above shall constitute an "Event of Default" under this Ordinance.

SECTION 5.2 SUITS AT LAW OR IN EQUITY AND MANDAMUS. In case one or more Events of Default shall occur, then and in every such case the Holder of any Note at the time outstanding shall be entitled to proceed to protect and enforce such Holder's rights by such appropriate judicial proceeding as such Holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance

of any covenant or agreement contained in this Ordinance, or in aid of the exercise of any power granted in this Ordinance, or to enforce any other legal or equitable right vested in the Holders of Notes by this Ordinance or the Notes or by law. The provisions of this Ordinance shall be a contract with each and every Holder of Notes and the duties of the City and the Board shall be enforceable by any Noteholder by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

SECTION 5.3 REMEDIES NOT EXCLUSIVE. No remedy herein conferred upon or reserved to the Holders of Notes is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised at any time or from time to time, and as often as may be necessary, by the Holder of any one or more of the Notes.

ARTICLE VI

MANAGEMENT OF THE SYSTEM

The complete management and control of the System during such time as any Debt is outstanding shall be vested in the Board pursuant to the provisions of Section 32 of the Senior Lien Obligations Ordinances which provisions are hereby incorporated by reference and Chapter 1502, as amended, Texas Government Code.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 AMENDMENTS OR MODIFICATIONS.

(a) Amendments Without Consent of Holders. This Ordinance and the rights and obligations of the City and the Board and of the Holders of Notes may be modified or amended at any time by a supplemental ordinance, without notice to or the consent of any Holders, but only to the extent permitted by law, and, subject to the rights of the Holders of the Notes, only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the City or the Board;

(ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provision contained in this Ordinance, upon receipt by the City of an approving opinion of Bond Counsel that the same is needed for such purpose, and will more clearly express the intent of this Ordinance; or

(iii) to supplement the security for the Notes, replace or provide Alternate Credit Facilities, or change the form of the Notes or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not materially adversely affect the interests of the Holders of the Notes;

(b) Amendments Requiring Consent of All Holders. Nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions of this Ordinance or of the Notes so as to:

- (i) Make any change in the maturity of any of the outstanding Notes;
- (ii) Reduce the rate of interest borne by any of the outstanding Notes;
- (iii) Reduce the amount of the principal payable on any of the outstanding Notes;
- (iv) Modify the terms of payment of principal of or interest on the outstanding Notes, or impose any conditions with respect to such payment;
- (v) Affect the rights of the Holders of less than all of the outstanding Notes; or
- (vi) Reduce or restrict the pledge made pursuant to Section 2.10 hereof for payment of the Notes;

unless such amendment shall be approved by the Holders of all of the Notes (including the Bank as the Holder of the Loan Note) then outstanding;

(c) Amendments Requiring Consent of Bank and a Majority of Holders of Notes. The City may, with the written consent of the Bank and the Holders of a majority in aggregate principal amount of the Notes then outstanding affected thereby, amend, change, modify, or rescind any provisions of this Ordinance which are otherwise not described under Section 7.1(a) or Section 7.1(b) hereof; and

(d) Amendments Effective Upon Receipt of Written Consent. Whenever any outstanding Notes are scheduled to mature more than one year from the date on which the notice is to be given pursuant to this paragraph (d) and the City shall desire to make any amendment to this Ordinance requiring consent of the Bank and the Holders of the Notes then outstanding, the City shall cause notice of the amendment to be sent by first class mail, postage prepaid, to the Bank and the Holders of the Notes then outstanding at the respective addresses shown on the registration books maintained by the Registrar. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by the Bank and the Holders of the Notes of a majority in aggregate principal amount of the Notes then outstanding which instrument or instruments shall refer to the proposed amendment described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment in substantially such form, except as herein provided. Neither the Bank nor any Holder of Notes may thereafter object to the adoption of such amendment or to any of the provisions thereof, and such amendment shall be fully effective for all purposes.

