

ORDINANCE NO. 20051117-060

AN ORDINANCE authorizing the issuance and sale of "CITY OF AUSTIN, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2006"; prescribing the terms, features and specifications of said Bonds; pledging the net revenues of the City's Water and Wastewater System to the payment of principal of and interest on said Bonds; enacting other provisions incident and related to the issuance, payment, sale and delivery of such Bonds, including the approval and execution of a Paying Agent/Registrar Agreement, a Bond Purchase Agreement and a Special Escrow Agreement and the approval and distribution of an Official Statement pertaining thereto; providing for the redemption of the bonds being refunded; and providing an effective date.

WHEREAS, the City has heretofore authorized and issued, or assumed the payment of, the following described obligations in the aggregate principal amount of \$63,360,000 (hereinafter collectively referred to as the "Refunded Bonds"), which are being paid in whole or in part from the revenues of the City's Water and Wastewater System, to wit:

(1) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A, dated August 1, 1996, representing a portion of such bonds scheduled to mature on May 15 and/or November 15 in each of the years 2007 through 2013 and 2016, and aggregating in principal amount \$13,485,000 and further described as follows:

<u>Maturity Date</u>	<u>Principal Amount Outstanding (\$)</u>	<u>Principal Amount Eligible to be Refunded (\$)</u>
05-15-2007	13,465,000	1,280,000
11-15-2007	10,470,000	995,000
05-15-2008	10,475,000	995,000
11-15-2008	12,440,000	1,180,000
05-15-2009	12,440,000	1,180,000
11-15-2009	12,690,000	1,210,000
05-15-2010	12,695,000	1,210,000
11-15-2010	7,330,000	695,000
05-15-2011	7,330,000	700,000
05-15-2012	9,905,000	940,000
05-15-2013	7,785,000	750,000
05-15-2014*	11,320,000	1,075,000
05-15-2015*	6,210,000	600,000
05-15-2016	7,085,000	675,000

*represents mandatory sinking fund redemption for term bond maturing in the year 2016

(2) City of Austin, Texas Combined Utility System Revenue Refunding Bonds, Series 1996B, dated August 1, 1996, being the bonds of said series scheduled to mature on November 15 in each of the years 2007 through 2013, 2016, 2021 and 2025, and aggregating in principal amount \$49,875,000;

AND WHEREAS, pursuant to the provisions of V.T.C.A., Government Code, Chapter 1207, as amended, the City Council is authorized to issue refunding bonds and deposit the proceeds of sale directly with any place of payment for the Refunded Bonds, or other authorized depository, and such deposit, when made in accordance with said statute, and ordinances authorizing the issuance of the Refunded Bonds, shall constitute the making of firm banking and financial arrangements for their discharge and final payment; and

WHEREAS, the City Council hereby finds and determines that refunding bonds should be issued at this time to refund the Refunded Bonds, and such refunding will result in the City saving approximately \$4,938,559.17 in debt service payments on such indebtedness and further provide present value savings of approximately \$4,099,852.76; and

WHEREAS, the delivery of the Bonds herein authorized is to be delayed to a date that falls within ninety (90) days of the first date the Refunded Bonds can be redeemed (November 15, 2006) in accordance with the redemption terms applicable to such Refunded Bonds and permit the interest on the Bonds herein authorized to be excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended; and

WHEREAS, the City Council further finds and determines the bonds herein authorized to be issued to refund the Refunded Bonds can and shall be on a parity with the outstanding "Parity Water/Wastewater Obligations" issued in accordance with and under the terms and provisions of Ordinance No. 000608-56A (the "Master Ordinance") and the Prior Supplements; now, therefore;

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

SECTION 1: DEFINITIONS. In addition to the definitions set forth in the preamble of this Ordinance (hereinafter referred to as the "Eleventh Supplement"), the terms used herein and not otherwise defined shall have the meanings given in the Master Ordinance and the Prior Supplements or in Exhibit A to this Eleventh Supplement.

SECTION 2: AUTHORIZATION – DESIGNATION – PRINCIPAL AMOUNT - PURPOSE. Revenue bonds of the City shall be and are hereby authorized to be issued in the aggregate principal amount of SIXTY THREE MILLION ONE HUNDRED THOUSAND DOLLARS (\$63,100,000) to be designated and bear the title "CITY OF AUSTIN, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2006" (hereinafter referred to as the "Bonds"), for the purpose of refinancing and refunding the Refunded Bonds (identified and defined in the preamble hereof), and paying costs of issuance in conformity with the Constitution and laws of the State of Texas, including V.T.C.A., Government Code, Chapters 1207 and 1371.

SECTION 3: FULLY REGISTERED OBLIGATIONS - AUTHORIZED DENOMINATIONS – STATED MATURITIES - DATE. The Bonds shall be issued as fully registered obligations, without coupons, shall be dated August 15, 2006 (the "Bond Date") and, other than the single fully registered Initial Bond referenced in Section 9 hereof, shall be in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity), shall be numbered consecutively from One (1) upward and shall become due and payable on November 15 and in principal amounts (the "Stated Maturities") in accordance with the following schedule:

Year of Stated Maturity	Principal Amount	Interest Rate(s)
2006	\$ 950,000	5.00%
2007	3,295,000	5.00%
2008	3,410,000	5.00%
2009	4,005,000	5.00%
2010	1,835,000	5.00%
2011	365,000	5.00%
2012	3,375,000	5.00%
2013	2,785,000	5.00%
2014	3,410,000	5.00%
2015	2,575,000	5.00%
2016	2,935,000	5.00%
2017	1,430,000	5.00%
2018	3,255,000	5.00%
2019	6,135,000	5.00%
2020	5,135,000	5.00%
2021	3,090,000	5.00%
2022	5,585,000	5.00%
2023	6,545,000	5.00%
2024	1,455,000	5.00%
2025	1,530,000	5.00%

The Bonds shall bear interest on the unpaid principal amounts from the date of their delivery to the initial purchasers (anticipated, August 17, 2006) or the most recent interest payment date to which interest has been paid or duly provided for, at the rate(s) per annum shown in the above schedule (calculated on the basis of a 360-day year of twelve 30-day months). Interest on the Bonds shall be payable on May 15 and November 15 in each year, commencing November 15, 2006, until maturity or prior redemption.

SECTION 4: TERMS OF PAYMENT - PAYING AGENT/REGISTRAR. The principal of, premium, if any, and the interest on the Bonds, due and payable by reason of maturity, redemption or otherwise, shall be payable only to the registered owners or holders of the Bonds (hereinafter called the "Holders") appearing on the registration and transfer books maintained by the Paying Agent/Registrar and the payment thereof shall be in any coin or currency of the United States of America, which at the time of payment is legal tender for the payment of public and private debts, and shall be without exchange or collection charges to the Holders.

The selection and appointment of Deutsche Bank Trust Company Americas, New York, New York to serve as Paying Agent/Registrar for the Bonds is hereby approved and confirmed. Books and records relating to the registration, payment, transfer and exchange of the Bonds (the "Security Register") shall at all times be kept and maintained on behalf of the City by the Paying Agent/Registrar as provided herein and in accordance with the terms and provisions of a "Paying Agent/Registrar Agreement", substantially in the form attached hereto as Exhibit B, and such reasonable rules and regulations as the Paying Agent/Registrar and the City may prescribe. The City Manager and City Clerk are authorized to execute and deliver such Paying Agent/Registrar Agreement. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are paid and discharged, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution or other entity qualified and

authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. 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 Holder by United States Mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of and premium, if any, on the Bonds shall be payable at the Stated Maturities or redemption thereof, only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at its designated offices in New York, New York (the "Designated Payment/Transfer Office"). Interest on the Bonds shall be paid to the Holders whose names appear in the Security Register at the close of business on the Record Date (the last business day of the month next preceding each interest payment date), and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder. 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 by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of a non-payment of Interest on one or more maturities on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment for such maturity or maturities (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 (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder of such maturity or maturities appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

SECTION 5: REDEMPTION. (a) Optional Redemption. The Bonds having Stated Maturities on and after November 15, 2017, shall be subject to redemption prior to maturity, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/ Registrar), on November 15, 2016 or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

(b) Exercise of Redemption Option. At least forty-five (45) days prior to a redemption date for the Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Bonds shall be entered in the minutes of the governing body of the City.

(c) Selection of Bonds for Redemption. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall treat such Bonds as representing the number of Bonds Outstanding which is obtained by

dividing the principal amount of such Bonds by \$5,000 and shall select the Bonds to be redeemed within such Stated Maturity by lot.

(d) Notice of Redemption. Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States Mail, first class postage prepaid, in the name of the City and at the City's expense, to each Holder of a Bond to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the Designated Payment/Transfer Office of the Paying Agent/ Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date therefor, provided moneys sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

SECTION 6: REGISTRATION-TRANSFER-EXCHANGE OF BONDS-PREDECESSOR BONDS. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of each registered owner of the Bonds issued under and pursuant to the provisions of this Eleventh Supplement. Any Bond may, in accordance with its terms and the terms hereof, be transferred or exchanged for Bonds of other authorized denominations upon the Security Register by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/ Registrar.

Upon surrender for transfer of any Bond (other than the Initial Bonds authorized in Section 9 hereof) at the Designated Payment/Transfer Office of the Paying Agent/Registrar, the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Bonds executed on behalf of, and furnished by, the City of authorized denominations and having the same Stated Maturity and of a like aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds (other than the Initial Bonds authorized in Section 9 hereof) may be exchanged for other Bonds of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the Designated Payment/Transfer Office of the Paying Agent/ Registrar. Whenever any Bonds are surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Bonds, executed on behalf of, and furnished by, the City, to the Holder requesting the exchange.

All Bonds issued upon any transfer or exchange of Bonds shall be delivered at the Designated Payment/Transfer Office of the Paying Agent/Registrar, or sent by United States Mail, first class postage prepaid, to the Holder and, upon the delivery thereof, the same shall be valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under this Eleventh Supplement, as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holder, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Bonds canceled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be "Predecessor Bonds," evidencing all or a portion, as the case may be, of the same obligation to pay evidenced by the Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term "Predecessor Bonds" shall include any mutilated, lost, destroyed, or stolen Bond for which a replacement Bond has been issued, registered and delivered in lieu thereof pursuant to Section 19 hereof and such new replacement Bond shall be deemed to evidence the same obligation as the mutilated, lost, destroyed, or stolen Bond.

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 of such Bond; provided, however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond called for redemption in part.

SECTION 7: BOOK-ENTRY ONLY TRANSFERS AND TRANSACTIONS. Notwithstanding the provisions contained in Sections 4, 5 and 6 hereof relating to the payment, and transfer/exchange of the Bonds, the City hereby approves and authorizes the use of the "Book-Entry Only" securities clearance, settlement and transfer system provided by The Depository Trust Company (DTC), a limited purpose trust company organized under the laws of the State of New York, in accordance with the operational arrangements referenced in the Blanket Issuer Letter of Representation, by and between the City and DTC (the "Depository Agreement").

Pursuant to the Depository Agreement and the rules of DTC, the Bonds shall be deposited with DTC, who shall hold said Bonds for its participants (the "DTC Participants"). While the Bonds are held by DTC under the Depository Agreement, the Holder of the Bonds on the Security Register for all purposes, including payment and notices, shall be Cede & Co., as nominee of DTC, notwithstanding the ownership of each actual purchaser or owner of each Bond (the "Beneficial Owners") being recorded in the records of DTC and DTC Participants.

In the event DTC determines to discontinue serving as securities depository for the Bonds or otherwise ceases to provide book-entry clearance and settlement of securities transactions in general or the City determines that DTC is incapable of properly discharging its duties as securities depository for the Bonds, the City covenants and agrees with the Holders of the Bonds to cause Bonds to be printed in definitive form and provide for the Bond certificates to be issued and delivered to DTC Participants and Beneficial Owners, as the case may be. Thereafter, the Bonds in definitive form shall be assigned, transferred and exchanged on the

Security Register maintained by the Paying Agent/Registrar and payment of such Bonds shall be made in accordance with the provisions of Sections 4, 5 and 6 hereof.

SECTION 8: EXECUTION - REGISTRATION. The Bonds shall be executed on behalf of the City by the Mayor under its seal reproduced or impressed thereon and countersigned by the City Clerk. The signature of said officers on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who are or were the proper officers of the City on the date of adoption of this Eleventh Supplement shall be deemed to be duly executed on behalf of the City, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of delivery of the Bonds to the Underwriter (hereinafter defined) and with respect to Bonds delivered in subsequent exchanges and transfers, all as authorized and provided in V.T.C.A., Government Code, Chapter 1201.

No Bond shall be entitled to any right or benefit under this Eleventh Supplement, or be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 10C, manually executed by the Comptroller of Public Accounts of the State of Texas or his or her duly authorized agent, or a certificate of registration substantially in the form provided in Section 10D, manually executed by an authorized officer, employee or representative of the Paying Agent/Registrar, and either such certificate upon any Bond duly signed shall be conclusive evidence, and the only evidence, that such Bond has been duly certified, registered and delivered.

SECTION 9: INITIAL BONDS. The Bonds herein authorized shall be initially issued either (i) as a single fully registered bond in the total principal amount referenced in Section 2 hereof with principal installments to become due and payable as provided in Section 3 hereof and numbered T-1, or (ii) as multiple fully registered bonds, being one bond for each stated maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (hereinafter called the "Initial Bonds"). In either case, the Initial Bonds shall be registered in the name of the Underwriter or the designee thereof. The Initial Bonds shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the Underwriter. Any time after the delivery of the Initial Bonds, the Paying Agent/Registrar, pursuant to written instructions from the Underwriter, or the designee thereof, shall cancel the Initial Bonds delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the Underwriter, or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 10: FORMS. A. Forms Generally. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Registration, and the form of Assignment to be printed on each of the Bonds, shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Eleventh Supplement and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including insurance legends in the event the Bonds, or any maturities thereof, are purchased with insurance and any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the City or determined by the officers executing such Bonds as evidenced by their execution thereof. Any

portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds and the Initial Bonds shall be printed, lithographed, or engraved, typewritten, photocopied or otherwise reproduced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof.

B. Form of Definitive Bond.

REGISTERED
NO. _____

REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF AUSTIN, TEXAS,
WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BOND,
SERIES 2006

Date of Delivery:
_____, 2006

Interest Rate:

Stated Maturity:

CUSIP NO:

Registered Owner:

Principal Amount:

DOLLARS

The City of Austin (hereinafter referred to as the "City"), a body corporate and municipal corporation in the Counties of Travis and Williamson, State of Texas, for value received, hereby promises to pay to the Registered Owner named above, or the registered assigns thereof, solely from the revenues hereinafter identified, on the Stated Maturity date specified above the Principal Amount stated above (or so much thereof as shall not have been paid upon prior redemption), and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid Principal Amount hereof from the date of delivery specified above or the most recent interest payment date to which interest has been paid or provided for at the per annum rate of interest specified above; such interest being payable on November 15, 2006 and on each May 15 and November 15 thereafter until maturity or prior redemption. Principal of this Bond is payable at its Stated Maturity or redemption to the registered owner hereof, upon presentation and surrender, at the Designated Payment/Transfer Office of the Paying Agent/Registrar executing the registration certificate appearing hereon, or its successor; provided, however, while this Bond is registered to Cede & Co., the payment of principal upon a partial redemption of the principal amount hereof may be accomplished without presentation and surrender of this Bond. Interest is payable to the registered owner of this Bond (or one or more Predecessor Bonds, as defined in the Eleventh Supplement hereinafter referenced) whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the last business day of the month next preceding each interest payment date and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. 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 by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday,

Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of, premium, if any, and interest on this Bond shall be without exchange or collection charges to the owner hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This Bond is one of the series specified in its title dated August 15, 2006 and issued in the aggregate principal amount of \$63,100,000 (herein referred to as the "Bonds") for the purpose of refinancing and refunding the Refunded Bonds (identified and defined in the Eleventh Supplement hereinafter referenced), in conformity with the Constitution and laws of the State of Texas, including V.T.C.A., Government Code, Chapters 1207 and 1371, and pursuant to a Master Ordinance and Eleventh Supplement adopted by the City Council of the City (herein collectively referred to as the "Ordinances").

The Bonds maturing on and after November 15, 2017, may be redeemed prior to their Stated Maturities, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/Registrar), on November 15, 2016 or on any date thereafter at the redemption price of par plus accrued interest thereon to the redemption date.

Not less than thirty (30) days prior to the date fixed for any redemption of Bonds, the City shall cause a written notice of such redemption to be sent by United States Mail, first class postage prepaid, to the registered owners of each Bond to be redeemed at the address shown on the Security Register and subject to the terms and provisions relating thereto contained in the Ordinances. If a Bond (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date therefor, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

In the event a portion of the principal amount of a Bond is to be redeemed and the registered owner is someone other than Cede & Co., payment of the redemption price of such principal amount shall be made to the registered owner only upon presentation and surrender of such Bond to the Designated Payment/Transfer Office of the Paying Agent/Registrar, and a new Bond or Bonds of like maturity and interest rate in any authorized denominations provided by the Ordinances for the then unredeemed balance of the principal sum thereof will be issued to the registered owner, without charge. If a Bond is selected for redemption, in whole or in part, the City and the Paying Agent/Registrar shall not be required to transfer such Bond to an assignee of the registered owner within forty-five (45) days of the redemption date therefor; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the unredeemed balance of a Bond redeemed in part.

