



OFFICIAL STATEMENT

Dated January 25, 2010

Ratings:
Moody's: "Aa2"
S&P: "AAA"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "Tax Matters" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$6,790,000
CITY OF PLANO, TEXAS
(Collin and Denton Counties)
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE
REFUNDING AND IMPROVEMENT BONDS, SERIES 2010

Dated Date: January 15, 2010

Due: May 15, as shown below

PAYMENT TERMS . . . Interest on the \$6,790,000 City of Plano, Texas Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2010 (the "Bonds") will accrue from January 15, 2010 (the "Dated Date") and will be payable May 15 and November 15 of each year commencing November 15, 2010, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued as special obligations of the City, issued on a parity with the currently outstanding Previously Issued Bonds (as hereinafter defined). The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 552 of the Texas Local Government Code, as amended, Chapter 1207, Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and an ordinance (the "Ordinance") passed by the City Council, and are special obligations of the City of Plano, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a first lien on and pledge of all income of the City's Municipal Drainage Utility System (the "System") and amounts held in each account established for the benefit of Parity Obligations (as hereinafter defined), including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future system projects (collectively, the "Revenues"). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "The Bonds - Authority for Issuance" and "The Bonds - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds"), (ii) to fund a debt service reserve fund, (iii) for various drainage and erosion projects throughout the City, and (iv) to pay costs of issuance associated with the sale of the Bonds.

MATURITY SCHEDULE

CUSIP Prefix (1): 727219

Table with 10 columns: Principal Amount, Maturity (5/15), Interest Rate, Initial Yield, CUSIP Suffix (1), Principal Amount, Maturity (5/15), Interest Rate, Initial Yield, CUSIP Suffix (1). Rows show principal amounts from \$465,000 to \$425,000 with corresponding maturity dates and yields.

(Accrued Interest from January 15, 2010 to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Priced at the stated yield to the March 1, 2020 optional redemption date at a redemption price of par.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

LEGALITY. . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Vinson & Elkins L.L.P., Dallas, Texas (see Appendix B, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas Counsel for the Underwriters.

DELIVERY. . . It is expected that the Bonds will be available for delivery through DTC on March 2, 2010.

ROBERT W. BAIRD & Co.

RBC CAPITAL MARKETS

STEPHENS INC.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY** The City of Plano is a political subdivision and home-rule municipal corporation of the State of Texas (the "State"), located in Collin and Denton Counties, Texas. The City covers approximately 72 square miles (see "Introduction - Description of the City").
- THE BONDS** The \$6,790,000 Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2010 will mature serially on May 15 of each year in the years 2011 through 2030 (see "The Bonds - Description of the Bonds").
- PAYMENT OF INTEREST** Interest on the Bonds accrues from January 15, 2010, and is payable November 15, 2010, and each May 15 and November 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, particularly, Chapter 552 of the Texas Local Government Code, as amended, Chapter 1207, Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and an Ordinance passed by the City Council of the City (see "The Bonds - Authority for Issuance").
- SECURITY FOR THE BONDS** The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and, together with the outstanding Parity Obligations (defined herein), secured by a first lien on and pledge of the Revenues of the City's Municipal Drainage Utility System (the "System"). The Revenues pledged to secure the Bonds and other Parity Obligations include all income of the System and amounts held in each account established for the benefit of the Parity Obligations, including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future System projects. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Security and Source of Payment").
- REDEMPTION** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and the Bonds are not private activity bonds. See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used (i) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds"), (ii) to fund a debt service reserve fund, (iii) for various drainage and erosion projects throughout the City, and (iv) to pay costs of issuance associated with the sale of the Bonds.
- RATINGS** The Bonds and the presently outstanding municipal drainage utility system revenue debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"), and "AAA" by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P") (see "Other Information - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the Beneficial Owners ("Beneficial Owner") thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "The Bonds - Book-Entry-Only System").
- PAYMENT RECORD**..... The City has never defaulted on payment of its bonded indebtedness.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Term Expires</u>
Phil Dyer Mayor, Place 6	May, 2012
Harry LaRosiliere Mayor Pro Tem, Place 5	May, 2011
Lee Dunlap Deputy Mayor Pro Tem, Place 8	May, 2012
Pat Miner Councilmember, Place 1	May, 2011
Ben Harris Councilmember, Place 2	May, 2012
VACANT ⁽¹⁾ Councilmember, Place 3	May, 2011
Lissa Smith Councilmember, Place 4	May, 2012
Jean Callison Councilmember, Place 7	May, 2011

(1) Vacancy to be filled at a special election being held on January 30, 2010.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Total Governmental Service</u>
Thomas H. Muehlenbeck	City Manager	22 Years	40 Years
Diane Zucco	City Secretary	3 Years	16 Years
Denise Tacke	Director of Finance	1 1/2 Years	10 Years
Diane C. Wetherbee	City Attorney	16 Years	25 Years

CONSULTANTS AND ADVISORS

Auditors Grant Thornton LLP
Dallas, Texas

Bond Counsel Vinson & Elkins L.L.P.
Dallas, Texas

Financial Advisor First Southwest Company
Fort Worth, Texas

For additional information regarding the City, please contact:

Denise Tacke Director of Finance City of Plano P.O. Box 860358 Plano, TX 75086 (972) 941-5233	or	David K. Medanich Laura Alexander First Southwest Company 777 Main Street, Suite 1200 Fort Worth, TX 76102 (817) 332-9710
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OFFICIAL STATEMENT

RELATING TO

\$6,790,000

CITY OF PLANO, TEXAS

MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2010

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$6,790,000 City of Plano, Texas Municipal Drainage Utility System Revenue Bonds, Series 2010 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Bonds (the "Ordinance") which will authorize the issuance of the Bonds, except as otherwise indicated herein. Reference is made to "Selected Provisions of the Ordinance" which contains defined terms and selected provisions of the Ordinance that are summarized under "The Bonds."