(e) Amendments Effective Upon Maturity of all Then Outstanding Notes. Whenever all Notes are scheduled to mature less than one year from the date on which notice could be provided in the manner described in paragraph (d) above and the City shall desire to make any

amendment to or additions to or rescission of this Ordinance requiring consent of the Bank and the Holders of the Notes then outstanding, the City may adopt such amendment, addition or recession (upon prior consent of the Bank but without having to receive the consent of any Holder of then outstanding Notes) which will become effective only upon the payment in full of all such outstanding Notes. The Offering Memorandum prepared by the City and used by the Dealer to sell any Notes which will be outstanding on and after the effective date of any such amendment, addition or rescission must clearly state or describe such amendment, addition or rescission, and all persons who become Holders of Notes on and after the effective date of such amendment, addition or rescission shall be deemed to have consented to such amendment, addition or rescission.

(f) Approval of Attorney General Required. Notwithstanding the foregoing provisions of this Section 7.1, no change, modification or amendment shall be made in this Ordinance or become valid and effective without the approval of such change, modification or amendment by the Attorney General of the State of Texas, to the extent required by the Act.

SECTION 7.2 ADDITIONAL ACTIONS. The Mayor, the City Clerk, the Authorized Representative and the other officers of the City and the Board are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Notes and otherwise to effectuate the purposes of this Ordinance, the Revolving Credit Agreement, the Dealer Agreement, the Offering Memorandum and the Issuing and Paying Agency Agreement. Specifically, by the adoption of this Ordinance, the City Council hereby authorizes the payment of the fees and expenses incurred and to be paid by the Board in connection with the issuance, sale and delivery of the Notes and the execution and delivery of the Revolving Credit Agreement, the Dealer Agreement, the Issuing and Paying Agency Agreement, and as otherwise provided in this Ordinance.

SECTION 7.3 ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Notes, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Ordinance shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Notes and the pledge made in this Ordinance by the City and the covenants and agreements set forth in this Ordinance to be performed by the City shall be for the equal and proportionate benefit, security and protection of all Holders of the Notes, without preference, priority or distinction as to security or otherwise of any of the Notes authorized hereunder over any of the others by reason of time of issuance, sale or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Ordinance or, with respect to the Loan Note, the Revolving Credit Agreement.

SECTION 7.4 SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Notes issued hereunder.

SECTION 7.5 PAYMENT AND PERFORMANCE ON BUSINESS DAYS.

Whenever under the terms of this Ordinance or the Notes, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Notes, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Notes, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the date of performance or payment.

SECTION 7.6 DEFEASANCE. If, when all or any portion of the Notes shall have become due and payable in accordance with their terms or otherwise as provided in this Ordinance, the entire principal and interest so due and payable upon said Notes shall be paid, or if at or prior to the date said Notes have become due and payable, sufficient money or direct obligations of, or obligations guaranteed by, the United States of America the principal of and interest on which will provide sufficient money for such payment, shall be held in trust by the Issuing and Paying Agent and provision shall also be made for paying all other sums payable hereunder by the City with respect to said Notes, the pledge herein created with respect to said Notes shall thereupon cease, terminate and become discharged and said Notes shall no longer be deemed outstanding for purposes of this Ordinance and all the provisions of this Ordinance relating to the Notes, including all covenants, agreements, liens and pledges made herein for the benefit thereof, shall be deemed duly discharged, satisfied and released.

SECTION 7.7 LIMITATION OF BENEFITS WITH RESPECT TO THE ORDINANCE. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Ordinance or the Notes is intended or should be construed to confer upon or give to any person other than the City, the Board, Bond Counsel, the Holders of the Notes, the Issuing and Paying Agent/Registrar and the parties to the Dealer Agreement and the Revolving Credit Agreement, any legal or equitable right, remedy or claim under or by reason of or in respect to this Ordinance or any covenant, condition, stipulation, promise, agreement or provision herein contained. This Ordinance and all of the covenants, conditions, stipulations, promises, agreements and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the City, the Board, Bond Counsel, the Holders of the Notes, the Issuing and Paying Agent/Registrar and the parties to the Dealer Agreement and the Revolving Credit Agreement as herein and therein provided.