The Bonds are special obligations of the City payable solely from and, together with the Prior Subordinate Lien Obligations, the Previously Issued Separate Lien Obligations, and Previously Issued Parity Water/Wastewater Obligations currently Outstanding, equally and ratably secured by a parity lien on and pledge of, the Net Revenues of the Water/Wastewater System in the manner provided in the Ordinances. Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations referenced above shall be equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund

and the Reserve Fund in accordance with the terms of the Ordinances. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Water/Wastewater System, except with respect to the Net Revenues. The holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

Subject to satisfying the terms and conditions prescribed therefor, the City has reserved the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System, in the same manner and to the same extent as the Bonds.

Reference is hereby made to the Ordinances, copies of which are on file with the Paying Agent/Registrar, and to all of the provisions of which the Holder by the acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the security for the Bonds; the properties constituting the Water/Wastewater System; the Net Revenues pledged to the payment of the principal of and interest on the Bonds; the nature and extent and manner of enforcement of the lien and pledge securing the payment of the Bonds; the terms and conditions for the issuance of additional revenue obligations; the terms and conditions relating to the transfer or exchange of this Bond; the conditions upon which the Ordinances may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the City and the Paying Agent/Registrar; the terms and provisions upon which the liens, pledges, charges and covenants made therein may be discharged at or prior to the maturity of this Bond, and this Bond deemed to be no longer Outstanding thereunder; and for the other terms and provisions contained therein. Capitalized terms used herein have the same meanings assigned in the Ordinances.

This Bond, subject to certain limitations contained in the Ordinances, may be transferred on the Security Register only upon its presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent/Registrar, with the Assignment hereon duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by, the registered owner hereof, or his duly authorized agent. When a transfer on the Security Register occurs, one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued by the Paying Agent/Registrar to the designated transferee or transferees.

The City and the Paying Agent/Registrar, and any agent of either, may treat the registered owner hereof whose name appears on the Security Register (i) on the Record Date as the owner entitled to payment of interest hereon, (ii) on the date of surrender of this Bond as the owner entitled to payment of principal hereof at its Stated Maturity, or its redemption, in whole or in part, and (iii) on any other date as the owner for all other purposes, and neither the City nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary. In the event of non-payment of interest on a scheduled payment date and for thirty (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 (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, recited, represented and covenanted that the City is a duly organized and legally existing municipal corporation under and by virtue of the Constitution and laws of the State of Texas; that the issuance of the Bonds is duly authorized by law; that all acts, conditions and things required to exist and be done precedent to and in the issuance of the Bonds to render the same lawful and valid obligations of the City have been properly done, have happened and have been performed in regular and due time, form and manner as required by the Constitution and laws of the State of Texas, and the Ordinances; that the Bonds do not exceed any constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of the Net Revenues of the Water/Wastewater System as aforestated. In case any provision in this Bond or any application thereof shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Ordinances shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the City Council of the City has caused this Bond to be duly executed under the official seal of the City.

CITY OF AUSTIN, TEXAS

Mayor

COUNTERSIGNED:

City Clerk

(SEAL)

C. *Form of Registration Certificate of Comptroller of Public Accounts to Appear on Initial Bond(s) only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER)
)
OF PUBLIC ACCOUNTS) REGISTER NO. _____
)
THE STATE OF TEXAS)

I HEREBY CERTIFY that this Bond has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

*NOTE TO PRINTER: Do not print on definitive bonds

D. Form of Certificate of Paying Agent/Registrar to Appear on Definitive Bonds only.

REGISTRATION CERTIFICATE OF PAYING AGENT/REGISTRAR

This Bond has been duly issued and registered in the name of the Registered Owner shown above under the provisions of the within-mentioned Ordinances; the bond or bonds of the above entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

The designated office of the Paying Agent/Registrar in New York, New York is the Designated Payment/Transfer Office for this Bond.

Deutsche Bank Trust Company Americas,
New York, New York,
as Paying Agent/Registrar

Registration date:

By _____
Authorized Signature

E. Form of Assignment.

ASSIGNMENT

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

(Social Security or other identifying number (_____)) the within Bond and all rights thereunder, and hereby irrevocably
constitutes _____ and _____ appoints _____
attorney to transfer the within Bond on the books kept for registration thereof, with full power of
substitution in the premises.

DATED: _____

Signature guaranteed:

NOTICE: The signature on this
assignment must correspond with the
name of the registered owner as it
appears on the face of the within Bond in
every particular.

F. The Initial Bond(s) shall be in the form set forth in paragraph B of this Section,
except that the form of a single fully registered Initial Bond shall be modified as follows:

REGISTERED
NO. T-1

REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF AUSTIN, TEXAS,
WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BOND,
SERIES 2006

Date of Delivery: _____, 2006

Registered Owner:

Principal Amount:

The City of Austin (hereinafter referred to as the "City"), a body corporate and municipal corporation in the Counties of Travis and Williamson, State of Texas, for value received, hereby promises to pay to the order of the Registered Owner named above, or the registered assigns thereof, solely from the revenues hereinafter identified, the Principal Amount hereinabove stated on November 15 in each of the years and in principal installments in accordance with the following schedule:

STATED
MATURITY

PRINCIPAL
INSTALLMENTS

INTEREST
RATE

(Information to be inserted from schedule in Section 3 hereof).

(or so much thereof as shall not have been paid upon prior redemption) and to pay interest, computed on the basis of a 360-day year of twelve 30-day months, on the unpaid principal amounts hereof from the later of the date of delivery specified above or the most recent interest payment date to which interest has been paid or duly provided for at the per annum rates of

interest specified above; such interest being payable on November 15, 2006 and on each May 15 and November 15 thereafter until maturity or prior redemption. Principal installments of this Bond are payable to the registered owner hereof by Deutsche Bank Trust Company Americas, New York, New York (the "Paying Agent/Registrar"), upon presentation and surrender, at its designated offices in New York, New York (the "Designated Payment/Transfer Office"). Interest is payable to the registered owner of this Bond whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the last business day of the month next preceding each interest payment date and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. 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 by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of, premium, if any, and interest on this Bond shall be without exchange or collection charges to the owner hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

SECTION 11: CRITERIA FOR ISSUANCE OF PARITY WATER/WASTEWATER OBLIGATIONS. The City has provided certain criteria and established certain covenants and agreements in relation to the issuance of Parity Water/Wastewater Obligations of the Water/Wastewater System pursuant to the Master Ordinance and Prior Supplements. This Eleventh Supplement provides for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment, and security of the Bonds which are Parity Water/Wastewater Obligations. The Master Ordinance is incorporated herein by reference and made a part hereof for all purposes, except to the extent modified and supplemented hereby, and the Bonds are hereby declared to be Parity Water/Wastewater Obligations under the Master Ordinance and Prior Supplements. The City hereby determines that it will have sufficient funds to meet the financial obligations of the Water/Wastewater System, including sufficient Net Revenues to pay the Annual Debt Service Requirements of the Bonds and the Previously Issued Parity Water/Wastewater Obligations and to meet all financial obligations of the City relating to the Water/Wastewater System.

SECTION 12: PLEDGE. Subject to the prior claim and lien on the Net Revenues of the Water/Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Water/Wastewater System are hereby pledged to the payment of the Bonds, and the Bonds, together with the Prior Subordinate Lien Obligations, the Previously Issued Separate Lien Obligations and the Previously Issued Parity Water/Wastewater Obligations currently Outstanding, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System in accordance with the terms of the Master Ordinance and this Eleventh Supplement. Additionally, the Bonds and the Previously Issued Parity Water/Wastewater Obligations shall be equally and ratably secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund and Reserve Fund in accordance with the terms of the Master Ordinance, the Prior Supplements and this Eleventh Supplement. It is hereby ordained that the Parity Water/Wastewater Obligations, and the interest thereon, shall constitute a lien on the Net Revenues of the Water/Wastewater System and be valid and

binding and fully perfected from and after the date of adoption of this Eleventh Supplement without physical delivery or transfer or transfer of control of the Net Revenues, the filing of this Eleventh Supplement or any other act, all as provided in Chapter 1208 of the Texas Government Code. The owners of the Parity Water/Wastewater Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in the Master Ordinance, the Prior Supplements and this Eleventh Supplement.

Section 1208, Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues of the Water/Wastewater System granted by the City under this Section 12, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are Outstanding such that the pledge of the Net Revenues of the Water/Wastewater System granted by the City under this Section 12 is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 13: DEBT SERVICE FUND. By reason of the issuance of the Bonds, the City need not establish any special accounts within the Debt Service Fund and following the delivery of the Bonds, the City hereby agrees and covenants that in addition to the deposits for the payment of the Previously Issued Parity Water/Wastewater Obligations there shall be deposited to the credit of the Debt Service Fund an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and principal of the Bonds falling due on or before each maturity, mandatory redemption date and interest payment date, and such deposits shall be made in substantially equal monthly amounts on or before the 14th day of each month beginning on or before the 14th day of the month next following the month the Bonds are delivered to the initial purchaser.

The required monthly deposits to the Debt Service Fund for the payment of principal of and interest on the Bonds shall continue to be made in the manner provided herein until such time as (i) the total amount on deposit in the Debt Service Fund is equal to the amount required to fully pay and discharge all Parity Water/Wastewater Obligations then Outstanding or (ii) the Bonds are no longer outstanding, *i.e.*, fully paid as to principal and interest or all the Bonds have been refunded.

Accrued interest received from the initial purchaser(s) of the Bonds shall be deposited in the Debt Service Fund, and shall be taken into consideration and reduce the amount of the monthly deposits that would otherwise be required to be deposited to the credit of such Debt Service Fund from the Net Revenues of the Water/Wastewater System.

SECTION 14: RESERVE FUND. In accordance with the provisions of the Prior Supplements authorizing the issuance of the Previously Issued Water/Wastewater Obligations, the amount currently on deposit to the credit of the Reserve Fund is \$29,995,866.46 (the "Current Reserve"), which Current Reserve is funded in full with surety bonds issued by (i) MBIA Insurance Corporation in the amounts of \$3,649,128 and \$4,339,756.24, (ii) Financial Security Assurance Inc. ("FSA") in the amounts of \$7,737,801.19, \$1,938,219 and \$2,840,932.12 and (iii) Ambac Assurance Corporation in the respective amounts of \$3,580,911, \$5,546,059.41 and \$363,059.50. By reason of the issuance of the Bonds, the Required Reserve Amount shall be and is hereby recalculated and determined to be \$32,071,236.75. Upon the issuance of the Bonds, a surety bond (the "Reserve Fund Policy") in an amount equal to the difference between

the Required Reserve Amount and the Current Reserve issued by MBIA Insurance Corporation shall be deposited to the credit of the Reserve Fund to fully fund the Required Reserve Amount. The City Council hereby finds that with respect to the Bonds, the acquisition of the Reserve Fund Policy will result in the Reserve Fund being fully funded. Any draws on the surety bonds or other credit agreements funding the Required Reserve Amount on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under each such surety bond or credit agreement) after applying available cash and investments in the Reserve Fund.

The Insurance Agreement (the "Insurance Agreement") by and between the City and MBIA Insurance Corporation attached hereto as **Exhibit C** and incorporated herein by reference as a part of this Eleventh Supplement for all purposes as if all the provisions thereof were restated in full as part of this Section, is hereby approved as to form and content, and such Insurance Agreement in substantially the form and substance attached hereto, together with such changes or revisions as may be necessary to comply with Texas law, is hereby authorized to be executed by the Acting City Treasurer for and on behalf of the City and as the act and deed of this governing body; and such Insurance Agreement as executed by said official shall be deemed approved by the City Council and constitute the Insurance agreement herein approved.

The provisions of Section 8 of the Master Ordinance relating to the Reserve Fund, particularly paragraphs (b), (c) and (d) thereof, are hereby incorporated by reference and made a part hereof as if the same were restated in full in this Section, and to the extent of any conflict between the provisions of said Section 8 and the provisions hereof with respect to draws on any Credit Agreement and the reinstatement of the full amount afforded by Credit Agreement, the provisions of the Prior Supplements with respect to such Credit Agreement and such Credit Agreement shall govern. Furthermore, in accordance with Section 10(d) of the Master Ordinance, the City Council hereby finds that the Gross Revenues will be sufficient to meet the obligations of the Water/Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water Wastewater Obligations currently Outstanding and the financial obligations of the City under any Credit Agreement entered into with the above named surety bond providers.

SECTION 15: PAYMENT OF BONDS. On or before the first scheduled interest payment date, and on or before each interest payment date and principal payment date thereafter while any of the Bonds are Outstanding, the City shall cause an amount to be transferred to the Paying Agent/Registrar in immediately available funds from the Debt Service Fund and Reserve Fund, if necessary, sufficient to pay such interest on and such principal amount of the Bonds, as shall become due on such dates, respectively, at maturity or by redemption prior to maturity. The Paying Agent/Registrar shall destroy all paid Bonds and furnish the City with an appropriate certificate of cancellation or destruction.

SECTION 16: COVENANTS TO MAINTAIN TAX-EXEMPT STATUS. (a) Definitions. When used in this Section 16, the following terms have the following meanings:

"Closing Date" means the date on which the Bonds are first authenticated and delivered to the Underwriters against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1986, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of (1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations and (2) the Bonds has the meaning set forth in Section 1.148-4 of the Regulations.

(b) **Not to Cause Interest to Become Taxable.** The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City shall comply with each of the specific covenants in this Section.

(c) **No Private Use or Private Payments.** Except as permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Bonds:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds (including property financed with Gross Proceeds of the Refunded Bonds), and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality

thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) *not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds), other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.*

(d) No Private Loan. Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment (or use Gross Proceeds to replace money so invested), if as a result of such investment the Yield from the Closing Date of all Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the Yield of the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Bonds by the Underwriters and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States out of the Debt Service Fund or its general fund, as permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) Elections. The City hereby directs and authorizes the Mayor, City Manager, Chief Financial Officer, Deputy Chief Financial Officer or Acting City Treasurer, individually or jointly, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

(k) Bonds Not Hedge Bonds. (1) At the time the original obligations refunded by the Bonds were issued, the City reasonably expected to spend at least 85% of the spendable proceeds of such original obligations within three years after such obligations were issued and (2) not more than 50% of the proceeds of the original obligations refunded by the Bonds were invested in Nonpurpose Investments having a substantially guaranteed Yield for a period of 4 years or more.

(l) Current Refunding. The Refunded Bonds being refunded by the Bonds constitute a current refunding as the payment of such Refunded Bonds will occur within 90 days of the delivery of the Bonds.

SECTION 17: AMENDMENT OF ELEVENTH SUPPLEMENT. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Bonds shall have the right from time to time to approve any amendment to this Eleventh Supplement which may be deemed necessary or desirable by the City; provided, however, nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Eleventh Supplement so as to:

- (1) Make any change in the maturity of any of the Outstanding Bonds;
- (2) Reduce the rate of interest borne by any of the Outstanding Bonds;
- (3) Reduce the amount of the principal payable on the Bonds;
- (4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Bonds or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Bonds then Outstanding;
- (6) Amend this subsection (a) of this Section; or
- (7) Change the *minimum percentage of the principal amount of Bonds necessary for consent to any amendment*;

unless such amendment or amendments be approved by the owners of all of the Bonds affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Eleventh Supplement under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with the Paying Agent for the Bonds. Such publication is not required, however, if notice in writing is given by United States Mail, first class postage prepaid, to each owner of the Bonds.

(c) Time Period for Obtaining Consent. If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Bonds, *whichever date first occurs if both methods of giving notice are used*, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Bonds consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Bonds during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent for such Bonds and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Bonds as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Eleventh Supplement shall be deemed to be amended, and the respective rights, duties and obligations of the City under this Eleventh Supplement and all the owners of then Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendment.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Eleventh Supplement for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Eleventh Supplement contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Bonds or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Eleventh Supplement, or in regard to clarifying matters or questions arising under this Eleventh Supplement, as are necessary or desirable and not contrary to or inconsistent with this Eleventh Supplement and which shall not adversely affect the interests of the owners of the Bonds then outstanding;

(3) To modify any of the provisions of this Eleventh Supplement in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all the Bonds outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Eleventh Supplement as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Bonds to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Bonds, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Eleventh Supplement and which shall not adversely affect the interests of the owners of the Bonds;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Bonds by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Bonds, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Bonds. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the

publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds shall be established by the Security Register maintained by the Paying Agent. Furthermore, the owner of any Bonds insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Bonds; provided such amendment to this Eleventh Supplement is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Bonds and such insurance company is not in default with respect to its obligations under its insurance policy.

SECTION 18: FINAL DEPOSITS; GOVERNMENTAL OBLIGATIONS. All or any of the Bonds shall be deemed to be paid, retired and no longer outstanding within the meaning of this Eleventh Supplement when payment of the principal of, and redemption premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as a Bond shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Eleventh Supplement, the Master Ordinance or a lien on and pledge of the Net Revenues of the Water/Wastewater System, and shall be entitled to payment solely from such money or Government Obligations.

Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the Bonds, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City. The City covenants that no deposit will be made or accepted under clause (ii) of this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding any other provisions of this Eleventh Supplement, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the Bonds, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such Bonds, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Eleventh Supplement.

SECTION 19: DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS. In the event any Outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same

principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided. An application for the replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Eleventh Supplement equally and proportionately with any and all other Bonds duly issued under this Eleventh Supplement.

Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section. Furthermore, in accordance with V.T.C.A., Government Code, Section 1206.022, this Section shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such bonds in the form and manner and with the effect, as provided in Section 6 of this Eleventh Supplement for Bonds issued in exchange for other Bonds.

SECTION 20: ELEVENTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Eleventh Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Bonds and the pledge made in this Eleventh Supplement by the City and the covenants and agreements set forth in this Eleventh Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Eleventh Supplement.

SECTION 21: CONTINUING DISCLOSURE UNDERTAKING. (a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

(b) **Annual Reports.** The City shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year (beginning with the fiscal year ending September 30, 2005) financial information and operating data with respect to the City of the general type included in the final Official Statement approved by Section 23 of this Eleventh Supplement, being the information described in Exhibit D hereto. Financial statements to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit D hereto and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not available at the time the financial information and operating data must be provided, then the City shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID with the financial information and operating data and will file the annual audit report when and if the same becomes available.

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

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

(c) **Material Event Notices.** The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- (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.

The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with subsection (b) of this Section by the time required by such Section.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section while, but only while, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give the notice required by subsection (c) hereof of any Bond calls and defeasance that cause the City to be no longer such an "obligated person."

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

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall constitute a breach of or default under this Eleventh Supplement for purposes of any other provision of this Eleventh Supplement.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances resulting 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 or the Water/Wastewater System, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Eleventh Supplement 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 interests of the Holders and beneficial owners of the Bonds. The provisions of this Section may also be amended from time to time or repealed by the City if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the City's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data filed with each NRMSIR and SID pursuant to subsection (b) of this Section 21 an explanation, in narrative form, of the reasons for the

amendment and of the impact of any change in the type of financial information or operating data so provided.

SECTION 22: REMEDY 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 (a) defaults in payments to be made to the Debt Service Fund or Reserve Fund as required by this Eleventh Supplement or the Master Ordinance, (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Eleventh Supplement or the Master Ordinance or (c) the City declares bankruptcy, the Holders of any of the Bonds shall be 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 this Eleventh Supplement or the Master Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall 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 remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 23: SALE OF BONDS - OFFICIAL STATEMENT APPROVAL. The Bonds authorized by this Eleventh Supplement are hereby sold by the City to Morgan Keegan & Company, Inc. (herein referred to as the "Underwriter") in accordance with the Bond Purchase Agreement, dated November 17, 2005, attached hereto as **Exhibit E** and incorporated herein by reference as a part of this Eleventh Supplement for all purposes. The Mayor is hereby authorized and directed to execute said Bond Purchase Agreement for and on behalf of the City and as the act and deed of this Council, and in regard to the approval and execution of the Bond Purchase Agreement, the Council hereby finds, determines and declares that the representations, warranties and agreements of the City contained in the Bond Purchase Agreement are true and correct in all material respects and shall be honored and performed by the City.

Furthermore, the use of the Preliminary Official Statement, dated November 10, 2005, in the offering and sale of the Bonds is hereby ratified, confirmed and approved in all respects, and the City Council hereby finds that the information and data contained in said Preliminary Official Statement pertaining to the City and its financial affairs is true and correct in all material respects and no material facts have been omitted therefrom which are necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The final Official Statement, which reflects the terms of sale (together with such changes approved by the Mayor, City Manager, Chief Financial Officer, Deputy Chief Financial Officer or Acting City Treasurer, one or more of said officials), shall be and is hereby in all respects approved and the Underwriters are hereby authorized to use and distribute said final Official Statement, dated November 17, 2005, in the offering, sale and delivery of the Bonds to the public.

In addition, immediately prior to the delivery of the Bonds, a current and updated final Official Statement reflecting the terms of sale of the Bonds and the then current financial operating data pertaining to the City shall be prepared under the supervision and guidance of the Mayor, City Manager, Chief Financial Officer, Deputy Chief Financial Officer or Acting City Treasurer. The Mayor and City Clerk are further authorized and directed to manually execute and deliver for and on behalf of the City copies of said Preliminary Official Statement and Official Statement in final form as may be required by the Underwriter, and such final Official

Statement in the form and content manually executed by said officials shall be deemed to be approved by the City Council and constitute the Official Statement authorized for distribution and use by the Underwriter.

SECTION 24: CONTROL AND CUSTODY OF BONDS. The City Manager of the City shall be and is hereby authorized to take and have charge of all necessary orders and records pending the sale of the Bonds, and shall take and have charge and control of the Initial Bonds pending the approval thereof by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery thereof to the Underwriters.

Furthermore, the Mayor, City Manager, Chief Financial Officer, Deputy Chief Financial Officer, City Clerk, Acting City Treasurer and City Attorney, any one or more of said officials, are hereby authorized and directed to furnish and execute such documents relating to the City and its financial affairs as may be necessary for the sale of the Bonds, the approval of the Attorney General and registration by the Comptroller of Public Accounts and, together with the City's financial advisor, bond counsel and the Paying Agent/Registrar, make the necessary arrangements for their delivery to the Underwriters following such sale.

SECTION 25: SPECIAL ESCROW AGREEMENT APPROVAL AND EXECUTION. The "Special Escrow Agreement" (the "Agreement") by and between the City and Deutsche Bank Trust Company Americas, New York, New York (the "Escrow Agent"), attached hereto as **Exhibit F** and incorporated herein by reference as a part of this Eleventh Supplement for all purposes, is hereby approved as to form and content, and such Agreement in substantially the form and substance attached hereto, together with such changes or revisions as may be necessary to accomplish the refunding or benefit the City, is hereby authorized to be executed by the Mayor or City Manager and City Clerk for and on behalf of the City and as the act and deed of this City Council; and such Agreement as executed by said officials shall be deemed approved by the City Council and constitute the Agreement herein approved.

Furthermore, appropriate officials of the City in cooperation with the Escrow Agent are hereby authorized and directed to make the necessary arrangements for the purchase of the escrowed securities referenced in the Agreement and the delivery thereof to the Escrow Agent on the day of delivery of the Bonds to the Purchasers for deposit to the credit of the "SPECIAL 2006 CITY OF AUSTIN, TEXAS, REVENUE REFUNDING BOND ESCROW FUND" (the "Escrow Fund"), all as contemplated and provided in V.T.C.A., Government Code, Chapter 1207, as amended, this Eleventh Supplement and the Agreement.

SECTION 26: PROCEEDS OF SALE. Immediately following the delivery of the Bonds, proceeds of sale (less amounts to pay costs of issuance, surety bond premium and municipal bond insurance premium) shall be deposited to the credit of the Escrow Fund.

Additionally, the Acting City Treasurer of the City is hereby authorized and directed to cause to be transferred in immediately available funds to the Escrow Agent an amount, if any, which, together with the Escrowed Securities referenced in the Escrow Agreement and investment income therefrom, will be sufficient to pay the Refunded Bonds on their redemption date.

SECTION 27: REDEMPTION OF REFUNDED BONDS. (a) A portion of the bonds of that series known as "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A, dated August 1, 1996, identified and described in the preamble hereof and aggregating in principal amount \$13,485,000, shall be redeemed and the same are hereby called for redemption on November 15, 2006, at the price of par plus accrued interest to such

date of redemption. The City Clerk is hereby authorized and directed to file a copy of this Eleventh Supplement, together with a suggested form of notice of redemption to be sent to bondholders, with JPMorgan Chase Bank, National Association, Dallas, Texas (successor paying agent/registrar to Texas Commerce Bank, National Association), in accordance with the redemption provisions applicable to such bonds; such suggested form of notice of redemption being attached hereto as Exhibit G-1 and incorporated herein by reference as a part of this Eleventh Supplement for all purposes. Additionally, in accordance with the terms of the order authorizing the issuance of such bonds, the Paying Agent/Registrar is hereby authorized and directed to make a lot selection of the bonds of each maturity to be redeemed in part and make arrangements to notify bondholders of such lot selection as soon as possible.

(b) The bonds of that series known as "City of Austin, Texas Combined Utility System Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, identified and described in the preamble hereof and aggregating in principal amount \$49,875,000 shall be redeemed and the same are hereby called for redemption on November 15, 2006, at the price of par plus accrued interest to the date of redemption. The City Clerk is hereby authorized and directed to file a copy of this Eleventh Supplement, together with a suggested form of notice of redemption to be sent to bondholders, with JPMorgan Chase Bank, Dallas, Texas (successor paying agent/registrar to Texas Commerce Bank, National Association), in accordance with the redemption provisions applicable to such bonds; such suggested form of notice of redemption being attached hereto as Exhibit G-2 and incorporated herein by reference

The redemption of the bonds described above being associated with the refunding of such obligations, the approval, authorization and arrangements herein given and provided for the redemption of such bonds on the redemption date designated therefor and in the manner provided shall be irrevocable upon the issuance and delivery of the Bonds; and the City Clerk is hereby authorized and directed to make all arrangements necessary to notify the holders of such bonds of the City's decision to redeem such bonds on the date and in the manner herein provided and in accordance with the resolution authorizing the issuance of the obligations and this Eleventh Supplement.

SECTION 28: LEGAL OPINION. The obligation of the Underwriters to accept delivery of the Bonds is subject to being furnished a final opinion of Fulbright & Jaworski L.L.P., Attorneys, Dallas, Texas, approving such Bonds as to their validity, said opinion to be dated and delivered as of the date of delivery and payment for such Bonds. A true and correct reproduction of said opinion is hereby authorized to be printed on the definitive Bonds or an executed counterpart thereof shall accompany the global Bonds deposited with The Depository Trust Company.

SECTION 29: CUSIP NUMBERS. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof and neither the City nor attorneys approving said Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

SECTION 30: PAYMENT AND PERFORMANCE ON BUSINESS DAYS. Whenever under the terms of this Eleventh Supplement or the Bonds, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Bonds, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Bonds, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the date of performance or payment.

SECTION 31: LIMITATION OF BENEFITS WITH RESPECT TO THE ELEVENTH SUPPLEMENT. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Eleventh Supplement or the Bonds is intended or should be construed to confer upon or give to any person other than the City, the Holders, and the Paying Agent/Registrar, any legal or equitable right, remedy, or claim under or by reason of or in respect to this Eleventh Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Eleventh Supplement and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the City, the Holders, and the Paying Agent/Registrar as herein and therein provided.

SECTION 32: NOTICES TO HOLDERS-WAIVER. Wherever this Eleventh Supplement provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first class postage prepaid, to the address of each Holder appearing in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds. Where this Eleventh Supplement provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 33: GOVERNING LAW. This Eleventh Supplement shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 34: EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

SECTION 35: CONSTRUCTION OF TERMS. If appropriate in the context of this Eleventh Supplement, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

SECTION 36: SEVERABILITY. If any provision of this Eleventh Supplement or the application thereof to any circumstance shall be held to be invalid, the remainder of this Eleventh Supplement and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Eleventh Supplement would have been enacted without such invalid provision.

SECTION 37: INCORPORATION OF FINDINGS AND DETERMINATIONS. The findings and determinations of the City Council contained in the preamble hereof are hereby incorporated by reference and made a part of this Ordinance for all purposes as if the same were restated in full in this Section.

SECTION 38: INSURANCE. The Bonds have been sold with the principal of and interest thereon being insured by MBIA Insurance Corporation (hereinafter called "MBIA") pursuant to a Financial Guaranty Insurance Policy. In accordance with the terms and conditions applicable to insurance provided by MBIA, the City covenants and agrees that, in the event the

principal and interest due on the Bonds shall be paid by MBIA pursuant to the policy referred to this Section, the assignment and pledge of all funds and all covenants, agreements and other obligations of the City to the Holders shall continue to exist and MBIA shall be subrogated to the rights of such Holders; and furthermore, the City covenants and agrees that:

(a) In the event that, on the second business day, and again on the business day, prior to the payment date on the Bonds, the Paying Agent/Registrar has not received sufficient moneys to pay all principal of and interest on the Bonds due on the second following or following, as the case may be, business day, the Paying Agent/Registrar shall immediately notify MBIA or its designee on the same business day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent/Registrar shall so notify MBIA or its designee.

(c) In addition, if the Paying Agent/Registrar has notice that any Holder has been required to disgorge payments of principal of or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Holder within the meaning of any applicable bankruptcy laws, then the Paying Agent/Registrar shall notify the MBIA or its designee of such fact by telephone or telegraphic notice, confirming in writing by registered or certified mail.

(d) The Paying Agent/Registrar is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Bonds as follows:

(1) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Paying Agent/Registrar shall (a) execute and deliver to U. S. Bank Trust National Association or its successors under the Policy (the "Insurance Paying Agent/Trustee"), in form satisfactory to the Insurance Paying Agent/Trustee, an instrument appointing the MBIA as agent for such Holders in such legal proceeding related to the payment of such interest and an assignment to the MBIA of the claims for interest to which such deficiency relates and which are paid by MBIA, (b) receive as designee to the respective Holders (and not as Paying Agent/Registrar) in accordance with the tenor of the Policy payment from the Insurance Paying Agent/Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

(2) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Paying Agent/Registrar shall (a) execute and deliver to the Insurance Paying Agent/Trustee in form satisfactory to the Insurance Paying Agent/Trustee an instrument appointing MBIA as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to MBIA of any of the Bonds surrendered to the Insurance Paying Agent/Trustee or so much of the principal thereof as has not previously been paid or for which moneys are not held by the Paying Agent/Registrar and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent/Trustee is received), (b) receive as designee of the respective Holders (and not as Paying Agent/Registrar) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent/Trustee, and (c) disburse the same to such Holders.

(e) Payments with respect to claims for interest on and principal of Bonds disbursed by the Paying Agent/Registrar from proceeds of the Policy shall not be considered to discharge the obligation of the City with respect to such Bonds, and MBIA shall become the owner of such unpaid Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, MBIA and the Paying Agent/Registrar hereby agree for the benefit of the MBIA that:

(1) They recognize that to the extent the MBIA makes payments, directly or indirectly (as by paying through the Paying Agent/Registrar), on account of principal of and interest on the Bonds, MBIA will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the City, as provided and solely from the sources stated in this Eleventh Supplement and the Bonds; and

(2) They will accordingly pay to MBIA the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), as provided in this Eleventh Supplement and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to Holders, and will otherwise treat the MBIA as the owner of such rights to the amount of such principal and interest.

(g) In connection with the issuance of Parity Water/Wastewater Obligations, the City shall deliver to the MBIA a copy of the disclosure document, if any, circulated with respect to such Parity Water/Wastewater Obligations.

(h) With respect to amendments to the Master Ordinance or this Eleventh Supplement, MBIA shall be notified of any such amendment and the City shall obtain MBIA's consent with respect to any amendment requiring owner consent. Copies of any amendments made to the documents executed in connection with the issuance of the Bonds which are consented to by the MBIA shall be sent to Standard & Poor's Corporation.

(i) MBIA shall receive (1) notice of the resignation or removal of the Paying Agent/Registrar and the appointment of a successor thereto, (2) copies of all notices required to be delivered to Holders and, on an annual basis, copies of the City's audited financial statements and annual budget and (3) 15 days advance notice of any advance refunding of the Bonds as well as a copy of the accountant's verification report with respect thereto.

(j) Any notice that is required to be given to a Holder of the Bonds or to the Paying Agent/Registrar pursuant to the Master Ordinance or this Eleventh Supplement shall also be provided to MBIA. All notices required to be given to MBIA under the Master Ordinance or this Eleventh Supplement shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504, Attention: Surveillance.

(k) MBIA shall be recognized as the registered owner of each Bond which it insures for the purposes of existing all rights and privileges available to Holders.

(l) The City will not enter into a guaranteed investment contract for the investment of proceeds of the Bonds pursuant to the Public Funds Investment Act without the prior written consent of MBIA and any investment of money deposited to the credit of the special funds created or maintained pursuant to this Ordinance shall be in accordance with the Public Funds Investment Act..

(m) MBIA, acting alone, shall have the right to direct all remedies in the event of a default. MBIA shall be recognized as the registered owner of each bond which it insures for the purposes of exercising all rights and privileges available to Holders. For Bonds which it insures, MBIA shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as the Holder in accordance with the applicable provisions of this Ordinance.

(n) The City agrees, subject to annual appropriation by the City and to the extent permitted by law, to reimburse MBIA for all reasonable expenses, including attorneys' fees and expenses, incurred by MBIA in connection with (i) the enforcement by MBIA of the City's obligations, or the preservation or defense of any rights of MBIA, under this Ordinance and any other document executed in connection with the issuance of the Bonds, and (ii) any consent, amendment, waiver or other action with respect this Ordinance or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, MBIA reserves the right to charge a fee in connection with its review of such consent, amendment or waiver, whether or not granted or approved.

(o) The City agrees not to use MBIA's name in any public document including, without limitation, a press release or presentation, announcement or forum without MBIA's prior consent; provided, however, such prohibition on the use of MBIA's name shall not relate to the use of MBIA's standard approved form of disclosure in public documents issued in connection with the Bonds; and provided further such prohibition shall not apply to the use of MBIA's name in order to comply with public notice, public hearing or public reporting requirements.