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Fort Worth, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and home rule municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Charter on June 10, 1961, and operates under the Council/Manager form of government with a City Council comprised of the Mayor and seven Councilmembers. The term of office is three years with the terms of the Mayor and three of the Councilmembers expiring in odd-numbered years and the terms of the other four Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 222,030 while the estimated 2010 population is 264,600. The City covers approximately 72 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds"), (ii) to fund a debt service reserve fund, (iii) for various drainage and erosion projects throughout the City, and (iv) to pay costs of issuance associated with the sale of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to an escrow agreement with respect to the Bonds (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Ordinance provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriters, together with other funds of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, certified public accountants, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Funds, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "Other Information – Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, certified public accountants, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balance on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds, together with available System funds, will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ 6,790,000.00
Original Issue Premium	117,906.95
City Contribution to Refunding	426,585.97
Accrued Interest	30,092.24
Total Sources of Funds	<u>\$ 7,364,585.16</u>
<u>Uses of Funds</u>	
Original Issue Discount	\$ 18,615.60
Deposit to Escrow Fund	3,590,588.54
Deposit to Construction Fund	3,365,000.00
Deposit to Debt Service Reserve Fund	235,372.97
Deposit to Interest and Sinking Fund	30,092.24
Costs of Issuance ⁽¹⁾	124,915.81
Total Uses of Funds	<u>\$ 7,364,585.16</u>

(1) Including Underwriters' Discount.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated January 15, 2010 (the "Dated Date") and mature on May 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the Dated Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 15 and November 15, commencing November 15, 2010, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly, Chapter 552 of the Texas Local Government Code, as amended, Chapter 1207, Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and an Ordinance passed by the City Council of the City.

SECURITY AND SOURCE OF PAYMENT . . . In the Ordinance, the City has irrevocably pledged to the payment of the Bonds, all income of the City's Municipal Drainage Utility System (the "System") and amounts held in each account established for the benefit of Parity Obligations (as hereinafter defined), including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future system projects (collectively, the "Revenues"). The Bonds are secured on a parity with the currently outstanding bonded indebtedness of the System (the "Previously Issued Bonds") and any additional parity obligations issued or incurred by the System in the future (the "Additional Bonds", and, collectively with the Bonds and the Previously Issued Bonds, the "Parity Obligations"). The lien created on the Revenues shall be prior in right and claim as to any other indebtedness, liability or obligation of the System. The City has outstanding Previously Issued Bonds secured by and payable from Revenues on a parity with the Bonds as follows:

<u>Dated Date</u>	<u>Outstanding Debt ⁽¹⁾</u>	<u>Issue Description</u>
5/15/2005	\$ 10,160,000	Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2005
2/1/2006	1,330,000	Municipal Drainage Utility System Revenue Bonds, Series 2006
5/1/2007	1,875,000	Municipal Drainage Utility System Revenue Bonds, Series 2007
1/15/2008	2,045,000	Municipal Drainage Utility System Revenue Bonds, Series 2008
1/15/2009	4,765,000	Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2009
Total	<u>\$ 20,175,000</u>	

(1) As of January 1, 2010. Excludes the Refunded Bonds.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City**. The Ordinance does not create a lien or mortgage on the System, except with respect to the Revenues, and any judgment against the System may not be enforced by levy and execution against any property owned by the City.

THE PARITY OBLIGATION RESERVE FUND . . . As additional security for the Parity Obligations, a debt service reserve fund (the "Reserve Fund") has been established by the City, and the City has covenanted to maintain the Reserve Fund in an amount at least equal to the average annual debt service requirements of the outstanding Parity Obligations (the "Required Reserve"). The amounts on deposit in the Reserve Fund shall be used to pay principal of and interest on the Bonds and the Previously Issued Bonds when due to the extent that other funds available for such purposes are insufficient and, in addition, may be used to the extent not required to maintain the Required Reserve to pay, or provide for the payment of, the final principal amount of a series of Additional Bonds, if issued, that is no longer deemed to be Outstanding. No payment will be required to be made into the Reserve Fund while there is on deposit therein a sum equal to the Required Reserve; except that whenever the Reserve Fund is reduced below the Required Reserve, payments into the Reserve Fund shall be made on or before the 10th day of each month from the Revenues in amounts sufficient to restore to the Required Reserve within 60 months. Upon the issuance of the Bonds, the City will make a deposit to the Reserve Fund in an amount sufficient to fully fund the Required Reserve (see "Selected Provisions of the Bond Ordinance").

ISSUANCE OF ADDITIONAL PARITY INDEBTEDNESS . . . The Ordinance provides that the City may issue Additional Bonds if it meets certain conditions specified in the Ordinance, including the following: (i) the officer of the City then having primary responsibility for the financial affairs of the City must execute a certificate stating (a) that, to the best of such officer's knowledge and belief, the City is not in material default with respect to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues and (b) either (i) payments into all special funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency; (ii) the Additional Bonds shall be scheduled to mature or be payable as to principal on May 15 or November 15 (or both) in each year; (iii) the City shall provide a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the last 18 months immediately preceding the month in which the ordinance authorizing the issuance of the then proposed Additional Bonds is passed, are at least equal to 1.25 times the Average Annual Debt Service for all Outstanding Parity Obligations; and (iv) the Reserve Fund will contain the Required Reserve amount on the date of issuance of the proposed Additional Bonds. See "Selected Provisions of Bond Ordinance" for complete terms and conditions to be satisfied for the issuance of Additional Bonds.

ISSUANCE OF OBLIGATIONS OF INFERIOR LIEN AND PLEDGE . . . The City has the right to issue obligations payable from and secured by a lien on and pledge of the Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds and the Previously Issued Bonds, as may be authorized by the laws of the State.

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all Operating and Maintenance Expenses of the System, to pay interest on and the principal of the Parity Obligations, and to establish and maintain the special funds provided for the benefit of the Parity Obligations in the Ordinance and in the ordinances authorizing the issuance of the Parity Obligations. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent to the registered owners of the Bonds to be redeemed, in whole or in part, by United States mail, first-class, postage prepaid, at the physical address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. In the Bond Ordinance, the City reserves the right in the case of an optional redemption to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the

Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default. NOTICE SENT AS DESCRIBED HEREIN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE.

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds, as applicable, to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on such Bonds to maturity or redemption or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, as applicable, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds, as the case may be. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance, as applicable. See "Selected Provisions of the Ordinance - Discharge of Bonds."

Under current State law, after such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. **The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement.** The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of

DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such

payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Underwriters.