SECTION 7.8 USE OF OFFERING MEMORANDUM. The use by the Dealer of the Offering Memorandum, substantially in the form attached hereto as Exhibit D, prepared by the City in connection with the sale of Commercial Paper Notes, and the distribution of the Offering Memorandum by the Dealer, is hereby approved and authorized.

SECTION 7.9 APPROVAL OF ATTORNEY GENERAL. No Notes herein authorized to be issued shall be sold or delivered by an Authorized Representative until the Attorney General of the State of Texas shall have approved this Ordinance, the Revolving Credit Agreement and other agreements and proceedings as may be required in connection therewith, all as required by the Act.

SECTION 7.10 THE DEPOSITORY TRUST COMPANY.

(a) The City has determined to issue the Notes initially in book-entry form and has determined to appoint The Depository Trust Company, New York, New York (“DTC”) to serve as the initial securities depository for the Notes and to maintain a book-entry only system of recording the ownership and transfer of ownership of beneficial interests in the Notes in accordance with this Section 7.10.

(b) Notwithstanding any provision of this Ordinance to the contrary, unless the City shall otherwise direct, one or more Master Notes (evidencing all of the City’s obligations under the Notes) shall be issued in lieu of individual Notes, which Master Notes shall be registered in the name of Cede & Co., as nominee of DTC, as the Registered Owner of the Master Notes, and held in the custody of the Issuing and Paying Agent. Beneficial owners of Notes will not receive physical delivery of Notes except as provided hereinafter as long as DTC shall continue to serve as securities depository for the Notes as provided herein, all transfers and beneficial ownership interests in the Notes will be made by book-entry only, and no investor or other party purchasing, selling, or otherwise transferring beneficial ownership interests in the Notes is to receive, hold, or deliver any Notes; provided, that, if DTC fails or refuses to act as securities depository for the Notes, the City shall take the actions necessary to provide for the issuance of certificates to the Registered Owners of such Notes.

With respect to Master Notes registered in the name of Cede & Co., as nominee of DTC, the City and the Issuing and Paying Agent shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom a DTC Participant holds an interest in the Notes. Without limiting the immediately preceding sentence, the City and the Issuing and Paying Agent 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 Notes, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown in the Registration Books, of any notice with respect to the Notes, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Registered Owner, as shown in the Registration Books, of any amount with respect to the principal of, premium, if any, or interest on the Notes.

(c) In the event that (i) DTC determines not to continue to act as securities depository for the Notes (which determination shall become effective not less than ninety (90) days after written notice to such effect is given to the City and the Issuing and Paying Agent); (ii) the City or the Issuing and Paying Agent determines (which determination is conclusive as to DTC, any DTC Participant and the beneficial owners of the Notes) that DTC is incapable of discharging its responsibilities described herein and in the DTC Letter of Representations; or (iii) the City or the Issuing and Paying Agent determines (which determination is conclusive as to DTC, any DTC Participant and the beneficial owners of the Notes) that it is in the best interests of the beneficial owners of the Notes not to continue DTC’s book-entry only system of transfer for the Notes, then the City shall use its best efforts to appoint a successor securities depository, qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended. In the event of such an appointment, the City shall notify (a) DTC of the appointment of such successor securities depository and transfer one or more separate Notes to such successor securities depository or (b) DTC Participants of the availability through DTC of Notes and transfer one or

more separate Notes to DTC Participants having Notes credited to their DTC accounts. In such event, the Master Notes and Notes shall no longer be restricted to being registered in the Registration Books 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 Registered Owners transferring or exchanging Notes shall designate, in accordance with the provisions of this Ordinance.

In the event that the City fails to appoint a successor securities depository for the Notes, the City shall execute and cause to be authenticated and delivered replacement Notes, in certificated form, to the beneficial owners of the Notes.