(p) The City shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of MBIA.

(q) In regard to any defeasance of the Bonds, MBIA be shall provided with an opinion of counsel acceptance to MBIA that the Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the Bonds within the meaning of this Ordinance. In addition, MBIA shall be entitled to receive (i) 15 business days notice of any advance refunding of the Bonds and (ii) an accountant's report with respect to the sufficiency of the amounts deposited in escrow to defease the Bonds.

SECTION 39: PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Eleventh Supplement is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Eleventh Supplement, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

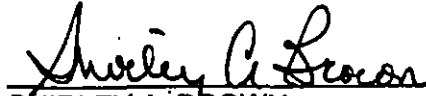
SECTION 40: EFFECTIVE DATE. This Eleventh Supplement is hereby passed one reading as authorized by V.T.C.A., Government Code, Section 1201.028 and shall be effective immediately upon its passage and adoption.

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PASSED AND ADOPTED, this November 17, 2005.

CITY OF AUSTIN, TEXAS

ATTEST:


SHIRLEY A. BROWN
City Clerk




WILL WYNN
Mayor

APPROVED:

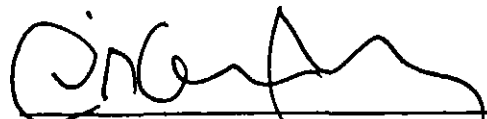

DAVID ALLAN SMITH
City Attorney

EXHIBIT A

That, as used in this Eleventh Supplement, the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Bonds" means the "CITY OF AUSTIN, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2006" authorized for issuance by the Eleventh Supplement.

"Business Day" means a day other than a Sunday, Saturday, a legal holiday, or a day on which banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

"Insurance Agreement" means the Insurance Agreement between MBIA Insurance Corporation and the City related to the Reserve Fund Policy.

"Master Ordinance" means Ordinance No. 000608-56A providing for the issuance of "Parity Water/Wastewater Obligations", as defined therein, passed by the City on June 8, 2000.

"Eleventh Supplement" means Ordinance No. 20051119-060 authorizing the issuance of the Bonds.

"Paying Agent/Registrar" means the financial institution specified in Section 4 of the Eleventh Supplement.

"Previously Issued Parity Water/Wastewater Obligations" mean the outstanding Parity Water/Wastewater Obligations previously issued or incurred pursuant to one or more Prior Supplements, more particularly identified as follows: (1) "City of Austin, Texas, Water And Wastewater System Revenue Refunding Bonds, Series 2000" (2) "City of Austin, Texas, Water And Wastewater System Revenue Refunding Bonds, Series 2001A", (3) "City of Austin, Texas, Water And Wastewater System Revenue Refunding Bonds, Series 2001B", (4) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2001C", (5) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2002A", (6) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2003", (7) "City of Austin, Texas, Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004", together with certain regularly scheduled payments under the Interest Rate Swap Agreement, the Liquidity Agreement and the Insurance Obligation (as such terms are defined in Ordinance No. 040812-43), (8) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2004A", (9) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2005", and (10) "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2005A"

"Prior Supplements" mean Ordinances Nos. 000608-56B, 010419-77, 011129-65, 020718-15, 030206-35, 040617-45, 040812-43, 040930-83, 050519-37 and 20051020-051 authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations.

"Security Register" shall have the meaning given said term in Section 4 of the Eleventh Supplement.

Exhibit B

Paying Agent Registrar Agreement

PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT entered into as of November 17, 2005 (this "Agreement"), by and between the City of Austin, Texas (the "Issuer"), and Deutsche Bank Trust Company Americas, New York, New York, a banking corporation organized and existing under the laws of the State of New York and authorized to do business in the State of Texas, or its successors or assigns hereunder (the "Bank"),

RECITALS

WHEREAS, the Issuer has duly authorized and provided for the execution and delivery of its "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2006" (the "Securities"), dated August 15, 2006, which Securities are scheduled to be delivered to the initial purchaser on or about August 17, 2006; and

WHEREAS, the Issuer has selected the Bank to serve as paying agent, registrar and transfer agent with respect to such Securities; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and is duly qualified and otherwise capable of performing the duties and responsibilities contemplated by this Agreement with respect to the Securities;

NOW, THEREFORE, It is mutually agreed as follows:

ARTICLE ONE APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01 Appointment. The Issuer hereby appoints the Bank to serve as Paying Agent with respect to the Securities, and, as Paying Agent for the Securities, the Bank shall be responsible for paying on behalf of the Issuer the principal, premium (if any), and interest on the Securities as the same become due and payable to the registered owners thereof; all in accordance with this Agreement and the "Bond Resolution" (hereinafter defined). The Issuer hereby appoints the Bank as Registrar with respect to the Securities and, as Registrar for the Securities, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of said Securities and with respect to the transfer and exchange thereof as provided herein and in the "Bond Resolution".

The Bank hereby accepts its appointment, and agrees to serve as the Paying Agent and Registrar for the Securities.

Section 1.02 Compensation. As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Annex A attached hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for municipalities, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year of the Issuer, and shall be effective upon the first day of the following Fiscal Year.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any

of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

ARTICLE TWO DEFINITIONS

Section 2.01 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Acceleration Date" on any Security means the date on and after which the principal or any or all installments of interest, or both, are due and payable on any Security which has become accelerated pursuant to the terms of the Security.

"Bank Office" means the designated office of the Bank as indicated in Section 3.01 hereof. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

"Bond Resolution" means the resolution, order, or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, certified by the Secretary or any other officer of the Issuer and delivered to the Bank.

"Fiscal Year" means the fiscal year of the Issuer, ending September 30th.

"Holder" and "Security Holder" each means the Person in whose name a Security is registered in the Security Register.

"Issuer Request" and "Issuer Order" means a written request or order signed in the name of the Issuer by the Mayor, City Clerk, City Manager, Assistant City Manager, Chief Financial Officer, Deputy Chief Financial Officer, or Acting City Treasurer, any one or more of said officials, and delivered to the Bank.

"Legal Holiday" means a day on which the Bank is required or authorized to be closed.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

"Predecessor Securities" of any particular Security means every previous Security evidencing all or a portion of the same obligation as that evidenced by such particular Security (and, for the purposes of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement Security has been registered and delivered in lieu thereof pursuant to Section 4.06 hereof and the Resolution).

"Redemption Date" when used with respect to any Security to be redeemed means the date fixed for such redemption pursuant to the terms of the Bond Resolution.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier,

any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration and transfers of Securities.

"Stated Maturity" means the date specified in the Bond Resolution the principal of a Security is scheduled to be due and payable.

Section 2.02 Other Definitions. The terms "Bank," "Issuer," and "Securities (Security)" have the meanings assigned to them in the recital paragraphs of this Agreement.

The term "Paying Agent/Registrar" refers to the Bank in the performance of the duties and functions of this Agreement.

ARTICLE THREE PAYING AGENT

Section 3.01 Duties of Paying Agent. As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the principal of each Security at its Stated Maturity, Redemption Date, or Acceleration Date, to the Holder upon surrender of the Security to the Bank at the following office:

Deutsche Bank Trust Company Americas
Trust & Securities Services
60 Wall Street
27th Floor, MS NYC60-2715
New York, New York 10005

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due, by computing the amount of interest to be paid each Holder and making payment thereof to the Holders of the Securities (or their Predecessor Securities) on the Record Date. All payments of principal and/or interest on the Securities to the registered owners shall be accomplished (1) by the issuance of checks, payable to the registered owners, drawn on the fiduciary account provided in Section 5.05 hereof, sent by United States mail, first class, postage prepaid, to the address appearing on the Security Register or (2) by such other method, acceptable to the Bank, requested in writing by the Holder at the Holder's risk and expense.

Section 3.02 Payment Dates. The Issuer hereby instructs the Bank to pay the principal of and interest on the Securities at the dates specified in the Bond Resolution.

ARTICLE FOUR REGISTRAR

Section 4.01 Security Register - Transfers and Exchanges. The Bank agrees to keep and maintain for and on behalf of the Issuer at the Bank Office books and records (herein sometimes referred to as the "Security Register") for recording the names and addresses of the Holders of the Securities, the transfer, exchange and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holders and containing such other information as may be reasonably required by the Issuer and subject to such reasonable regulations as the Issuer and Bank may prescribe. The Bank represents and warrants its office in Dallas, Texas will at all times have immediate access to the Security Register by electronic or other means and will be capable at all times of producing a hard copy of the Security Register at its Dallas office for use by the Issuer. All transfers, exchanges and replacement of Securities shall be noted in the Security Register.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers, in form satisfactory to the Bank, duly executed by the Holder thereof or his agent duly authorized in writing.

The Bank may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities.

To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof will be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

Section 4.02 Certificates. The Issuer shall provide an adequate inventory of printed Securities to facilitate transfers or exchanges thereof. The Bank covenants that the inventory of printed Securities will be kept in safekeeping pending their use and reasonable care will be exercised by the Bank in maintaining such Securities in safekeeping, which shall be not less than the care maintained by the Bank for debt securities of other governments or corporations for which it serves as registrar, or that is maintained for its own securities.

Section 4.03 Form of Security Register. The Bank, as Registrar, will maintain the Security Register relating to the registration, payment, transfer and exchange of the Securities in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Security Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Security Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04 List of Security Holders. The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security

Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order and prior to the release or disclosure of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the court order or such release or disclosure of the contents of the Security Register.

Section 4.05 Return of Cancelled Certificates. The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

Section 4.06 Mutilated, Destroyed, Lost or Stolen Securities. The Issuer hereby instructs the Bank, subject to the provisions of the Bond Resolution, to deliver and issue Securities in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities as long as the same does not result in an overissuance.

In case any Security shall be mutilated, or destroyed, lost or stolen, the Bank may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such destroyed lost or stolen Security, only upon the approval of the Issuer and after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, or destroyed, lost or stolen.

Section 4.07 Transaction Information to Issuer. The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01, Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01, and Securities it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities pursuant to Section 4.06.

ARTICLE FIVE THE BANK

Section 5.01 Duties of Bank. The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

Section 5.02 Reliance on Documents, Etc. (a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

Section 5.03 Recitals of Issuer. The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

Section 5.04 May Hold Securities. The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05 Moneys Held by Bank - Paying agent Account/Collateralization. A paying agent account shall at all times be kept and maintained by the Bank for the receipt, safekeeping and disbursement of moneys received from the Issuer hereunder for the payment of the Securities, and money deposited to the credit of such account until paid to the Holders of the Securities shall be continuously collateralized by securities or obligations which qualify and are eligible under both the laws of the State of Texas and the laws of the United States of America to secure and be pledged as collateral for paying agent accounts to the extent such money is not insured by the Federal Deposit Insurance Corporation. Payments made from such account shall be made by check drawn on such account unless the owner of such Securities shall, at its own expense and risk, request such other medium of payment.

The Bank shall be under no liability for interest on any money received by it hereunder.

Subject to the applicable unclaimed property laws of the State of Texas, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any

Security and remaining unclaimed for three years after final maturity of the Security has become due and payable will be paid by the Bank to the Issuer, and the Holder of such Security shall thereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such moneys shall thereupon cease.

Section 5.06 Indemnification. To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07 Interpleader. The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the State and County where the administrative offices of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to in Section 6.03 of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction in the State of Texas to determine the rights of any Person claiming any interest herein.

Section 5.08 DT Services. It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements", which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

ARTICLE SIX MISCELLANEOUS PROVISIONS

Section 6.01 Amendment. This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

Section 6.02 Assignment. This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03 Notices. Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on page 9.

Section 6.04 Effect of Headings. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05 Successors and Assigns. All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06 Severability. In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07 Benefits of Agreement. Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.08 Entire Agreement. This Agreement and the Bond Resolution constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Bond Resolution, the Bond Resolution shall govern.

Section 6.09 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10 Termination. This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon sixty (60) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

Section 6.11 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

DEUTSCHE BANK TRUST COMPANY
AMERICAS, New York New York

(SEAL)

Attest:

By _____
Title:

Address: 60 Wall Street
27th Floor, MS NYC60-2715
New York, New York 10005

Title:



Shirley A. Brown
City Clerk

CITY OF AUSTIN, TEXAS

By Will Wynn
Title: MAYOR

Address: 700 Lavaca, Suite 1510
Austin, Texas 78701

Exhibit C
Insurance Agreement

FINANCIAL GUARANTY AGREEMENT

FINANCIAL GUARANTY AGREEMENT made as of [CLOSING DATE], by and between [ISSUER] (the "Issuer") and MBIA Insurance Corporation (the "Insurer"), organized under the laws of the state of New York.

WITNESSETH:

WHEREAS, the Issuer has or will issue the Obligations; and

WHEREAS, pursuant to the terms of the Document the Issuer agrees to make certain payments on the Obligations; and

WHEREAS, the Insurer will issue its Surety Bond, substantially in the form set forth in Annex A to this Agreement, guaranteeing certain payments by the Issuer subject to the terms and limitations of the Surety Bond; and

WHEREAS, to induce the Insurer to issue the Surety Bond, the Issuer has agreed to pay the premium for the Surety Bond and to reimburse the Insurer for all payments made by the Insurer under the Surety Bond, all as more fully set forth in this Agreement; and

WHEREAS, the Issuer understands that the Insurer expressly requires the delivery of this Agreement as part of the consideration for the execution by the Insurer of the Surety Bond; and

NOW, THEREFORE, in consideration of the premises and of the agreements herein contained and of the execution of the Surety Bond, the Issuer and the Insurer agree as follows:

ARTICLE I DEFINITIONS; SURETY BOND

Section 1.01. Definitions. The terms which are capitalized herein shall have the meanings specified in Annex B hereto.

Section 1.02. Surety Bond.

(a) The Insurer will issue the Surety Bond in accordance with and subject to the terms and conditions of the Commitment.

(b) The maximum liability of the Insurer under the Surety Bond and the coverage and term thereof shall be subject to and limited by the terms and conditions of the Surety Bond.

Section 1.03. Premium. In consideration of the Insurer agreeing to issue the Surety Bond hereunder, the Issuer hereby agrees to pay or cause to be paid the Premium set forth in Annex B hereto. The Premium on the Surety Bond is not refundable for any reason.

Section 1.04. Certain Other Expenses. The Issuer will pay all reasonable fees and disbursements of the Insurer's special counsel related to any modification of this Agreement or the Surety Bond.

ARTICLE II REIMBURSEMENT AND INDEMNIFICATION OBLIGATIONS OF ISSUER AND SECURITY THEREFOR

Section 2.01. Reimbursement for Payments Under the Surety Bond and Expenses; Indemnification.

(a) The Issuer will reimburse the Insurer, within the Reimbursement Period, without demand or notice by the Insurer to the Issuer or any other person, to the extent of each Surety Bond Payment with interest on each Surety Bond Payment from and including the date made to the date of the reimbursement at the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law.

(b) The Issuer also agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by state law, for all reasonable expenses incurred by the Insurer in connection with the Surety Bond and the enforcement by the Insurer of the Issuer's obligations under this Agreement, the Document, and any other document executed in connection with the issuance of the Obligations, together with interest on all such expenses from and including the date incurred to the date of payment at the rate set forth in subsection (a) of this Section 2.01.

(c) The Issuer agrees to indemnify the Insurer, to the extent permitted by state law, against any and all liability, claims, loss, costs, damages, fees of attorneys and other expenses which the Insurer may sustain or incur by reason of or in consequence of (i) the failure of the Issuer to perform or comply with the covenants or conditions of this Agreement or (ii) reliance by the Insurer upon representations made by the Issuer or (iii) a default by the Issuer under the terms of the Document or any other documents executed in connection with the issuance of the Obligations.

(d) The Issuer agrees that all amounts owing to the Insurer pursuant to Section 1.03 hereof and this Section 2.01 must be paid in full prior to any optional redemption or refunding of the Obligations.

(e) All payments made to the Insurer under this Agreement shall be paid in lawful currency of the United States in immediately available funds at the Insurer's office at 113 King Street, Armonk, New York 10504, Attention: Accounting and Insured Portfolio Management Departments, or at such other place as shall be designated by the Insurer.

Section 2.02. Allocation of Payments. The Insurer and the Issuer hereby agree that each payment received by the Insurer from or on behalf of the Issuer as a reimbursement to the Insurer as required by Section 2.01 hereof shall be applied by the Insurer first, toward payment of any unpaid premium; second, toward repayment of the aggregate Surety Bond Payments made by the Insurer and not yet repaid, payment of which will reinstate all or a portion of the Surety Bond Coverage to the extent of such repayment (but not to exceed the Surety Bond Limit); and third, upon full reinstatement of the Surety Bond Coverage to the Surety Bond Limit, toward other amounts, including, without limitation, any interest payable with respect to any Surety Bond Payments then due to the Insurer.