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the City, printed certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance, summarized under "The Bonds - Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Bonds shall be paid to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below), and such interest shall be paid either (i) by check sent United States mail, first-class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner on their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not a non-banking day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the Beneficial Owners of the Bonds, and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon their presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first-class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the Beneficial Owners or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "The Bonds - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the Beneficial Owners of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the month preceding such interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Ordinance establishes as "events of default" (i) the failure to make payments, and defaults in payments to be made to the Bond Fund or the Reserve Fund as required by the Ordinance; or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance. The Ordinance provides that the bondholders are entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal or of interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is to seek to enforce the covenants of the City through an action for specific performance or mandamus. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("*Tooke*") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, any Bondholder may not be able to bring such a suit against the City for breach of the Bond or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinance provide that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as pledged revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS OF THE ORDINANCE . . . The Ordinance provides that under certain conditions the City may amend the Ordinance, in some cases with the consent of the Bondholders and in other cases without Bondholder consent. See "Selected Provisions of the Ordinance" for complete terms and conditions to be satisfied for the amendment of the Ordinance.

THE SYSTEM

MUNICIPAL DRAINAGE UTILITY SYSTEM . . . Chapter 552 of the Texas Local Government Code (formerly codified as Chapter 402 of the Texas Local Government Code) provides the authority for municipalities to establish a drainage utility system and to develop a schedule of charges within the City. This enabling legislation was created in order to provide municipalities a funding source to address Environmental Protection Agency ("EPA") mandated stormwater quality requirements, as well as local drainage system operating and maintenance costs. Additionally, the revenue from drainage fees can also be pledged against the issuance of bonds for drainage improvement purposes.

The City established a Municipal Drainage Utility Fund in August 1992, to capture revenues and expenditures for services related to management of the municipal drainage activity, in response to EPA-mandated stormwater runoff and treatment requirements. A rate structure was designed to fund on-going maintenance of stream channels and drainageways and a comprehensive stormwater management study. Drainage fee revenues for fiscal year ended September 30, 2009 amounted to \$5,050,406. The adopted budget of the City for fiscal year 2010 projects System revenues of approximately \$5.1 million and total operating expenditures (excluding payment of debt service) of approximately \$3.0 million.

BILLING . . . Residential and commercial customers are billed monthly through the City’s utility billing system. There is a three-tiered rate for residential properties, with the fee for non-residential properties based on square feet of impervious area.

The amount billed, computed per the rate schedule below, is included on the customer’s monthly utility billing statement and customers must pay for all utility services tendered and billed. Nonpayment or partial payment of the customer’s utility billing may result in the same penalties and collection procedures undertaken for any utility billing, including assessment of a 10% penalty against any unpaid balance after the due date. After two months of nonpayment of the utility bill, a customer is subject to disconnection of service.

TABLE 1 – DRAINAGE UTILITY RATES (EFFECTIVE NOVEMBER 1, 2002) ⁽¹⁾

Residential	Size of Impervious Areas	Monthly Fee
R-1	Less than 4,750 Square Feet	\$2.25
R-2	4,750 Square Feet to 6,450 Square Feet	\$3.30
R-3	Greater than 6,450 Square Feet	\$4.25
All Non-residential		\$0.056 per 100 Square Feet of Impervious Area

(1) Source: City staff.

In setting the rates for drainage services, the City has based its calculations on an inventory of impervious areas of all improved properties within the service area. The inventory is stored in the City’s Property Management System which is maintained in the office of the City Engineer.

DEBT INFORMATION

TABLE 2 - MUNICIPAL DRAINAGE SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total	% of
	Principal	Interest	Total	Principal	Interest	Total	Outstanding Debt	Principal Retired
	2010	\$ 1,315,000	\$ 884,675	\$ 2,199,675	\$ -	\$ -	\$ -	\$ 2,199,675
2011	1,370,000	769,908	2,139,908	465,000	307,325	772,325	2,912,233	
2012	1,635,000	723,420	2,358,420	330,000	221,194	551,194	2,909,614	
2013	1,700,000	663,758	2,363,758	335,000	214,594	549,594	2,913,351	
2014	1,765,000	601,708	2,366,708	345,000	206,219	551,219	2,917,926	34.34%
2015	1,515,000	525,089	2,040,089	360,000	197,594	557,594	2,597,683	
2016	1,590,000	456,314	2,046,314	365,000	188,594	553,594	2,599,908	
2017	1,350,000	384,314	1,734,314	380,000	177,644	557,644	2,291,958	
2018	1,175,000	335,014	1,510,014	395,000	166,244	561,244	2,071,258	
2019	1,020,000	290,039	1,310,039	405,000	152,419	557,419	1,867,458	66.07%
2020	860,000	249,434	1,109,434	425,000	138,244	563,244	1,672,678	
2021	900,000	213,801	1,113,801	440,000	121,244	561,244	1,675,045	
2022	620,000	176,406	796,406	460,000	103,644	563,644	1,360,050	
2023	650,000	150,266	800,266	480,000	85,244	565,244	1,365,510	
2024	680,000	122,118	802,118	205,000	66,044	271,044	1,073,161	87.28%
2025	710,000	92,403	802,403	210,000	57,844	267,844	1,070,246	
2026	500,000	61,305	561,305	220,000	49,444	269,444	830,749	
2027	410,000	38,605	448,605	230,000	40,644	270,644	719,249	
2028	280,000	19,725	299,725	235,000	31,156	266,156	565,881	
2029	130,000	6,500	136,500	245,000	21,463	266,463	402,963	99.04%
2030	-	-	-	260,000	11,050	271,050	271,050	100.00%
	<u>\$ 20,175,000</u>	<u>\$ 6,764,799</u>	<u>\$ 26,939,799</u>	<u>\$ 6,790,000</u>	<u>\$ 2,557,844</u>	<u>\$ 9,347,844</u>	<u>\$ 36,287,643</u>	

(1) Excludes the Refunded Bonds.

(2) Average life of the issue – 9.958 years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.

ANTICIPATED ISSUANCE OF ADDITIONAL MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS . . . The City does not anticipate the issuance of additional municipal drainage utility system revenue bonds within the next twelve months.