(d) Notwithstanding any other provision of this Ordinance to the contrary, as long as any Master Notes or the Notes are registered in the name of Cede & Co., as nominee of DTC, (i) all payments with respect to the principal of and interest on the Notes and all notices with respect to such Notes shall be made and given, respectively, in the manner provided in the DTC Letter of Representations (Exhibit E); (ii) the requirements of this Ordinance of holding, delivering, or transferring Notes shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC, and (iii) delivery of the Master Notes and the Notes will be in accordance with arrangements among the City, the Issuing and Paying Agent, and DTC.

(e) If at any time DTC ceases to hold the Master Notes or the Notes in book-entry only form, all references herein to DTC shall be of no further force or effect.

(f) The DTC Letter of Representations and the Master Notes shall be substantially in the form attached hereto as Exhibits E and F, respectively, the terms and provisions of which are hereby approved and the Mayor and City Clerk are hereby authorized to execute and deliver such DTC Letter of Representations and Master Notes on behalf of the City.

SECTION 7.11 PREAMBLE. The preamble to this Ordinance shall be considered an integral part of this Ordinance, and is herein incorporated as part of the body of this Ordinance for all purposes.

SECTION 7.12 REPEAL OF ORDINANCE. The Ordinance adopted on June 29, 2001 authorizing the Existing Commercial Paper Program is hereby repealed and shall have no further force or effect as of December 22, 2005.


SECTION 7.13 FURTHER PROCEDURES. The officers and employees of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the initial sale and delivery of the Notes, the Issuing and Paying Agency Agreement and an amendment thereto, the Dealer Agreements and amendments thereto, the Revolving Credit Agreement and an amendment thereto, and the Offering Memorandum. In addition, prior to the initial delivery of the Notes, the Mayor, the City Manager or Assistant City Manager, the City Attorney and Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by

this Ordinance necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance and as described in the Offering Memorandum, (ii) obtain a rating from any of the national bond rating agencies, or (iii) obtain the approval of the Notes by the Texas Attorney General's office. In case any officer of the City whose signature shall appear on any certificate shall cease to be such officer before the delivery of such certificate, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 7.14 EFFECTIVE DATE. The effective date of this Ordinance shall be governed by the provisions of Section 1-15 of the City Code of San Antonio, Texas. This Ordinance shall take effect immediately if passed by the affirmative vote of at least eight members of the City Council, otherwise the same shall take effect on the tenth day after the date of its passage by the City Council.

[The remainder of this page intentionally left blank]


PASSED AND ADOPTED by an affirmative vote of 10 members of the City Council of the City of San Antonio, Texas, on the 17th day of November, 2005.


Mayor, City of San Antonio, Texas

ATTEST:


City Clerk, City of San Antonio, Texas

I, the undersigned, City Attorney of the City of San Antonio, Texas, hereby certify that I read, passed upon and approved as to form the foregoing Ordinance prior to its adoption and passage as aforesaid.


Michael D. Bernard, City Attorney, City of San Antonio, Texas

- Exhibit A - Form of Revolving Credit Agreement and First Amendment
- Exhibit B - Form of Issuing and Paying Agency Agreement and First Amendment
- Exhibit C - Form of Dealer Agreements and First Amendments
- Exhibit D - Form of Offering Memorandum
- Exhibit E - Form of DTC Letter of Representations
- Exhibit F - Form of Master Note

EXHIBIT A

Revolving Credit Agreement and First Amendment

See Tab No. 3

EXHIBIT B

Issuing and Paying Agency Agreement and First Amendment

See Tab No. 2

EXHIBIT C

Dealer Agreements and First Amendments

See Tab Nos. 5, 6, and 7

- C-1 Goldman, Sachs & Co.
- C-2 J.P. Morgan Securities Inc.
- C-3 Ramirez & Co., Inc.

EXHIBIT D

Offering Memorandum

See Tab No. 10

EXHIBIT E

DTC Letters of Representations

See Tab No. 9

E-1 Tax-Exempt
E-2 Taxable

EXHIBIT F

Master Notes

See Tab No. 8

F-1 Tax-Exempt
F-2 Taxable