Section 2.03. Security for Payments; Instruments of Further Assurance. To the extent, but only to the extent, that the Document, or any related indenture, trust agreement, ordinance, resolution, mortgage, security agreement or similar instrument, if any, pledges to the Owners or any trustee therefor, or grants a security interest or lien in or on any collateral, property, revenue or other payments ("Collateral and Revenues") in order to secure the Obligations or provide a source of payment for the Obligations, the Issuer hereby grants to the Insurer a security interest in or lien on, as the case may be, and pledges to the Insurer all such Collateral and Revenues as security for payment of all amounts due hereunder and under the Document or any other document executed in connection with the issuance of the Obligations, which security interest, lien and/or pledge created or granted under this Section 2.03 shall be subordinate only to the interests of the Owners and any trustee therefor in such Collateral and Revenues, except as otherwise provided. The Issuer agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by the Insurer for the perfection of the security interest, if any, granted under this Section 2.03 and for the preservation and protection of all rights of the Insurer under this Section 2.03.

Section 2.04. Unconditional Obligation. The obligations hereunder are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, subject to the limitations of the Document, irrespective of:

(a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Obligations, the Document or any other document executed in connection with the issuance of the Obligations; or

(b) any exchange, release or nonperfection of any security interest in property securing the Obligations or this Agreement or any obligations hereunder; or

(c) any circumstances that might otherwise constitute a defense available to, or discharge of, the Issuer with respect to the Obligations, the Document or any other document executed in connection with the issuance of the Obligations; or

(d) whether or not such obligations are contingent or matured, disputed or undisputed, liquidated or unliquidated.

Section 2.05. Insurer's Rights. The Issuer shall repay the Insurer to the extent of payments made and expenses incurred by the Insurer in connection with the Obligations and this Agreement. The obligation of the Issuer to repay such amounts shall be subordinate only to the rights of the Owners to receive regularly scheduled principal and interest on the Obligations.

Section 2.06. On-Going Information Obligations of Issuer.

(a) Quarterly Reports. The Issuer will provide to the Insurer within 45 days of the close of each quarter interim financial statements covering all fund balances under the Document, a statement of operations (income statement), balance sheet and changes in fund balances. These statements need not be audited by an independent certified public accountant, but if any audited statements are produced, they must be provided to the Insurer;

(b) Annual Reports. The Issuer will provide to the Insurer annual financial statements audited by an independent certified public accountant within 90 days of the end of each fiscal year;

(c) Access to Facilities, Books and Records. The Issuer will grant the Insurer reasonable access to the project financed by the Obligations and will make available to the Insurer, at reasonable times and upon reasonable notice all books and records relative to the project financed by the Obligations; and

(d) Compliance Certificate. On an annual basis the Issuer will provide to the Insurer a certificate confirming compliance with all covenants and obligations hereunder and under the Revenue Agreement, the Document or any other document executed in connection with the issuance of the Obligations.

ARTICLE III AMENDMENTS TO DOCUMENT

So long as this Agreement is in effect, the Issuer agrees that it will not agree to amend the Document or any other document executed in connection with the issuance of the Obligations, without the prior written consent of the Insurer.

ARTICLE IV EVENTS OF DEFAULT; REMEDIES

Section 4.01. Events of Default. The following events shall constitute Events of Default hereunder:

(a) The Issuer shall fail to pay to the Insurer when due any amount payable under Sections 1.03; or

(b) The Issuer shall fail to pay to the Insurer any amount payable under Sections 1.04 and 2.01 hereof and such failure shall have continued for a period in excess of the Reimbursement Period; or

(c) Any material representation or warranty made by the Issuer under the Document or hereunder or any statement in the application for the Surety Bond or any report, certificate, financial statement, document or other instrument provided in connection with the Commitment, the Surety Bond, the Obligations, or herewith shall have been materially false at the time when made; or

(d) Except as otherwise provided in this Section 4.01, the Issuer shall fail to perform any of its other obligations under the Document, or any other document executed in connection with the issuance of the Obligations, or hereunder, provided that such failure continues for more than 30 days after receipt by the Issuer of written notice of such failure to perform; or

(e) The Issuer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing; or

(f) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Issuer, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Issuer or for a substantial part of its property; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for 30 days.

Section 4.02. Remedies. If an Event of Default shall occur and be continuing, then the Insurer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under this Agreement or to enforce performance of any obligation of the Issuer to the Insurer under the Document or any related instrument, and any obligation, agreement or covenant of the Issuer under this Agreement; provided, however, that the Insurer may not take any action to direct or require acceleration or other early redemption of the Obligations or adversely affect the rights of the Owners. In addition, if an Event of Default shall occur due to the failure to pay to the Insurer the amounts due under Section 1.03 hereof, the Insurer shall have the right to cancel the Surety Bond in accordance with its terms. All rights and remedies of the Insurer under this Section 4.02 are cumulative and the exercise of any one remedy does not preclude the exercise of one or more of the other available remedies.

ARTICLE V SETTLEMENT

The Insurer shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against the Insurer, the Issuer or any other party on the Surety Bond shall or shall not be paid, compromised, resisted, defended, tried or appealed, and the Insurer's decision thereon, if made in good faith, shall be final and binding upon the Insurer, the Issuer and any other party on the Surety Bond. An itemized statement of payments made by the Insurer, certified by an officer of the Insurer, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Issuer, and if the Issuer fails to immediately reimburse the Insurer upon the receipt of such statement of payments, interest shall be computed on such amount from the date of any payment made by the Insurer at the rate set forth in subsection (a) of Section 2.01 hereof.

ARTICLE VI MISCELLANEOUS

Section 6.01. Interest Computations. All computations of interest due hereunder shall be made on the basis of the actual number of days elapsed over a year of 360 days.

Section 6.02. Exercise of Rights. No failure or delay on the part of the Insurer to exercise any right, power or privilege under this Agreement and no course of dealing between the Insurer and the Issuer or any other party shall operate as a waiver of any such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Insurer would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 6.03. Amendment and Waiver. Any provision of this Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the Issuer and the Insurer. The Issuer hereby agrees that upon the written request of the Paying Agent, the Insurer may make or consent to issue any substitute for the Surety Bond to cure any ambiguity or formal defect or omission in the Surety Bond which does not materially change the terms of the Surety Bond nor adversely affect the rights of the Owners, and this Agreement shall apply to such substituted surety bond. The Insurer agrees to deliver to the Issuer and to the company or companies, if any, rating the Obligations, a copy of such substituted surety bond.

Section 6.04. Successors and Assigns; Descriptive Headings.

(a) This Agreement shall bind, and the benefits thereof shall inure to, the Issuer and the Insurer and their respective successors and assigns; provided, that the Issuer may not transfer or assign any or all of its rights and obligations hereunder without the prior written consent of the Insurer.

(b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 6.05. Other Sureties. If the Insurer shall procure any other surety to reinsure the Surety Bond, this Agreement shall inure to the benefit of such other surety, its successors and assigns, so as to give to it a direct right of action against the Issuer to enforce this Agreement, and "the Insurer," wherever used herein, shall be deemed to include such reinsuring surety, as its respective interests may appear.

Section 6.06. Signature on Bond. The Issuer's liability shall not be affected by its failure to sign the Surety Bond nor by any claim that other indemnity or security was to have been obtained nor by the release of any indemnity, nor the return or exchange of any collateral that may have been obtained.

Section 6.07. Waiver. The Issuer waives any defense that this Agreement was executed subsequent to the date of the Surety Bond, admitting and covenanting that such Surety Bond was executed pursuant to the Issuer's request and in reliance on the Issuer's promise to execute this Agreement.

Section 6.08. Notices, Requests, Demands. Except as otherwise expressly provided herein, all written notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case of telex or telecopier notice sent over a telex or a telecopier machine owned or operated by a party hereto, when sent, addressed as specified below or at such other address as any of the parties may hereafter specify in writing to the others:

If to the Issuer:

[ISSUER]
[STREET ADDRESS]
[CITY, STATE ZIP]
Attention: [PERSON AT ISSUER]

If to the Paying Agent:

[PAYING AGENT]
Attention: Corporate Trust Officer

If to the Insurer:

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504
Attention: Insured Portfolio
Management Group

Section 6.09. Survival of Representations and Warranties. All representations, warranties and obligations contained herein shall survive the execution and delivery of this Agreement and the Surety Bond.

Section 6.10. Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State.

Section 6.11. Counterparts. This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument. Complete counterparts of this Agreement shall be lodged with the Issuer and the Insurer.

Section 6.12. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 6.13. Survival of Obligations. Notwithstanding anything to the contrary contained in this Agreement, the obligation of the Issuer to pay all amounts due hereunder and the rights of the Insurer to pursue all remedies shall survive the expiration, termination or substitution of the Surety Bond and this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

[ISSUER]

By: _____

Title: _____

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

ANNEX A
DEBT SERVICE RESERVE
SURETY BOND

MBIA Insurance Corporation
Armonk, New York 10504

Surety Bond No. [POLICY NO.]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments that are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and that are required to be made by or on behalf of [NAME OF ISSUER] (the "Issuer") under the [TITLE OF THE DOCUMENT] (the "Document") to [NAME OF PAYING AGENT], (the "Paying Agent"), as such payments are due but shall not be so paid, in connection with the issuance by the Issuer of [TITLE OF THE OBLIGATIONS] (the "Obligations"), provided, that the amount available hereunder for payment pursuant to any one Demand for Payment (as hereinafter defined) shall not exceed [a: FIXED COVERAGE [Dollar Amount of Coverage] or the debt service reserve fund requirement for the Obligations, whichever is less (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.] or [b: VARIABLE COVERAGE the annual amount set forth for the applicable bond year on Exhibit A attached hereto (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.]

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Issuer or any designee of the Issuer for such purpose. The term "Owner" shall not include the Issuer or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

2. Upon the later of: (i) three (3) days after receipt by the Insurer of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts that are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, TWX or telegram of the executed Demand for Payment c/o the Insurer. If a Demand for Payment made hereunder does not, in any instance, conform to the terms and conditions of this Surety Bond, the Insurer shall give notice to the Paying Agent, as promptly as reasonably practicable, that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by the Insurer under this Surety Bond pursuant to a particular Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by the Insurer hereunder and will be reinstated to the extent of each reimbursement of the Insurer pursuant to the provisions of Article II of the Financial Guaranty Agreement dated the date hereof between the Insurer and the [ISSUER OR OBLIGOR] (the "Financial Guaranty Agreement"); provided, [ANNUAL PREMIUM OPTION: that no premium is due and unpaid on this Surety Bond and] that in no event shall such reinstatement exceed the Surety Bond Limit. The Insurer will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Financial Guaranty Agreement and such reinstatement shall be effective as of the date the Insurer gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2.

5. Any service of process on the Insurer or notice to the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

6. The term of this Surety Bond shall expire [ANNUAL PREMIUM OPTION: unless cancelled pursuant to paragraph 9 hereof,] on the earlier of (i) [MATURITY DATE] (the maturity date of the Obligations being currently issued), or (ii) the date on which the Issuer has made all payments required to be made on the Obligations pursuant to the Document.

7. The premium payable on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

8. [OPTIONAL FIRST SENTENCE: This Surety Bond shall be governed by and interpreted under the laws of the State of (STATE)]. Any suit hereunder in connection with any payment may be brought only by the Paying Agent within [1 or 3 years] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and the Insurer has failed to make such payment, or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to the Insurer a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

[NOS. 9 and 11 are OPTIONAL]

9. Subject to the terms of the Document, the Issuer shall have the right, upon 30 days prior written notice to the Insurer and the Paying Agent, to terminate this Surety Bond. In the event of a failure by the Issuer to pay the premium due on this Surety Bond pursuant to the terms of the Financial Guaranty Agreement, the Insurer shall have the right upon [No. of days] days prior written notice to the Issuer and the Paying Agent to cancel this Surety Bond. No Demand for Payment shall be made subsequent to such notice of cancellation unless payments are due but shall not have been so paid in connection with the Obligations.

10. There shall be no acceleration payment due under this Policy unless such acceleration is at the sole option of the Insurer.

11. This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

In witness whereof, the Insurer has caused this Surety Bond to be executed in facsimile on its behalf by its duly authorized officers, this [DATE] day of [MONTH, YEAR].

MBIA INSURANCE CORPORATION

President

Assistant Secretary

EXHIBIT A

Surety Bond No. [POLICY NO.]

<u>Bond Year</u>	<u>Maximum Annual Debt Service</u>
20 to 20	\$
20 to 20	\$
20 to 20	\$

Attachment 1
Surety Bond No. [POLICY NO.]

DEMAND FOR PAYMENT

_____, 20__

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Attention: President

Reference is made to the Surety Bond No. [POLICY NO.] (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Paying Agent hereby certifies that:

- (a) In accordance with the provisions of the Document (attached hereto as Exhibit A), payment is due to the Owners of the Obligations on _____ (the "Due Date") in an amount equal to \$_____ (the "Amount Due").
- (b) The [Debt Service Reserve Fund Requirement] for the Obligations is \$_____.
- (c) The amounts legally available to the Paying Agent on the Due Date will be \$_____ less than the Amount Due (the "Deficiency").
- (d) The Paying Agent has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Paying Agent hereby requests that payment of the Deficiency (subject to the Surety Bond Coverage) be made by the Insurer under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond: _____

[Paying Agent's Account]

[PAYING AGENT]

By _____
Its _____

Attachment 2
Surety Bond No. [POLICY NO.]

NOTICE OF REINSTATEMENT

_____, 20__

[Paying Agent]

[Address]

Reference is made to the Surety Bond No. [POLICY NO.] (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Insurer hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Financial Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

ANNEX B
DEFINITIONS

For all purposes of this Agreement and the Surety Bond, except as otherwise expressly provided herein or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below, which shall be equally applicable to both the singular and plural forms of such terms.

"Agreement" means this Financial Guaranty Agreement.

"Closing Date" means [CLOSING DATE], 20__.

"Commitment" means the commitment to issue Municipal Bond Guaranty Insurance in the form attached hereto as Annex C.

"Debt Service Payments" means those payments required to be made by or on behalf of the Issuer which will be applied to payment of principal of and interest on the Obligations.

"Demand for Payment" means the certificate submitted to the Insurer for payment under the Surety Bond substantially in the form attached to the Surety Bond as Attachment I.

"Document" means [DOCUMENT].

"Event of Default" shall mean those events of default set forth in Section 4.01 of the Agreement.

"Insurer" has the same meaning as set forth in the first paragraph of this Agreement.

"Issuer" means [ISSUER].

"Obligations" means [LEGAL TITLE OF ISSUE].

"Owners" means the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer or any designee of the Issuer for such purpose.

"Paying Agent" means [PAYING AGENT].

"Premium" means [PREMIUM] payable to the Insurer on or prior to the Closing Date.

"Reimbursement Period" means, with respect to a particular Surety Bond Payment, the period commencing on the date of such Surety Bond Payment and ending on the earlier of the date of cancellation of the Surety Bond due to nonpayment of Premium when due or on the expiration of x following such Surety Bond Payment.

"Reimbursement Rate" means Citibank's prime rate plus three (3) percent per annum, as of the date of such Surety Bond Payment, said "prime rate" being the rate of interest announced from time to time by Citibank, N.A., New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year.

"State" means [STATE].

"Surety Bond" means that surety bond attached hereto as Annex A and issued by the Insurer guaranteeing, subject to the terms and limitations thereof, Debt Service Payments required to be made by the Issuer under the Document.

"Surety Bond Coverage" means the amount available at any particular time to be paid under the terms of the Surety Bond, which amount shall never exceed the Surety Bond Limit.

"Surety Bond Limit" means [SURETY BOND LIMIT].

"Surety Bond Payment" means an amount equal to the Debt Service Payment required to be made by the Issuer pursuant to the Document less (i) that portion of the Debt Service Payment paid by or on behalf of the Issuer, and (ii) other funds legally available for payment to the Owners, all as certified in a Demand for Payment.

ANNEX C
COMMITMENT
[To be provided.]

Exhibit D

Continuing Disclosure Requirements Under the Rule

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 21 of this Eleventh Supplement.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or under the headings of the Official Statement referred to) below:

1. The financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year.
2. The information under the numbered tables.

Accounting Principles

The accounting principles referred to in such Section are the generally accepted accounting principles as applicable to governmental units as prescribed by The Government Accounting Standards Board.

Exhibit E
Bond Purchase Agreement

**CITY OF AUSTIN, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE REFUNDING BONDS, SERIES 2006
(DELAYED DELIVERY)**

DELAYED DELIVERY BOND PURCHASE AGREEMENT

November 17, 2005

Honorable Mayor and City Council
City of Austin, Texas
301 West 2nd Street
Austin, Texas 78701

Ladies and Gentlemen:

The undersigned, Morgan Keegan & Company, Inc. (the "*Underwriter*"), acting on its own behalf and not acting as a fiduciary or agent for you, offers to enter into this Delayed Delivery Bond Purchase Agreement (the "*Agreement*") with the City of Austin, Texas (the "*Issuer*"), for the purchase by the Underwriter and sale by the Issuer of the Bonds specified below. This offer is made subject to the Issuer's written acceptance on or before 11:00 p.m., Austin, Texas time, on the date first written above, and upon such acceptance this Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the Issuer and the Underwriter.

Capitalized terms not otherwise defined herein shall have the same meanings as are set forth in the Ordinance (as defined herein) or in the Preliminary Official Statement (as defined herein). In addition to the terms defined elsewhere in this Agreement or in the Preliminary Official Statement, the following terms shall have the indicated meanings:

"*Bond Counsel*" shall mean the law firm of Fulbright & Jaworski L.L.P. or any nationally recognized bond counsel appointed by the Issuer and acceptable to the Underwriter.