PENSION PLAN . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the State-wide Texas Municipal Retirement System (the "TMRS"), one of over 833 currently administered by TMRS, an agent multiple-employer public employee retirement system. Benefits from the TMRS administered plan depend upon the sum of the employees' contributions to the plan, with interest, and the City-financed monetary credits, with interest. Members can retire at ages 60 and above with 5 or more years of service or with 20 or more years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (the "TMRS CAFR"), which can be obtained from the TMRS website at www.tmr.org. As a result of such change in actuarial assumptions, the City's actuarial accrued liability has increased from \$369,388,605 as of December 31, 2006 to \$478,126,778 as of December 31, 2008. As of September 30, 2009, the City had actuarial value of assets of \$330,874,531, giving the City a "funded ratio" of 69.2%. The City has elected to fund its liability over an eight year phase-in period and expects to fully fund its actuarial accrued liability over the next 29 years. The City's employee contribution rate is currently 7% of gross earnings and the City provided a monthly contribution of 14.9% of covered payroll, with contributions of \$18,687,379 for fiscal year ending September 30, 2009. Beginning on January 1, 2010, the City's monthly contribution rate increased to 15.72% of covered payroll, and the City estimates that its total contribution for calendar year 2010 will be approximately \$20,261,725. Calendar

year 2010 will be the second year of the eight year phase-in period. The City expects that its contribution rate at the end of phase-in period will be approximately 20% of covered payroll.

For more detailed information concerning the City's pension plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note IV.5., page 51.

RETIREMENT SECURITY PLAN . . . On January 1, 1983, the City withdrew from the Federal Social Security system and created the Retirement Security Plan (the "RSP"), a single-employer, defined benefit pension trust fund, to provide retirement benefits for all full-time employees of the City. The plan is created by City ordinance and administered by a committee of five, which meets four times a year. Professional investment management is used and a custodial bank retains the assets and provides for administration of benefit payments. Members are eligible to receive full retirement benefits under the RSP upon attaining age 65 with 5 years of service. Early retirement benefits are paid upon completion of 20 years of vesting service (TMRS credited service) or upon attaining age 60 with 5 years of vesting service. At least 5 years of vesting service must be with the City. The plan issues a separate publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by request to the City's Human Resources Department, 1520 Avenue K, Suite 130, Plano, Texas 75074.

As of the December 31, 2007 biennial actuarial valuation, the most recent actuarial valuation date, the City's actuarial accrued liability with respect to RSP was \$68,647,366, and the City's actuarial value of assets as of such date was \$69,211,789, giving the City a "funded ratio" of 100.82%. The City has engaged an actuarial firm to prepare a new actuarial study and such study is expected to be completed in early 2010.

As of December 31, 2008, there were 2,163 active members of whom 1,394 were vested and 769 were non-vested., and there were 362 terminated participants receiving benefits. In addition, there were 20 terminated employees entitled to benefits but were not yet receiving them. Contributions by the City are established as part of the City budget process. No employee contributions are required by the plan. The City contributed \$3,479,512 or 3.13% of the covered payroll for the year ended September 30, 2009, as compared to the December 31, 2007 biennial actuarial requirement of 3.12%.

For more detailed information concerning the RSP, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note IV.5., page 53.

OTHER POST-EMPLOYMENT BENEFITS . . . The City offers its retired employees under age 65 health insurance coverage under the same plan as the active employees and Medicare supplementary insurance for retirees 65 and older. The number of retired participants receiving health insurance coverage for 2009 was 325, of which 217 were on the same plan as the active employees and 108 were on Medicare supplementary insurance. Premiums are paid by the retired employees and claims are processed by the City's agent and paid through the Health Claims Fund. Expenditures for postretirement health care benefits are recognized as retirees report claims. Claims paid for retired employees for 2009 were \$2,074,211.

On March 1, 2008, the City established a Section 115 Trust (the "Trust") to comply with the requirements of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions ("OPEB"), for the purpose of funding and providing certain benefits to its eligible retirees. The plan was created by City ordinance and is administered by the Risk Pool Trustees, consisting of five City employees appointed by the City, who meet four times a year. The Trust issues a separate publicly available financial report that includes financial statements and required supplementary information at the Trust's fiscal year end which is December 31. Those financial reports may be obtained by request to the City's Human Resources Department, 1520 Avenue K, Suite 130, Plano, Texas 75074.

The City delivers to the Section 115 Trustee the amounts of money that are contributed to the Trust Fund by the City and, if applicable, by participants. Contributions by the City are established as part of the City budget process and are based on amounts determined in the actuarial study prepared biennially. For fiscal year ending September 30, 2009 the City contributed approximately \$5.9 million to the Trust which represents approximately 101% of the annual required contribution of the employer. In addition, retirees contributed approximately \$0.6 million to the Trust.

As of the October 1, 2007 biennial actuarial valuation, the most recent actuarial valuation date, the Trust was not funded. The actuarial accrued liability for benefits was \$55,831,704, and there was not an actuarial value of net assets. Notwithstanding the foregoing, as of September 30, 2009 the City had a net OPEB asset in the amount of \$18,671,829 in the Trust. The City has engaged an actuarial firm to prepare a new actuarial study and such study is expected to be completed in early 2010.

For more detailed information concerning the City's OPEBs and the Trust, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note IV.5., page 56.

FINANCIAL INFORMATION

TABLE 3 - CONDENSED SCHEDULE OF OPERATIONS ⁽¹⁾

	Fiscal Year Ended September 30,				
	2009	2008	2007	2006	2005
Revenues					
Drainage Fee Revenues	\$ 5,049,706	\$ 4,976,319	\$ 4,908,476	\$ 4,895,101	\$ 4,653,546
Investment Income and Other	200,402	513,753	681,563	725,097	133,769
Gross Revenues	\$ 5,250,108	\$ 5,490,072	\$ 5,590,039	\$ 5,620,198	\$ 4,787,315
Expenses					
Personnel Services	\$ 1,485,305	\$ 1,409,948	\$ 1,187,716	\$ 1,226,017	\$ 1,207,039
Contractual Services	705,100	684,861	756,128	662,558	586,167
Supplies	243,892	144,993	154,249	121,970	133,561
Miscellaneous	9,804	9,146	1,334	51,957	1,787
Total Expenses	\$ 2,444,101	\$ 2,248,948	\$ 2,099,427	\$ 2,062,502	\$ 1,928,554
Net Income	\$ 2,806,007	\$ 3,241,124	\$ 3,490,612	\$ 3,557,696	\$ 2,858,761

(1) Information derived from City records. Table 3 is intended to show System operating results each year. Expenses exclude debt service payments and depreciation (a non-cash expense).