"*Bond Insurance Commitment*" shall mean the forward commitment to issue a Bond Insurance Policy issued to the Issuer by the Bond Insurer pursuant to which the Bond Insurer has agreed, upon the terms and conditions set forth in such forward commitment, to issue at Settlement the Bond Insurance Policy.

"*Bond Insurance Policy*" shall mean a municipal insurance policy insuring the principal of and interest on the Bonds when due, in substantially the form attached as Appendix F to the Preliminary Official Statement.

“Bond Insurer” shall mean MBIA Insurance Corporation.

“Change in Law” shall mean (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies (if such change or addition becomes effective on or before the Settlement Date), (ii) any legislation enacted by the Congress of the United States or introduced therein or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date which is on or before the Settlement Date), (iii) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date which is on or before the Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in any such case, would, as to the Underwriter, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriter from purchasing the Bonds as provided herein or selling the Bonds or beneficial ownership interests therein to the public or, as to the Issuer, make the issuance, sale or delivery of the Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized); provided, however, that such change in or addition to law, legislation, rule, regulation, judgment, ruling or order shall have become effective, or been enacted, introduced, recommended, proposed or issued, as the case may be, subsequent to the date of this Agreement.

“Closing” shall mean the Closing described in Section 1.5 hereof.

“Closing Date” shall mean the date on which the Closing occurs.

“DTC” shall mean The Depository Trust Company, New York, New York, or any successor thereto, which maintains a book-entry-only system for the Bonds.

“Eleventh Supplement” shall mean the eleventh supplemental ordinance to the Master Ordinance (Ordinance No. 051117-060), including all appendices and exhibits thereto, adopted by the Issuer on November 17, 2005.

“Escrow Agent” shall mean Deutsche Bank Trust Company Americas, New York, New York, in its capacity as escrow agent under the Escrow Agreement, and its successors.

“Escrow Agreement” shall mean that certain Escrow Agreement to be dated as of November 17, 2005 between the Escrow Agent and the Issuer which relates to the proceeds of the Bonds and the refunding of the Refunded Bonds.

“Master Ordinance” shall mean Ordinance No. 000608-56A adopted by the Issuer on June 8, 2000.

“1933 Act” shall mean the Securities Act of 1933, as the same shall from time to time be supplemented or amended.

“1934 Act” shall mean the Securities Exchange Act of 1934, as the same shall from time to time be supplemented or amended.

"1939 Act" shall mean the Trust Indenture Act of 1939, as the same shall from time to time be supplemented or amended.

"Ordinance" shall mean, collectively, the Master Ordinance and the Eleventh Supplement.

"Paying Agent/Registrar" shall mean Deutsche Bank Trust Company Americas, New York, New York, as Paying Agent under the Ordinance.

"Refunded Bonds" shall mean, collectively, the bonds heretofore issued by the Issuer and presently outstanding to be refunded with a portion of the proceeds of sale of the Bonds, as provided in the Ordinance and the Escrow Agreement and generally described in the Schedule I - Summary of Refunded Bonds contained in the Official Statement.

"Rule 15c2-12" shall mean 17 C.F.R. § 240.15c2-12 promulgated by the SEC pursuant to the 1934 Act, as said Rule shall from time to time be supplemented or amended, together with all interpretive guidances or other interpretations or explanations thereof that are promulgated by the SEC, except to the extent that such interpretive guidances, interpretations or explanations have no binding legal effect and are generally regarded by the municipal securities industry as not being legally correct.

"SEC" shall mean the United States Securities and Exchange Commission.

"Settlement" shall mean the Settlement described in Section 1.6 hereof.

"Settlement Date" shall mean the date on which the Settlement occurs.

"State" shall mean the State of Texas.

"Underwriter's Counsel" shall mean the law firm of Andrews Kurth LLP, or any successor to such firm appointed by the Underwriter.

ARTICLE I

SALE AND PURCHASE; CLOSING; SETTLEMENT

1.1 Purchase and Sale of Bonds.

(a) Upon and subject to the terms and conditions and on the basis of the representations, warranties and agreements contained herein, the Underwriter hereby agrees to purchase from the Issuer, and the Issuer hereby agrees to sell and deliver to the Underwriter, the Issuer's \$63,100,000 Water and Wastewater System Revenue Refunding Bonds, Series 2006, at the purchase price specified in Schedule A hereto, upon issuance thereof on the Settlement Date. The Bonds shall be dated, mature, and bear interest at the rates per annum set forth in Schedule A. The Bonds are authorized pursuant to the provisions of the Constitution and general laws of the State of Texas, including particularly Chapters 1207 and 1371 of the Texas Government Code, as amended (the *"Acts"*), the City's home rule charter and the Ordinance and are to be issued for the

purpose of refunding the Refunded Bonds by the deposit into an escrow trust account held by the Escrow Agent of certain moneys and direct, noncallable obligations of the United States of America pursuant to the Escrow Agreement. Pursuant to the provisions of the Acts and the Ordinance, the principal of and interest on the Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the System (as described in the Official Statement), subject to the terms and conditions of the Ordinance.

(b) Pursuant to and subject to the terms of this Agreement, all of the Bonds shall be sold to the Underwriter, and the Underwriter shall be obligated to purchase all of the Bonds, if any Bonds are purchased, and the aggregate principal amount of the Bonds shall be delivered to, and accepted and paid for by, the Underwriter on the Settlement Date.

(c) Delivered to the Issuer herewith as a good faith deposit is a check of the Underwriter payable to the order of the Issuer in clearing house funds in the amount of \$633,450.00. In the event you accept this offer, such check shall be held uncashed by you until the time of Settlement, at which time such check shall be returned uncashed to the Underwriter. In the event that the Issuer does not accept this Agreement, such check will be immediately returned to the Underwriter. Should the Issuer fail to deliver the Bonds at the Settlement Date, or should the Issuer be unable to satisfy the conditions of the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds, as set forth in this Agreement (unless waived by the Underwriter), or should such obligations of the Underwriter be terminated for any reason permitted by this Agreement, such check shall immediately be returned to the Underwriter. In the event that the Underwriter fails (other than for a reason permitted hereunder) to purchase, accept delivery of and pay for the Bonds on the Settlement Date, as herein provided, such check shall be cashed and the amount thereof retained by the Issuer as and for fully liquidated damages for such failure of the Underwriter, and, except as set forth in Article IV hereof, no party shall have any further rights against the other hereunder. The Underwriter and the Issuer understand that in such event the Issuer's actual damages may be greater or may be less than such amount. Accordingly, the Underwriter hereby waives any right to claim that the Issuer's actual damages are less than such amount, and the Issuer's acceptance of this offer shall constitute a waiver of any right the Issuer may have to additional damages from the Underwriter.

1.2 Bona Fide Offering. The Underwriter agrees to make a bona fide offering of the Bonds at the initial offering prices or yields set forth on the inside front cover page of the Official Statement referred to hereinafter plus accrued interest, if any. The Underwriter may, however, change such initial offering prices or yields as it may deem necessary in connection with the marketing of the Bonds and offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices or yields set forth on the inside front cover page of the Official Statement. The Underwriter also reserves the right (i) to over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market and (ii) to discontinue such stabilizing, if commenced, at any time without prior notice. The Underwriter may (but shall not be obligated to), in its sole discretion, assign or transfer in writing all or part of its rights and obligations under this Agreement on or before the

Settlement Date to one or more assignees; provided, however, that without the prior written consent of the Issuer, no such assignment or transfer shall relieve the Underwriter of any of its obligations hereunder.

1.3 Preliminary Official Statement and Final Official Statement; Amendments and Supplements Thereto.

(a) The Issuer hereby confirms that it has "deemed final," as of its date, the Preliminary Official Statement of the Issuer dated November 10, 2005, relating to the Bonds (the "*Preliminary Official Statement*") for purposes of paragraph (b)(1) of Rule 15c2-12, except for the omission of only such material as is permitted by such paragraph (b)(1).

(b) As promptly as practicable after the Issuer's acceptance of this Agreement, the Issuer shall prepare and deliver (or cause to be prepared and delivered) to the Underwriter three (3) copies of the Official Statement of the Issuer, dated the date hereof, relating to the Bonds, such Official Statement to be in the form presented to the governing body of the Issuer at the meeting at which this Agreement was approved, with only such changes as shall be necessary to reflect the terms of the Bonds or this Agreement or as otherwise approved by the Underwriter (said document, including its cover page and Appendices, as the same shall be modified, supplemented or amended in accordance with provisions of this Section, is herein called the "*Official Statement*"). The Issuer shall, as soon as practicable, but in any event within seven (7) business days hereof, deliver to the Underwriter printed, conformed copies of the Official Statement, in such quantity as the Underwriter shall reasonably require.

(c) Notwithstanding any prior amendments or supplements to the Official Statement made pursuant to subsection (d) of this Section, the Issuer, in cooperation with the Underwriter, shall prepare an updated Official Statement dated a date between July 28, 2006 and August 5, 2006 (both dates inclusive), relating to the Bonds (the "*Updated Official Statement*") which, as of such date, will be correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Issuer shall furnish to the Underwriter, on or before August 5, 2006, conformed copies of the Updated Official Statement, in such quantity as the Underwriter shall reasonably require to meet its obligations under Rule 15c2-12. As used herein, the term "Official Statement" shall mean (i) at any point in time during the period from the date of the Official Statement described in subsection (b) of this Section to but not including the date of delivery of the Updated Official Statement to the Underwriter pursuant to this subsection (c), the Official Statement described in subsection (b) of this Section and (ii) from and after the date of such delivery of the Updated Official Statement, the Updated Official Statement. References herein as of a specific date to the Official Statement shall mean the Official Statement applicable on such date in accordance with the preceding sentence.

(d) Each party hereto agrees that it will notify the other party hereto if, within the period from the date of this Agreement to and including the date which is twenty-five

(25) days following the End of the Underwriting Period (as defined in subsection (e) of this Section), such party discovers any pre-existing or subsequent fact or becomes aware of the occurrence of any event, in any such case which might cause the Official Statement (as the same may have been theretofore supplemented or amended) to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If, in the written opinion of the Issuer or Counsel to the Underwriter, the preparation and publication of a supplement or amendment to the Official Statement is, as a result of such fact or event (or any other event which becomes known to the Issuer or the Underwriter during such period), necessary so that the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Issuer will, at its expense, supplement or amend the Official Statement in such a manner so that the Official Statement, as so supplemented or amended, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and furnish copies of such supplement or amendment to the Underwriter in such numbers as the Underwriter may reasonably request. The Issuer and the Underwriter agree that they will cooperate in the preparation of any such amendment or supplement.

(e) For purposes of this Agreement, the "End of the Underwriting Period" shall mean the Settlement Date, or, if the Issuer has been notified in writing by the Underwriter, on or prior to the Settlement Date, that the "end of the underwriting period" within the meaning of Rule 15c2-12 will not occur on the Settlement Date, such later date on which the "end of the underwriting period" within the meaning of Rule 15c2-12 has occurred. In the event that the Issuer has been given notice pursuant to the preceding sentence that the "end of the underwriting period" will not occur on the Settlement Date, the Underwriter agrees to notify the Issuer in writing of the date on which the "end of the underwriting period" does occur as soon as practicable following the "end of the underwriting period" for all purposes of Rule 15c2-12; provided, however, that if the Underwriter has not otherwise so notified the Issuer of the "end of the underwriting period" by the 90th day after the Settlement Date, then the "end of the underwriting period" shall be deemed to occur on such 90th day unless otherwise agreed to by the Underwriter and the Issuer.

(f) At any time prior to the End of the Underwriting Period (but not more than once in any two (2) month period), the Underwriter may from time to time request, and, if such request is made, the Issuer shall deliver to the Underwriter as soon as practicable thereafter, a certificate of the Issuer signed by either the City Manager, Chief Financial Officer, City Treasurer or Acting City Treasurer of the Issuer in the form set forth as Exhibit B hereto, dated a date (and speaking as of such date) not earlier than the date of such request.

(g) In connection with any amendments or supplements to the Official Statement that are made pursuant to Section 1.3(d) hereof, the Underwriter may request

such additional certificates and opinions of counsel as the Underwriter shall reasonably deem necessary to evidence the accuracy or completeness of such amendment or supplement.

1.4 Certain Covenants and Agreements of the Issuer.

(a) The Issuer hereby authorizes and consents to the use by the Underwriter of the Ordinance, the Preliminary Official Statement, the Official Statement, the Updated Official Statement (including all supplements or amendments to any such Official Statement) and the Escrow Agreement, and the information therein contained, in connection with the offering and sale of the Bonds.

(b) The Issuer will furnish such information and execute such instruments and take such action in cooperation with the Underwriter, at the sole expense of the Underwriter, as the Underwriter may reasonably request (i) to (A) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States as the Underwriter may designate and (B) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and (ii) to continue such qualifications in effect so long as required for the distribution of the Bonds (provided, however, that the Issuer will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any jurisdiction) and will advise the Underwriter immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.

(c) The Issuer will promptly notify the Underwriter as soon as the Issuer may become aware of any fact which, in its reasonable judgment, casts doubt on or questions the ability of the Issuer to issue, sell and deliver the Bonds as provided for by this Agreement.

(d) The Issuer shall take no action the effect of which will be to prevent the issuance and delivery of any of the Bonds on the Settlement Date or will cause the representations and warranties made by the Issuer in this Agreement to be untrue as of the Settlement Date.

1.5 Closing. At 10:00 a.m., Austin, Texas time, on December 20, 2005, or such other date and time as shall have been mutually agreed upon by the Issuer and the Underwriter, the certificates, opinions and other documents required by Section 3.2 below shall be executed and delivered (all of the foregoing actions are herein referred to collectively as the "*Closing*"). The Closing shall take place at the offices of Bond Counsel in Austin, Texas, or at such other location as shall be mutually agreed upon by the Issuer and the Underwriter. Assuming the Closing is completed in accordance with the provisions of this Agreement then, subject to the provisions of this Agreement, the Underwriter shall purchase the Bonds and pay the purchase price therefore (and the Issuer shall issue and deliver such Bonds) at the Settlement.

1.6 Settlement.

(a) At 10:00 a.m., Austin, Texas time, on August 17, 2006, or on such later date, as may be mutually agreed upon by the Issuer and the Underwriter, (i) the Issuer will, subject to the terms and conditions hereof, deliver the Bonds to DTC on behalf of the Underwriter in the form of one bond for each maturity of the Bonds registered in the name of Cede & Co., duly executed and authenticated, and deliver or cause to be delivered to the Underwriter the other documents required by Section 3.4 hereof; and (ii) the Underwriter will, subject to the terms and conditions hereof, accept such delivery and pay or cause to be paid the purchase price of the Bonds as set forth in Section 1.1 hereof by wire transfer in immediately available funds to the Paying Agent/Registrar (all of the foregoing described transactions are herein referred to collectively as the "*Settlement*"). Delivery and payment as aforesaid shall be made at the offices of Bond Counsel in Austin, Texas, or at such other location as shall be mutually agreed upon by the Issuer and the Underwriter.

(b) The Issuer will have no obligation to issue, sell and deliver the Bonds and the Underwriter will have no obligation to purchase the Bonds if, because of a Change in Law, such issuance, sale and delivery would be illegal as to the Issuer. In such event, the Issuer will have no liability whatsoever for its failure to issue, sell and deliver the Bonds and the Underwriter will have no liability for its failure to purchase the Bonds if such failure is due to a Change in Law.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE ISSUER

The Issuer hereby represents and warrants to and covenants with the Underwriter that:

2.1 The Issuer is a home rule city, operating as such under the Constitution and laws of the State of Texas (the "State"), and a political subdivision of the State, duly created, organized and existing under the Constitution and laws of the State and has, and (except as may result from a Change in Law) at the Settlement Date will have, full legal right, power and authority under the Acts and the City's home rule charter to: (a) execute, deliver and perform this Agreement and the Escrow Agreement; (b) pass and adopt the Ordinance; (c) refund the Refunded Bonds; (d) issue, sell and deliver the Bonds to the Underwriter, as provided herein; (e) own and operate the Water and Wastewater System (the "*System*"); (f) pledge and collect the Net Revenues pledged to the payment of the principal of and interest on the Bonds pursuant to the Ordinance; and (g) carry out and consummate the transactions contemplated by this Agreement, the Ordinance, the Escrow Agreement and the Official Statement;

2.2 As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

2.3 At the time of the Issuer's acceptance hereof, the Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

2.4 The Issuer has complied and will, at the Settlement Date, be in compliance (except as may result from a Change in Law) in all respects with the obligations on its part contained in the Ordinance and this Agreement and the laws of the State, including the Acts;

2.5 By official action of the Issuer on or prior to the date hereof, the Issuer has (a) duly adopted the Ordinance, including the Continuing Disclosure Undertaking pursuant to Rule 15c2-12, as set forth in Section 3.2(a)(ii), (b) duly ratified and approved the distribution of the Preliminary Official Statement, (c) duly authorized and approved the execution and delivery of the Official Statement and the furnishing of the Updated Official Statement, as required herein, and the delivery thereof to the Underwriter, (d) duly authorized and approved the execution and delivery of, and the performance by the Issuer of the obligations on its part contained in, the Bonds, the Ordinance, the Escrow Agreement and this Agreement and (e) duly authorized and approved the consummation by it of all other transactions contemplated by this Agreement and the Official Statement; and the Ordinance, the Escrow Agreement (upon its execution and delivery) and this Agreement constitute the legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);

2.6 The Bonds, if and when issued, authenticated and delivered in accordance with the Ordinance and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the Issuer, entitled to the benefits of the Ordinance; and upon such issuance, authentication and delivery the Ordinance will provide, for the benefit of the owners from time to time of the Bonds, a legally valid and binding pledge of and lien on the Net Revenues and the funds and accounts pledged under the Ordinance, subject only to the provisions of the Ordinance permitting the application thereof on the terms and conditions set forth in the Ordinance;

2.7 The Issuer is not in breach of or default under any applicable constitutional provision, law or administrative regulation of the State (or any agency thereof) or the United States (or any agency thereof) or of any applicable judgment or decree or any loan agreement, note, resolution, ordinance, agreement or other instrument to which the Issuer is a party or to which it or any of its property is otherwise subject (including, without limitation, the documents executed in connection with the issuance of the Refunded Bonds), and no event has occurred and is continuing which with the passage of time or the giving of notice or both would constitute a material default or event of default under any such instrument; and the execution and delivery of this Agreement, the Bonds and the Escrow Agreement and the adoption of the Ordinance, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, note, resolution, ordinance, agreement or other instrument to which the Issuer is a party or to which the Issuer or any of its property is otherwise subject; nor will any such

execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer or under the terms of any such law, regulation or instrument, except as provided by the Bonds, the Ordinance and this Agreement;

2.8 All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Issuer of, its obligations in connection with the issuance, sale and delivery of the Bonds under this Agreement and the Ordinance have been duly obtained, except (i) the approval of the Bonds by the Attorney General of the State of Texas (and the registration of the Bonds by the Comptroller of Public Accounts of the State of Texas); and (ii) for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any jurisdiction in connection with the offering and sale of the Bonds;

2.9 The Bonds and the Ordinance conform to the descriptions thereof contained in the Official Statement under the captions "SECURITY FOR THE BONDS" and "DESCRIPTION OF THE BONDS"; the proceeds of the sale of the Bonds will be applied generally as described in the Official Statement under the captions "PLAN OF FINANCING" and "SOURCES AND USES OF FUNDS"; and the Continuing Disclosure Undertaking contained in the Ordinance conforms to the description thereof contained in the Official Statement under the caption "CONTINUING DISCLOSURE OF INFORMATION";

2.10 Except as described in the Official Statement, there is no legislation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the best knowledge of the Issuer, threatened against the Issuer or others (a) affecting the Issuer or the corporate existence of the Issuer or the titles of its officers to their respective offices, (b) seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge or collection of Net Revenues for the payment of the principal of and interest on the Bonds, or the pledge thereof, or the refunding of the Refunded Bonds, (c) in any way contesting or affecting the transactions contemplated hereby or by the Official Statement or the validity or enforceability of the Bonds, the Ordinance, the Escrow Agreement or this Agreement, (d) contesting the exclusion from gross income of interest on the Bonds for federal income tax purposes, (e) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement or (f) contesting the powers or authority of the Issuer for the issuance of the Bonds, the refunding of the Refunded Bonds, the adoption of the Ordinance or the execution and delivery of this Agreement or the Escrow Agreement;

2.11 The Issuer will not take or omit to take any action that will in any way cause the proceeds from the sale of the Bonds and other moneys of the Issuer to be transferred on the date of issuance of the Bonds, to be applied, or result in such proceeds and other moneys being applied in a manner other than as provided in or permitted by the Ordinance and the Escrow Agreement;

2.12 If the Official Statement (through the date of the Updated Official Statement) or the Updated Official Statement is supplemented or amended pursuant to the provisions of this

Agreement, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to the provisions of this Agreement) at all times subsequent thereto up to and including the date of the Updated Official Statement (in the case of the Official Statement) or the Settlement Date (in the case of the Updated Official Statement), except for brief periods between changes in any relevant circumstances and the timely amendment or supplement of the Official Statement or the Updated Official Statement to reflect such change, the Official Statement or the Updated Official Statement (as the case may be) as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

2.13 The Issuer is not presently contemplating taking any action which, to its knowledge, would result in a material adverse change in the market price or marketability of the Bonds;

2.14 Any certificate signed by an authorized officer of the Issuer and delivered to the Underwriter at or prior to the Settlement Date shall be deemed a representation and warranty by the Issuer in connection with this Agreement to the Underwriter as to the statements made therein upon which the Underwriter shall be entitled to rely;

2.15 [Reserved];

2.16 Upon the deposit of moneys and direct, noncallable obligations of the United States of America into the escrow trust account pursuant to the Escrow Agreement on the Settlement Date, Net Revenues of the Issuer will no longer be pledged or otherwise used for security with respect to the Refunded Bonds;

2.17 The Issuer's annual report prepared by the independent auditor of the Issuer for the fiscal year ended September 30, 2004, is a fair presentation of the financial position of the Issuer as of the dates indicated and the results of its operations and changes in its fund balances for the periods specified. Since October 1, 2004, there has been no material adverse change in the condition, financial or otherwise, of the Issuer from that set forth in such annual report as of and for the period ended September 30, 2004, and the Issuer has not since October 1, 2004, incurred any material liabilities, directly or indirectly, except in the ordinary course of its operations or as have been reflected in the financial information set forth in the Official Statement;

2.18 The Ordinance creates a valid pledge of the Net Revenues for the benefit of the owners of the Bonds hereafter issued, as provided in the Ordinance; and

2.19 During the last five years, the Issuer has complied in all material respects with each and every Continuing Disclosure Undertaking previously entered into by it pursuant to Rule 15c2-12.

ARTICLE III

UNDERWRITER'S CONDITIONS

3.1 Certain Conditions to Underwriter's Obligations. The Underwriter has entered into this Agreement in reliance upon the representations and warranties of the Issuer contained herein and to be contained in the documents and instruments to be delivered at the Closing and the Settlement, and upon the performance by the Issuer of its obligations hereunder, as of the date hereof and as of the Closing Date and the Settlement Date. Accordingly, the Underwriter's obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds shall be subject to performance by the Issuer of its obligations to be performed hereunder and the delivery of the documents and instruments required to be delivered hereby at or prior to the Closing and the Settlement, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the Issuer contained herein shall be true, complete and correct on the date hereof, on the Closing Date and on the Settlement Date;

(b) Both at the time of the Closing and at the time of the Settlement, this Agreement and the Ordinance and, at the time of the Settlement only, the Escrow Agreement shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented in any manner which will adversely affect (i) the ability of the Issuer to issue the Bonds or perform its obligations thereunder or under this Agreement or (ii) the security for the Bonds; and both at the time of the Closing and at the time of the Settlement, the Official Statement and the Updated Official Statement shall not have been supplemented or amended, except pursuant to the provisions of this Agreement;

(c) Both at the time of the Closing and at the time of the Settlement, all official action of the Issuer relating to this Agreement, the Bonds, the Ordinance and the Escrow Agreement (and all official action of the other parties thereto) shall have been taken and shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented in any material adverse respect; and

(d) At the time of the Settlement, there shall have been no material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Issuer, as all the foregoing are described in the Official Statement.

3.2 Closing Conditions.

(a) The Underwriter's obligations under this Agreement shall be conditioned upon the performance by the Issuer of its obligations to be performed hereunder, and the applicable conditions of Section 3.1 hereof having been satisfied, and the tender by the Issuer of its performance at the Closing as described in Section 1.5 hereof, which Closing shall not be completed unless the Underwriter shall receive at the time of the Closing the following:

- (i) The Official Statement and each supplement or amendment, if any, thereto;
- (ii) The Continuing Disclosure Undertaking (the "*Continuing Disclosure Undertaking*") of the Issuer which satisfies the requirements of section (b)(5)(i) of Rule 15c2-12;
- (iii) The Ordinance certified as having been duly adopted by the Issuer and as being in full force and effect, with such supplements or amendments as may have been agreed to by the Underwriter;
- (iv) A letter of Bond Counsel, dated the Closing Date, in substantially the form attached hereto as **Exhibit A**, together with a letter of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that the foregoing letter addressed to the Issuer may be relied upon by the Underwriter to the same extent as if such letter were addressed to the Underwriter;
- (v) An opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that (A) the Ordinance has been duly adopted and is in full force and effect; (B) this Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding obligation of, the Issuer in accordance with its terms; (C) assuming no change in applicable law from the laws in effect on the date of such opinion, the Bonds, if issued, will not be subject to the registration requirements of the 1933 Act and the Ordinance, on such date of issuance, will be exempt from qualification pursuant to the 1939 Act; (D) the statements and information contained in the Official Statement under the captions "PLAN OF FINANCING," "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS" (except for the information under the subheading "Bondholders Remedies"), "DELAYED DELIVERY OF THE BONDS," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION -Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION -Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION - Legal Opinions," and in "APPENDIX C" and "APPENDIX D" accurately and fairly describe the provisions of the Bonds and the Ordinance and are correct as to matters of law;
- (vi) A certificate, dated the date of Closing, of an appropriate official of the Issuer to the effect that (A) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the Closing Date, as if made on the Closing Date; (B) no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or, to the best of his or her knowledge, threatened, affecting the corporate existence of the Issuer or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, delivery or sale of the Bonds or the collection of Net Revenues pledged or to be pledged to pay the

principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Ordinance, this Agreement, the Escrow Agreement or the Continuing Disclosure Undertaking, the refunding of the Refunded Bonds or any other transactions referred to in or contemplated by the Official Statement, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or contesting the powers of the Issuer or any authority for the issuance of the Bonds, the refunding of the Refunded Bonds, the pledge of the Net Revenues pursuant to the Ordinance, the adoption of the Ordinance or the execution of this Agreement, the Continuing Disclosure Undertaking or the Escrow Agreement or any other transactions contemplated by the Official Statement, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds, the Ordinance, this Agreement, the Continuing Disclosure Undertaking or the Escrow Agreement, and that except as described in the Official Statement, there is no litigation pending or, to the best of his or her knowledge, threatened against the Issuer or involving any of the property or assets under the control of the Issuer which involves the possibility of any judgment or liability, not fully covered by insurance, which may result in any material adverse change in the business, properties, assets or in the condition, financial or otherwise, of the System; (C) no facts have come to his or her attention that lead him or her to believe that the Official Statement contained at its date or contains on the Closing Date any untrue statement of a material fact or omitted to state at its date or omits at the Closing Date to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (D) no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which the Official Statement is to be used or which is necessary to be disclosed therein in order to make the statements and information therein not misleading in any material respect; (E) since September 31, 2004, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operation or condition of the Issuer that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business; (F) the Ordinance has been duly passed and adopted by the governing body of the Issuer, has not been modified, amended or repealed since its passage and adoption and is in full force and effect as of the Closing Date; and (G) the Issuer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(vii) An opinion, dated the Closing Date and addressed to the Underwriter, of Underwriter's Counsel, to the effect that (A) assuming no change in applicable law from the law in effect on the date of such opinion, the Bonds, if issued, will not be subject to the registration requirements of the 1933 Act and the Ordinance, on such date of issuance, will be exempt from qualification pursuant to the 1939 Act; (B) if the Bonds were issued on the Closing Date, the Continuing Disclosure Undertaking would comply with the requirements of paragraph (b)(5) of

Rule 15c2-12 in effect as of the Closing Date and is a valid, binding and enforceable obligation of the Issuer; and (C) based upon their participation in the preparation of the Official Statement as counsel for the Underwriter and their participation at conferences at which the Official Statement was discussed, but without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, such counsel has no reason to believe that the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except for any financial, forecast, technical and statistical statements and data included in the Official Statement and the information regarding DTC and its book-entry system and information regarding the Bond Insurance Policy and the Bond Insurer, in each case as to which no view need be expressed);

(viii) Evidence satisfactory to the Underwriter that the claims paying ability of the Bond Insurer is rated, at the time of the Closing, "AAA" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., "AAA" by Fitch Ratings, and "Aaa" by Moody's Investors Service, Inc.;

(ix) The Escrow Agreement, executed by the Issuer and the Escrow Agent;

(x) A copy of a special report prepared by the independent certified public accountants, The Arbitrage Group, Inc. (the "*Verification Agent*"), addressed to the Issuer, Bond Counsel and the Underwriter, verifying the arithmetical computations of the adequacy of the maturing principal and interest on the escrowed securities and uninvested cash on hand under the Escrow Agreement to pay, when due, the principal of and interest on the Refunded Bonds and the computation of the yield with respect to such securities and the Bonds;

(xi) A certificate of the Issuer in form and substance satisfactory to Bond Counsel and counsel to the Underwriter (A) setting forth the facts, estimates and circumstances in existence on the date of the Closing, which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and any applicable regulations (whether final, temporary or proposed), issued pursuant to the Code, and (B) certifying that to the best of the knowledge and belief of the Issuer there are not other facts, estimates or circumstances that would materially change the conclusions, representations and expectations contained in such certificate;

(xii) Receipt of a preliminary approval letter from the Texas Attorney General showing, to the satisfaction of the Underwriter, that no material conditions remain to the approval of the Bonds;

(xiii) A copy of the Bond Insurance Commitment executed by the Issuer and the Bond Insurer;

(xiv) Favorable opinions of counsel to the Bond Insurer, satisfactory in form and scope to the Underwriter, dated the Closing Date and addressed to the Underwriter, as to the power and authority of the Bond Insurer to issue the Bond Insurance Commitment and to deliver the Bond Insurance Policy pursuant thereto, and as to the validity and enforceability of such Commitment and, when issued and paid for, the Bond Insurance Policy, and as to such other matters as the Underwriter may reasonably request;

(xv) A certificate of the Bond Insurer with respect to the accuracy of statements contained in the Official Statement regarding the Bond Insurance Policy and the Bond Insurer; and

(xvi) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the Issuer's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by it.

(b) The Issuer's obligations under this Agreement shall be conditioned upon the performance by the Underwriter of its obligations to be performed hereunder, including furnishing to the Issuer at the Closing a certificate of the Underwriter as to the issue price for the Bonds in the form reasonably satisfactory to Bond Counsel and Underwriter's Counsel.

(c) All the opinions, letters, certificates, instruments and other documents mentioned above shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to (i) the Underwriter in the case of subsection (a) of this Section and (ii) Bond Counsel and Underwriter's Counsel in the case of subsection (b) of this Section.

3.3 Termination of Agreement.

(a) The Underwriter shall have the right to cancel its obligation to purchase the Bonds without liability therefor as provided in Section 5.1(d) if, between the date of this Agreement and the Closing, the market price or marketability of the Bonds shall be materially adversely affected, in the sole judgment of the Underwriter reasonably exercised, by the occurrence of any of the following:

(i) legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or any member of the Congress or the State legislature or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be

rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds or upon income of the general character to be derived by the Issuer, other than as imposed on the Bonds and income therefrom under the federal tax laws in effect on the date hereof, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions contemplated herein;

(ii) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the 1933 Act, or that the Ordinance is not exempt from qualification under or other requirements of the 1939 Act, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law, as amended and then in effect;

(iii) any state blue sky or securities commission or other governmental agency or body in any state in which more than 15% of the Bonds have been offered and sold shall have withheld registration, exemption or clearance of the offering of the Bonds, as described herein, or issued a stop order or similar ruling relating thereto;

(iv) a general suspension of trading in securities on the New York Stock Exchange or other national securities exchange, the establishment of minimum prices on either such exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, a general banking moratorium declared by federal, State of New York, or State officials authorized to do so;

(v) the New York Stock Exchange or other national securities exchange or any governmental authority, shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(vi) any amendment to the federal or state Constitution or action by any federal or state court, legislative body, regulatory body, or other authority materially

adversely affecting the tax status of the Issuer, its property, income, securities (or interest thereon), or the validity or enforceability of the assessments or the levy of taxes to pay principal of and interest on the Bonds;

(vii) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(viii) there shall have occurred since the date of this Agreement any materially adverse change in the affairs or financial condition of the Issuer, except for changes which the Official Statement discloses are expected to occur;

(ix) there shall have occurred any outbreak of hostilities (including, without limitation, an act of terrorism) or other national or international calamity or crisis, including, but not limited to, an escalation of hostilities that existed prior to the date hereof, and the effect of any such event on the financial markets of the United States shall be such as would make it impracticable, in the reasonable judgment of the Underwriter, for the Underwriter to sell the Bonds on the terms and in the manner contemplated by the Official Statement;

(x) any fact or event shall exist or have existed that, in the Underwriter's reasonable judgment, requires or has required an amendment of or supplement to the Official Statement; and the Issuer has failed to amend or supplement the Official Statement in compliance with this Agreement;

(xi) there shall have occurred any downgrading, or any notice shall have been given of (i) any intended or potential downgrading or (ii) any review or possible change that does not indicate the direction of a possible change, in the rating accorded any of the Issuer's obligations (including the ratings to be accorded the Bonds); and

(xii) the purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission, provided that such prohibition shall not be due to any action or inaction by the Underwriter.

(b) The Underwriter may terminate this Agreement, without liability therefor as provided in Section 5.1(d) hereof, by notification to the Issuer if, at any time on or prior to the Settlement Date, as a result of a Change in Law, the Underwriter is or would be prohibited from lawfully purchasing the Bonds as provided herein or lawfully selling the Bonds or beneficial ownership interest therein to the public, provided that such prohibition shall not be due to any action or inaction by the Underwriter.