TABLE 4 - COVERAGE AND FUND BALANCES ⁽¹⁾

Average Annual Principal and Interest Requirements, 2010 - 2030	\$ 1,727,983
Coverage of Average Annual Requirements by Net Income Fiscal Year Ending September 30, 2009	1.62 Times
Coverage of Average Annual Requirements by Gross Revenues Fiscal Year Ending September 30, 2009	3.04 Times
Interest and Sinking Fund, 12-1-09	\$ 938,890
Reserve Fund, 12-1-09	\$ 1,560,798

(1) Projected, includes the Bonds being offered herein and excludes the Refunded Bonds.

TABLE 5 - VALUE OF THE SYSTEM ⁽¹⁾

	Fiscal Year Ended September 30,				
	2009	2008	2007	2006	2005
Land	\$ 53,572	\$ 50,700	\$ 48,286	\$ 47,534	\$ 40,138
Buildings	52,921	52,921	52,921	52,921	-
Drainage Improvements	21,901,497	19,232,552	19,088,206	18,788,852	16,186,468
Equipment	257,707	257,707	257,707	257,707	257,707
Furniture and Fixtures	8,124	8,124	8,124	8,124	8,124
Construction in Progress	10,549,646	12,572,371	10,446,018	9,968,776	11,346,010
Value of Plant	\$ 32,823,467	\$ 32,174,375	\$ 29,901,262	\$ 29,123,914	\$ 27,838,447
Less Accumulated Depreciation	3,682,371	3,268,920	2,882,645	2,500,595	2,147,961
Net Total Value	\$ 29,141,096	\$ 28,905,455	\$ 27,018,617	\$ 26,623,319	\$ 25,690,486

(1) Information derived from City records.

TABLE 6 - CITY'S EQUITY IN SYSTEM ⁽¹⁾

Resources	Fiscal Year Ended September 30,				
	2009	2008	2007	2006	2005
Net System Value	\$ 29,141,096	\$ 28,905,455	\$ 27,018,617	\$ 26,623,319	\$ 25,690,486
Construction Fund	5,573,566	5,379,515	5,098,963	3,741,794	3,218,552
Debt Service and Reserve Fund	3,582,946	3,380,696	3,103,129	2,822,198	2,636,392
Cash Investments and Receivables	4,803,458	4,951,713	4,817,461	4,316,844	3,849,708
Total Resources	\$ 43,101,066	\$ 42,617,379	\$ 40,038,170	\$ 37,504,155	\$ 35,395,138
Obligations					
Revenue Bonds Payable	\$ 21,607,003	\$ 21,434,322	\$ 20,812,221	\$ 20,174,157	\$ 19,945,172
Current Liabilities	126,529	483,168	351,466	374,969	200,054
Restricted Liabilities	2,043,876	2,000,812	1,815,846	1,692,882	1,989,725
Liability - Compensated Absences	176,626	86,173	41,526	46,967	56,618
Total Obligations	\$ 23,954,034	\$ 24,004,475	\$ 23,021,059	\$ 22,288,975	\$ 22,191,569
City's Equity in System	\$ 19,147,032	\$ 18,612,904	\$ 17,017,111	\$ 15,215,180	\$ 13,203,569
Percentage City's Equity in System	44.42%	43.67%	42.50%	40.57%	37.30%

(1) Information derived from City records.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles for governmental entities as promulgated by the Governmental Accounting Standards Board. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and pension trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the combined balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary and trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined statement of net assets. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in total net assets.

The modified accrual basis of accounting is used by all governmental funds types, pension trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recorded when the related fund liability is incurred. However, principal of and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Major revenue sources which have been treated as susceptible to accrual under the modified accrual basis of accounting include property taxes, charges for services, intergovernmental revenues, and investment of available funds.

The accrual basis of accounting is utilized by proprietary and trust funds. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualified expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Fund Balances . . . It is the City's practice regarding the General Fund and Enterprise Funds that working capital resources should be maintained at 12-15% of the Funds' operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of applicable bond ordinances.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year by the middle of June, the City Manager, after review, submits a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state and local statutes. The City Council will adopt a budget prior to October 1 through passage of an ordinance. If the Council fails to adopt a budget then the prior year budget remains in effect.

During the fiscal year, budgetary control is maintained by the monthly review by department heads of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

The City invests its investable funds in investments authorized by State law in accordance with investment policies approved by the City Council. State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or are secured by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where: (a) the funds are invested by the City through a depository institution that has its main office or branch office in the State of Texas and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as fiduciary of its assets.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, (6) yield and (7) legality.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the make-up of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 7 - CURRENT INVESTMENTS ⁽¹⁾

As of December 1, 2009, the City's investable funds were invested in the following categories:

Description	Percent	Book Value	Market Value
Agency Debt	65.58%	\$ 195,033,684	\$ 195,559,795
Local Government Investment Pools	3.19%	9,480,404	9,480,404
Certificates of Deposit	23.94%	71,199,000	71,199,000
NOW Account	7.29%	21,665,969	21,665,969
	<u>100.00%</u>	<u>\$ 297,379,057</u>	<u>\$ 297,905,168</u>

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

(1) Source: City Officials.

SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance authorizing the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and precise wording thereof.

DEFINITIONS

"Act" means Subchapter C of Chapter 552 of the Texas Local Government Code (renumbered, formerly Subchapter C of Chapter 402 of the Texas Local Government Code), as amended.

"Additional Bonds" means revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in the Ordinance and, by their terms, are equally and ratably secured by a parity lien on and pledge of the Revenues of the System.

"Average Annual Debt Service" means an amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

"Bonds" means the City of Plano, Texas, Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2010; dated January 15, 2010.

"Code" means the Internal Revenue Code of 1986, as amended, including applicable regulations, published rulings and court decisions.

"Credit Facility" means (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 such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Bonds would rate the Bonds in 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 the Bonds and the interest thereon.

"Debt Service" means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with such applicable mandatory redemption.

"Fiscal Year" means the twelve-month financial accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

"Maturity Date" means the date on which the principal of the Bonds is due and payable.

"Net Revenues" means, with respect to any period, Revenues of the System remaining after deducting the System's Operating and Maintenance Expenses for such period.

"Operating and Maintenance Expenses" means all current expenses of operating and maintaining the System, including all salaries, labor, materials, and administrative costs, allocable under generally accepted accounting principles, to the System. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

"Outstanding" means when used with respect to Bonds, Previously Issued Bonds or any Additional Bonds, as the case may be, as of the date of determination, all Bonds, Previously Issued Bonds, and any Additional Bonds theretofore sold, issued and delivered by the City, except:

- (1) Bonds, Previously Issued Bonds or any Additional Bonds cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;
- (2) Bonds, Previously Issued Bonds or any Additional Bonds paid or deemed to be paid in accordance with the Ordinance; and

- (3) Bonds, Previously Issued Bonds or any Additional Bonds that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

"Owner" means the person who is the registered owner of a Bond or Bonds.

"Previously Issued Bonds" means the bonds of the following issues of the City to be outstanding upon the issuance of the Bonds herein authorized:

- (1) Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2005, dated May 15, 2005;
- (2) Municipal Drainage Utility System Revenue Bonds, Series 2006, dated February 1, 2006;
- (3) Municipal Drainage Utility System Revenue Bonds, Series 2007, dated May 1, 2007; and
- (4) Municipal Drainage Utility System Revenue Bonds, Series 2008, dated January 15, 2008.
- (5) Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2009, dated January 15, 2009.

"Rating Agency" means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

"Required Reserve" means the total amount required to be maintained in the Reserve Fund pursuant to the Ordinance.

"Reserve Fund Obligations" means cash or investment securities of any of the type or types permitted under the Ordinance for deposit to the Reserve Fund.

"Revenues" means all annual income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds and the Previously Issued Bonds and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System.

"System" means all land, easements and interest in land, together with all structures, equipment and facilities used in draining benefited property (within the meaning of the Act), including, but not limited to, bridges, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses.

SECURITY FOR THE BONDS

Pledge of Security.

The City covenants and agrees that all of the Revenues of the System are irrevocably pledged to the payment of the Bonds, the Previously Issued Bonds and Additional Bonds, if issued, and the interest thereon, including the establishment and maintenance of the special funds created and established by the Ordinance. The Previously Issued Bonds, the Bonds and the interest thereon constitute a first lien on such Revenues of the System and are valid and binding in accordance with the terms thereof and of the Ordinance without any filing or recording thereof (except in the official records of the City), physical delivery of such Revenues or further act by the City, and the lien created on the Revenues for the payment and security of the Bonds is prior in right and claim as to any other indebtedness, liability or obligation of the City or the System.

Rates and Charges.

For the benefit of the Holders of the Previously Issued Bonds and the Bonds and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City expressly stipulates and agrees, while any of the Previously Issued Bonds and the Bonds are Outstanding, to establish, maintain and impose drainage charges for services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal year sufficient to pay:

- (1) Operating and Maintenance Expenses of the System;
- (2) Debt Service on the Previously Issued Bonds, the Bonds and any Additional Bonds then Outstanding;

- (3) any required deposits to the Reserve Fund and any contingency fund created for the payment and security of the Previously Issued Bonds, the Bonds and any Additional Bonds; and
- (4) all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System.

Bonds as Special Obligations.

The Bonds and the Previously Issued Bonds are special obligations of the City payable from the pledged Revenues and the Holders thereof do not have the right to demand payment thereof out of funds raised or to be raised by taxation.

FUNDS AND ACCOUNTS

All revenues derived from the operation of the System are required to be kept separate from other funds of the City. The Ordinance confirms the establishment of the following special Funds, to be held by the City's depository bank:

- (a) "City of Plano, Texas Municipal Drainage Utility System Fund" (the "System Fund");
- (b) "City of Plano, Texas Municipal Drainage Utility System Reserve Fund" (the "Reserve Fund");
- (c) "City of Plano, Texas Municipal Drainage Utility System Bond Fund" (the "Bond Fund").

System Fund.

The City covenants and agrees in the Ordinance that the Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and the Reserve Fund) will be deposited as collected to the credit of the System Fund. All revenues deposited in the System Fund are pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service on the Bonds and the Previously Issued Bonds as the same becomes due and payable.

Second: To the payment of the amounts required to be deposited in the Reserve Fund to maintain the Required Reserve in accordance with the provisions of the Ordinance or any other ordinance relating to the issuance of Additional Bonds.

Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any lawful purpose.

Bond Fund.

Moneys on deposit in the Bond Fund will be used solely for the purpose of paying the principal of and interest on the Bonds and the Previously Issued Bonds as the same becomes due and payable. The City covenants that there will be deposited into the Bond Fund from the System Fund an amount sufficient to pay the principal of and interest on the Bonds and the Previously Issued Bonds when due, either at maturity or prior redemption. Deposits to the Bond Fund will be made in substantially equal monthly installments on or before the 10th day of each month, beginning the month next following the delivery of the Bonds to the purchasers thereof.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds will continue to be made until (i) the total amount on deposit in the Bond Fund and the Reserve Fund is equal to the amount required to fully pay and discharge all Outstanding Bonds or (ii) the Bonds are no longer Outstanding.

Accrued interest and premium, if any, received from the sale of the Bonds, as well as earnings derived from the investment of moneys in the Bond Fund, will be deposited to the credit of the Bond Fund and taken into consideration in determining the amount of the monthly deposits hereinabove required to be deposited in the Bond Fund from the Revenues of the System.

Reserve Fund.

The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount of Reserve Fund Obligations equal to not less than the Average Annual Debt Service on the Bonds and the Previously Issued Bonds (the "Required Reserve"), and that upon issuance of Additional Bonds, the Required Reserve will be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all bonds Outstanding, as determined on the date of issuance of each series of Additional Bonds, and annually following each principal payment date or redemption date for the Bonds, the Previously Issued Bonds and any Additional Bonds Outstanding, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of

the Code and regulations promulgated thereunder. For so long as the funds on deposit in the Reserve Fund are equal to the Required Reserve, no additional deposit need be made therein, but should the Reserve Fund at any time contain less than the Required Reserve, then, subject and subordinate to making the required deposits to the credit of the Bond Fund, the City is required to restore such deficiency by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/60th of the Required Reserve on or before the 10th day of each month following such deficiency, termination, or expiration. The money on deposit in the Reserve Fund will be used solely for the purpose of paying the principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds at any time there are not sufficient moneys on deposit in the Bond Fund. For the purpose of determining compliance with the requirements of this paragraph, Reserve Fund Obligations are required to be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

The City may, at its option, withdraw all surplus in the Reserve Fund over the Required Reserve and deposit the same in the System Fund; provided, however, that to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts will not be deposited to the System Fund and will only be used for the purposes for which bond proceeds may be used.

To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the City may replace or substitute a Credit Facility for cash or investment securities, of any of the type or types permitted by the Ordinance, on deposit in the Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve may be withdrawn by the City, at its option, and transferred to the System Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts will not be deposited to the System Fund and will only be used for the purposes for which bond proceeds may be used. Any interest due on any reimbursement obligation under the Credit Facility will not exceed the highest lawful rate of interest which may be paid by the City.

If the City is required to make a withdrawal from the Reserve Fund, the City will promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund, and will make such withdrawal first from available moneys or investment securities then on deposit in the Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve, then the City is required to, after making required deposits to the Bond Fund in accordance with the terms of the Ordinance, satisfy the Required Reserve by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/60th of the Required Reserve on or before the 10th day of each month following such deficiency, termination or expiration.

In the event of the redemption or defeasance of any of the Outstanding Bonds, any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve may be withdrawn and transferred, at the option of the City, to the System Fund, as a result of (i) the redemption of the Outstanding Bonds, or (ii) funds for the payment of the Outstanding Bonds having been deposited irrevocably with the paying agent or place of payment therefore in the manner described in the Ordinance, the result of such deposit being that such Outstanding Bonds no longer are deemed to be Outstanding under the terms of the Ordinance. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts will not be deposited to the System Fund and may only be used for the purposes for which bond proceeds may be used.

In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw in accordance with the terms of any agreement pursuant to which the Credit Facility is issued from Net Revenues; however, such reimbursement from Net Revenues is subject to the provisions of the Ordinance, and will be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds.

Deficiencies; Excess Revenues.

If on any occasion there are not be sufficient Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency will be cured as soon as possible from the next available Revenues of the System, or from any other sources available for such purpose.

Subject to making the required deposits to the Bond Fund and the Reserve Fund in accordance with the provisions of the Ordinance, the ordinances authorizing the issuance of the Previously Issued Bonds, or any ordinance authorizing the issuance of Additional Bonds, the excess Revenues may be transferred to the City's general operating fund or used by the City for any lawful purpose.

Security of Funds.

Money in any Fund may, at the option of the City, be invested in funds and obligations authorized and identified in the Public Funds Investment Act, as amended, or other applicable law. All deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Investments (except State and Local Government Series investments held in book-entry form, which will at all times be valued at cost) are required to be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately will be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations in the Ordinance, be credited to and deposited in the System Fund. All investments will be sold promptly when necessary to prevent any default in connection with the Bonds or any Previously Issued Bonds.

To the extent amounts deposited to the credit of any Funds referenced herein are not invested, such uninvested amounts shall be secured in the manner and to the fullest extent required by laws of the State of Texas for the security of public funds.

Payment of Bonds.

While any of the Bonds are Outstanding, the Director of Finance (or other designated financial officer of the City) will cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the last business day next preceding the date of payment for the Bonds.

Issuance of Additional Parity Bonds.

Subject to the conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences or instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

- (i) The officer of the City then having the primary responsibility for the financial affairs of the City has executed a certificate stating (a) that, to the best of his or her knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special Funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special Funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency;
- (ii) The Additional Bonds will be scheduled to mature or be payable as to principal on May 15 or November 15 (or both) in each year the same are to be outstanding or during the term thereof; and
- (iii) The Reserve Fund contains the Required Reserve amount on the date of issuance of the proposed Additional Bonds after giving effect to the issuance thereof.
- (iv) The City has secured a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months immediately preceding the month in which the ordinance authorizing the issuance of the then proposed Additional Bonds is passed, are at least equal to 1.25 times the Average Annual Debt Service for all Outstanding Bonds, Outstanding Previously Issued Bonds and any Outstanding Additional Bonds after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the charges for services afforded by the System that became effective at least 60 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues of the System for the period of time covered by his/her certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the Accountant.

Issuance of Obligations of Inferior Lien and Pledge.

The City reserves the right to issue obligations payable from and secured by a lien on and pledge of the Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds and the Previously Issued Bonds, as may be authorized by the laws of the State of Texas.

Refunding Bonds.

The City reserves the right to issue refunding bonds to refund all or any part of the Bonds and the Previously Issued Bonds (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all of such Bonds and the Previously Issued Bonds then Outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth under Issuance of Additional Parity Bonds will be satisfied and the certificate or opinion of the Accountant required under Issuance of Additional Parity Bonds will give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service on the bonds being refunded following their cancellation or provisions being made for their payment).

Maintenance and Operation - Insurance.

In regard to the operations and properties of the System, the City agrees to carry and maintain liability and property damage insurance of the kind and in the amounts customarily carried by municipal corporations in Texas on such kind of properties; provided, however, the City, in lieu of and/or in combination with carrying such insurance, may self-insure against all perils and risks by establishing self-insurance reserves. Annually each year, not later than the end of each Fiscal Year, the City will prepare or cause to be prepared by a person competent and knowledgeable in such matters a written evaluation of the adequacy of such self-insurance and/or insurance coverage and of any recommended changes in regard to the City's insurance/self-insurance policies, practices and procedures.

Records - Accounts - Accounting Reports.

The City covenants in the Ordinance that so long as any of the Bonds, or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System separate and apart from all other records and accounts in which complete and correct entries shall be made of all transactions relating to said System, and that the holder or holders of any of such Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that within 60 days following the close of each Fiscal Year it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants, showing the receipts and disbursements for account of the System for the Fiscal Year.

Each such audit, in addition to whatever other matters may be thought proper by the Accountant, is required to include a detailed statement of the income and expenditures of the System for such Fiscal Year; a balance sheet as of the end of such Fiscal Year; the Accountant's comments regarding the manner in which the City has carried out the requirements of the Ordinance and his/her recommendations for any changes or improvements in the operation, records and accounts of the System; and a list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses and paid as such. Copies of the aforesaid annual audit are required to be furnished to the original purchasers of the Bonds and any subsequent holder upon written request. At the close of the first six-month period of each Fiscal Year, the City Secretary is required to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon written request therefore, received not more than 30 days after the close of said six-month period. Any Owner has the right to discuss with the Accountant making the annual audit the contents thereof and to ask for such additional information as he/she may reasonably require.

Sale or Lease of Properties.

The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property of the System which is obsolete, damaged or worn out or otherwise unsuitable. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

Amendments.

The City, may, without the consent of or notice to any Owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Owners, to cure any ambiguity, inconsistency, or formal defect or omission herein and to provide additional security for the payment of the Bonds. In addition, the City may, with the written consent from the owners holding a majority in aggregate principal amount of the Bonds then Outstanding (excluding Bonds acquired by or held

for the account of the City) affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the written consent of all Owners of Bonds then Outstanding, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held for consent to any such amendment, addition, or rescission.

Special Covenants.

The City further covenants and agrees in the Ordinance that:

- (i) It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided in the Ordinance and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds, together with the Previously Issued Bonds and any Additional Bonds, are ratably secured in such manner that no one bond will have preference over any other bond of said issues.
- (ii) The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Bonds and the Previously Issued Bonds; provided that the City has reserved the right to issue subordinate lien obligations.
- (iii) To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 552.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefited property who is delinquent in the payment of drainage charges.

DEFAULT AND REMEDIES

Remedies in Event of Default.

In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City defaults in payments to be made to the Bond Fund or the Reserve Fund as required by the Ordinance; or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, then the Owners of any of the Bonds will be entitled to a writ of mandamus issued by a court of property jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power, or will be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedies herein provided are cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

Discharge of Bonds.

The Ordinance provides that the Bonds may be defeased, discharged or refunded in any manner permitted by applicable law.

TAX MATTERS

TAX EXEMPTION

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on Bonds is excludable from gross income for federal income tax purposes under existing law; and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such includability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to the alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations are includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences . . . Prospective purchasers of the Bonds should be aware that the ownership of tax exempt bonds may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium . . . The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an

initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount Bonds . . . The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Additional Federal Income Tax Considerations - Collateral Tax Consequences" and "Tax Exemption" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement while it remains obligated to advance funds to pay such Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 7 and in Appendix A. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2010.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC") as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes (neither the Bonds nor the Ordinance make any provisions for debt service reserves, credit enhancement or liquidity enhancement). In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

AVAILABILITY OF INFORMATION . . . Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the nationally recognized municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at the web address shown above. The City will continue to make information filings, including material event notices, with the Texas State Information Depository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

LIMITATIONS AND AMENDMENTS

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City's continuing disclosure agreement for the Bonds may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or

interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Bonds and the outstanding municipal drainage utility revenue debt of the City are rated "Aa2" by Moody's and "AAA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

At the time of the initial delivery of the Bonds, the City Attorney will notify the Underwriters if there has been any lawsuit or claim challenging the issuance of the Bonds or that affects the payment, delivery or security of the Bonds for which the City Attorney has been notified.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before the Bonds are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "Plan of Financing" (except under the subcaption "Sources and Uses of Proceeds"), "The Bonds" (exclusive of the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "Selected Provisions of the Ordinance", "Tax Matters" and "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (except for the last sentence of the first paragraph thereof), "Registration and Qualification of Bonds for Sale," and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "Other Information" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements, and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Bonds and the restricted Federal Securities were verified by Grant Thornton LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company on behalf of the City. Grant Thornton LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$42,446.75. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

PHIL DYER
Mayor
City of Plano, Texas

ATTEST:

DIANE ZUCCO
City Secretary

SCHEDULE OF REFUNDED OBLIGATIONS

Schedule I

Municipal Drainage Utility System Revenue Bonds, Series 2001

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
9/15/2001	5/15/2010	4.500%	\$ 195,000	\$ 195,000
	5/15/2011	4.200%	210,000	210,000
			<u>\$ 405,000</u>	<u>\$ 405,000</u>

Maturities 2010 and 2011 will be redeemed on each original maturity date at a price of par.

Municipal Drainage Utility System Revenue Bonds, Series 2003

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
5/1/2003	5/15/2010	4.000%	\$ 150,000	\$ 150,000
	5/15/2011	4.000%	160,000	160,000
	5/15/2012	4.250%	165,000	165,000
	5/15/2013	4.500%	175,000	175,000
	5/15/2014	3.600%	180,000	180,000
	5/15/2015	3.700%	190,000	190,000
	5/15/2016	3.800%	200,000	200,000
	5/15/2017	3.900%	210,000	210,000
	5/15/2018	4.000%	220,000	220,000
	5/15/2019	4.125%	230,000	230,000
	5/15/2020	4.200%	240,000	240,000
	5/15/2021	4.300%	250,000	250,000
	5/15/2022	4.400%	265,000	265,000
	5/15/2023	4.500%	275,000	275,000
			<u>\$ 2,910,000</u>	<u>\$ 2,910,000</u>

Maturities 2010, 2011 ,2012 and 2013 will be redeemed on each original maturity date at a price of par.
Maturities 2014 through 2023 will be redeemed on May 15, 2013 at a price of par plus accrued interest to the redemption date.

APPENDIX A

EXCERPTS FROM THE

CITY OF PLANO, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2009

The information contained in this Appendix consists of excerpts from the City of Plano, Texas Annual Financial Report for the Year Ended September 30, 2009, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

APPENDIX B

FORM OF BOND COUNSEL'S OPINION