3.4 Settlement Conditions.

(a) The Underwriter's obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds at the Settlement shall be conditioned upon the performance by the Issuer of its obligations to be performed hereunder, including, without limitation, the Closing having been completed, and the Issuer having tendered performance of its obligations under Section 1.6 hereof with respect to the Settlement, which Settlement shall not be completed unless the Underwriter shall receive at the time of the Settlement the following:

(i) The Updated Official Statement and each supplement or amendment thereto;

(ii) The Escrow Agreement, as executed by the Issuer and the Escrow Agent;

(iii) A certificate, dated the Settlement Date, of the City Clerk of the Issuer to the effect that the Ordinance (including the Continuing Disclosure Undertaking as required by Rule 15c2-12) is in full force and effect in the form adopted on the date of this Agreement and has not been subsequently amended, modified or supplemented, or if the same has been so amended, modified or supplemented, with certified copies of all such amendments, modifications and supplements and a certification that none of such amendments, modifications or supplements has a material adverse effect on the security for or source of payment of the Bonds or on the transactions contemplated by this Agreement;

(iv) An opinion of Bond Counsel, dated the Settlement Date, in substantially the form included in the Official Statement as Appendix E, together with a letter of such counsel, dated the Settlement Date and addressed to the Underwriter, to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to them;

(v) An opinion of Bond Counsel, dated the Settlement Date and addressed to the Underwriter, to the effect that (A) the Ordinance has been duly adopted and is in full force and effect; (B) this Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Issuer in accordance with its terms; (C) the Bonds are not subject to the registration requirements of the 1933 Act and the Ordinance is exempt from qualification pursuant to the 1939 Act; (D) the statements contained in the Updated Official Statement under the captions "PLAN OF FINANCING," "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS" (except for the information under the subheading "Bondholders Remedies"), "DELAYED DELIVERY OF THE BONDS," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION - Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION - Legal

Opinions,” and in “APPENDIX C” and “APPENDIX D” accurately and fairly describe the provisions of the Bonds and the Ordinance and are correct as to matters of law;

(vi) A certificate, dated the Settlement Date, of the Verification Agent to the effect that it has verified the accuracy of the mathematical computations of the adequacy of the maturing principal amounts of the Escrow Securities (as defined in the Escrow Agreement) to be held by the Escrow Agent together with the interest earned and to be earned thereon to make full and timely payment of all principal and interest due with respect to all of the Refunded Bonds and to redeem all such Refunded Bonds as are then outstanding on the dates specified in the Escrow Agreement at the then applicable redemption prices; such mathematical computations to be based upon information provided to the Verification Agent by the Issuer;

(vii) A certificate, dated the Settlement Date, signed by an appropriate official of the Issuer in substantially the form of the certificate of the Issuer delivered at the Closing pursuant to Section 3.2(a)(vi), with such modifications thereto as are necessary to refer to the Settlement Date and the Settlement (rather than the Closing Date and the Closing, respectively), the passage of time from the Closing to the Settlement, the execution and delivery of the Escrow Agreement and the Continuing Disclosure Undertaking and the Updated Official Statement delivered pursuant to Section 1.3 hereof;

(viii) An opinion, dated the Settlement Date and addressed to the Underwriter, of Underwriter’s Counsel, to the effect that (A) the Bonds are not subject to the registration requirements of the 1933 Act and the Ordinance is exempt from qualification pursuant to the 1939 Act; (B) the Continuing Disclosure Undertaking complies with the requirements of paragraph (b)(5) of Rule 15c2-12 as in effect on the Settlement Date, the conditions contained in paragraph (b)(5) of Rule 15c2-12 to the Underwriter purchasing or selling the Bonds have been fulfilled and the Continuing Disclosure Undertaking is a valid, binding and enforceable obligation of the Issuer; and (C) based upon their participation in the preparation of the Updated Official Statement, as counsel for the Underwriter (which participation will not extend beyond the date of the Updated Official Statement or the last amendment thereto), and their participation at conferences at which the Updated Official Statement was discussed, but without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Updated Official Statement, such counsel has no reason to believe that the Updated Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except for any financial, forecast, technical and statistical statements and data included in the Updated Official Statement and the information regarding DTC and its book-entry system and information regarding the Bond Insurer and the Bond Insurance Policy), in each case as to which no view need be expressed;

(ix) Evidence of ratings assigned to the Bonds of "AAA" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., "AAA" by Fitch Ratings, and "Aaa" by Moody's Investors Service, Inc., as a result of the issuance of the municipal bond insurance policy by the Bond Insurer;

(x) The approving opinion of the Attorney General of the State of Texas and the registration certificate of the Comptroller of Public Accounts of the State of Texas in respect of the Bonds;

(xi) A copy of the Bond Insurance Policy issued by the Bond Insurer insuring the payment of the principal of and interest on the Bonds when due, together with an opinion of counsel to the Bond Insurer, in form and substance satisfactory to the Underwriter;

(xii) A certificate of the Bond Insurer with respect to the accuracy of statements contained in the Official Statement regarding the Bond Insurance Policy and the Bond Insurer and the due authorization, execution, issuance and delivery of the Bond Insurance Policy;

(xiii) Evidence that the Escrow Agent has received cash and the Escrow Securities, if any, in an amount sufficient to effectuate the refunding and defeasance of the Refunded Bonds and that such Escrow Securities and uninvested cash have been deposited in the escrow fund under the Escrow Agreement; and

(xiv) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Settlement Date, of the Issuer's representations and warranties contained herein and of the statements and information contained in the Updated Official Statement and the due performance or satisfaction by the Issuer on or prior to the Settlement Date of all the agreements then to be performed and conditions then to be satisfied by it.

(b) The opinion of Bond Counsel which is referred to in clause (iv) of subsection (a) of this Section shall be deemed satisfactory provided it is substantially in the form included in the Official Statement as Appendix E.

3.5 Satisfaction or Waiver of Conditions. All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter, and the Underwriter shall have the right to waive any condition set forth in this Article III other than in Section 3.4(a)(iii).

ARTICLE IV

EXPENSES

4.1 Issuer's Obligation. The Underwriter shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder including, but not limited to: (a) the cost of preparation, printing and delivery of the Ordinance; (b) the costs of preparation, printing and delivery of the Preliminary Official Statement and of preparation, printing and delivery of the Official Statement and the Updated Official Statement and any supplements and amendments to either of such Official Statements; (c) the cost of preparation and printing of the Bonds; (d) the fees and disbursements of Bond Counsel, the Issuer's Securities Counsel, and the Issuer's Financial Advisor; (e) the fees, if any, for bond ratings and municipal bond insurance; and (f) the fees and disbursements of the Verification Agent in connection with the certificate to be delivered pursuant to this Agreement.

4.2 Underwriter's Obligation. The Underwriter shall pay only: (a) the cost of the printing of this Agreement and the Blue Sky Survey, if any, (b) all advertising expenses and Blue Sky filing fees in connection with the public offering of the Bonds; (c) the fees and disbursements of Underwriter's Counsel; and (d) all other expenses incurred by the Underwriter in connection with the public offering of the Bonds, including the fees and disbursements of any other counsel retained by the Underwriter.

ARTICLE V

TERMINATION AND EFFECT

5.1 Termination and Effect.

(a) In the event the Issuer is unable, after using its best efforts, to satisfy the conditions herein to the completion of the Closing (unless waived by the Underwriter) by the time such completion is required, then this Agreement shall terminate, and neither the Issuer nor the Underwriter shall have any further obligation or liability to, or any rights against, the other.

(b) If the Closing shall have occurred, in the event the Issuer is unable, after using its best efforts, to satisfy the conditions herein to the completion of the Settlement (unless waived by the Underwriter) by the time such completion is required, or is otherwise unable, after using its best efforts, to satisfy the conditions to the obligation of the Underwriter to purchase, accept delivery of and pay for the Bonds as set forth in this Agreement (unless waived by the Underwriter) by the time such completion is required, then this Agreement shall terminate, and neither the Issuer nor the Underwriter shall have any further obligation or liability to, or any rights against, the other except as otherwise provided in this Agreement.

(c) In the event the Underwriter fails to purchase, accept delivery of and pay for the Bonds as provided herein for a reason permitted hereunder, then this Agreement shall terminate, and neither the Underwriter nor the Issuer shall have any further

obligation or liability to, or rights against, the other except as otherwise provided in this Agreement.

(d) In the event the Underwriter terminates this Agreement as permitted in Section 3.3 hereof, then this Agreement shall terminate, and neither the Underwriter nor the Issuer shall have any further obligation or liability to, or rights against, the other.

(e) Notwithstanding the foregoing, the provisions of Section 6.2 hereof and Articles IV and V hereof shall survive any termination of this Agreement.

ARTICLE VI

GENERAL

6.1 Notices. Any notice or other communication to be given to the Underwriter under this Agreement may be given by delivering the same in writing to Morgan Keegan & Company, Inc., 5956 Sherry Lane, Suite 1900, Dallas, Texas 75225, Attention: Mr. Thomas K. Oppenheim, or to such different address for the Underwriter as the Underwriter shall have notified the Issuer as aforesaid. Any notice or other communication to be given to the Issuer under this Agreement may be given by delivering the same in writing to City of Austin, Texas, 700 Lavaca, Suite 1510, Austin, Texas 78701, Attention: Treasurer, or to such different address for the Issuer as the Issuer shall have notified the Underwriter as aforesaid. The approval or other action or exercise of judgment by the Underwriter shall be evidenced by a writing signed on behalf of the Underwriter and delivered to the Issuer.

6.2 Parties in Interest; Survivability of Representations, Warranties and Agreements. This Agreement is made solely for the benefit of the Issuer and the Underwriter (including their respective successors) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Issuer's representations, warranties, covenants and agreements contained in this Agreement shall remain operative and in full force and effect and shall survive delivery of and payment for the Bonds hereunder and regardless of any investigation made by the Underwriter or on their behalf or any termination of this Agreement.

6.3 Governing Law. This Agreement shall be governed by the laws of the State of Texas.

6.4 Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

6.5 Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatever.

6.6 Effectiveness. This Agreement shall become effective upon the execution by Morgan Keegan & Company, Inc. and the acceptance hereof by the Issuer.

[Execution page follows.]

6.7 Headings. The headings of the Sections of this Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

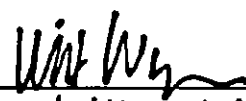
Respectfully submitted,

MORGAN KEEGAN & COMPANY, INC.

By 
Authorized Officer

ACCEPTED this 17th day of November, 2005.

CITY OF AUSTIN, TEXAS

By 
Name WILL WYNN
Title MAYOR

SCHEDULE A

CITY OF AUSTIN, TEXAS

\$63,100,000

WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2006 (DELAYED DELIVERY)

- I. Aggregate Principal Amount of the Bonds: \$63,100,000.
- II. Dated date of the Bonds: August 15, 2006; interest accrues from date of delivery.
- III. Purchase Price for the Bonds: \$65,112,089.19 (representing the aggregate principal amount of the Bonds identified in Part I. above, less an underwriting discount of \$333,773.76, plus a reoffering premium of \$2,345,862.95).
- IV. Maturity Dates, Interest Rates and Principal Amounts Maturing:

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2006	\$950,000	5.00%	3.49%
2007	3,295,000	5.00%	3.54%
2008	3,410,000	5.00%	3.62%
2009	4,005,000	5.00%	3.74%
2010	1,835,000	5.00%	3.87%
2011	365,000	5.00%	4.05%
2012	3,375,000	5.00%	4.06%
2013	2,785,000	5.00%	4.16%
2014	3,410,000	5.00%	4.25%
2015	2,575,000	5.00%	4.32%
2016	2,935,000	5.00%	4.37%
2017	1,430,000	5.00%	4.43%
2018	3,255,000	5.00%	4.48%
2019	6,135,000	5.00%	4.51%
2020	5,135,000	5.00%	4.56%
2021	3,090,000	5.00%	4.59%
2022	5,585,000	5.00%	4.62%
2023	6,545,000	5.00%	4.64%
2024	1,455,000	5.00%	4.72%
2025	1,530,000	5.00%	4.75%

- V. The Issuer reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2017, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof on November 15, 2016, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption.

EXHIBIT A

[Letterhead of Bond Counsel]

[Date]

City of Austin, Texas
301 West 2nd Street
Austin, Texas 78701

[Closing Date]

Ladies and Gentlemen:

Attached as Appendix E to the hereinafter mentioned Official Statement of the City of Austin, Texas (the "*Issuer*") is our proposed form of legal opinion regarding, among other things, the authorization, issuance, validity and enforceability of the Issuer's Water and Wastewater System Revenue Refunding Bonds, Series 2006 (the "*Bonds*") and the exclusion of interest on the Bonds from gross income for federal income tax purposes, subject to the conditions and qualifications stated therein. Subject to the matters discussed herein and assuming satisfaction by the Issuer and the Underwriter (as defined in the Bond Purchase Agreement hereinafter referred to) of their respective obligations to be satisfied in the Delayed Delivery Bond Purchase Agreement, dated November 17, 2005 between the Issuer and the Underwriter (the "*Bond Purchase Agreement*"), the issuance of the Bonds, the delivery of certifications in form satisfactory to Bond Counsel as to factual matters relevant to such opinion, and no change in any other facts or circumstances which, in our view, affect or are material to our opinion (including, without limitation, the existence of any litigation), there is no currently applicable law, final regulation, rulings, or interpretation thereof which would prevent us from delivering our opinion on the Settlement Date (as defined in the Bond Purchase Agreement) in substantially the form attached as Appendix E to the Official Statement of the Issuer dated November 17, 2005 relating to the Bonds.

The U.S. Department of the Treasury (the "*Treasury Department*") issued regulations, contained in Circular 230, containing standards of practice governing attorneys and other tax advisors before the Internal Revenue Service. State and local government bond opinions ("*State and Local Bond Opinions*") were excluded from the standards for tax shelter opinions since the Treasury first published the standards for tax shelter opinions in Circular 230. On December 30, 2003, the Treasury Department proposed amendments to the standards of practice that would have eliminated this exclusion for State and Local Bond Opinions. The Treasury Department concluded that practitioners rendering opinions concerning the tax treatment of state and local government bonds should be subject to the same professional standards that are applicable to other practitioners. However, recognizing the special characteristics of the state and local bond market, the Treasury Department proposed regulations that provide standards of practice for practitioners rendering State and Local Bond Opinions. The proposed regulations provide that the final regulations will apply to State and Local Bond Opinions delivered 120 days or more after the date the final regulations are published in the Federal Register, which could occur prior to the delivery date of the Bonds.

If the final regulations applicable to State and Local Bond Opinions are adopted that differ from their proposed form with an effective date applicable to our opinion, we expect to deliver an opinion that contains the same overall conclusion regarding the exclusion of interest on the Bonds from gross income for federal income tax purposes as described above, but which may differ from the form set forth in Appendix E, in order to comply with the new final regulations.

There can be no assurance that the market value of the Bonds will not be adversely affected if the opinion delivered at the time of issuance of the Bonds includes language which differs from the language set forth in Appendix E. In addition, there can be no assurance that final regulations will be promulgated with provisions that are similar to those included in the proposed regulations. We expect that our opinion will be delivered to conform with the requirements of the final regulations if applicable to our opinion relating to the Bonds, as the case may be.

Very truly yours,

FULBRIGHT & JAWORSKI L.L.P.

Exhibit B

Certificate

I, the _____ of the City of Austin, Texas (the "*Issuer*"), hereby certify that the Official Statement of the Issuer dated November 17, 2005, relating to its \$63,100,000 Water and Wastewater System Revenue Refunding Bonds, Series 2006, as the same may have been amended or supplemented to the date hereof, does not contain an untrue statement of a material fact or omit to state a fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. I have made such inquiries as were necessary for me to render this certificate.

CITY OF AUSTIN, TEXAS

Name _____
Title _____
Date _____

Exhibit F
Special Escrow Agreement

SPECIAL ESCROW AGREEMENT

THIS SPECIAL ESCROW AGREEMENT (the "Agreement"), dated and made effective as of November 17, 2005, made by and between the City of Austin, Texas, a duly incorporated municipal corporation principally located in Travis County, Texas (the "City") acting by and through the City Manager and City Clerk, and Deutsche Bank Trust Company Americas, New York, New York (the "Bank"), a banking corporation organized and existing under the laws of the State of New York and authorized to do business in the State of Texas, or its successors or assigns hereunder,

WITNESSETH:

WHEREAS, the City Council of the City of Austin, Texas (the "City") has heretofore issued, sold, and delivered, and there is currently outstanding, obligations totaling in principal amount \$63,360,000 (collectively, the "Refunded Bonds") more particularly described as follows:

(1) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A, dated August 1, 1996, representing a portion of such bonds scheduled to mature on May 15 and/or November 15 in each of the years 2007 through 2013 and 2016, and aggregating in principal amount \$13,485,000 and further described as follows:

<u>Maturity Date</u>	<u>Principal Amount Outstanding (\$)</u>	<u>Principal Amount Eligible to be Refunded (\$)</u>
05-15-2007	13,465,000	1,280,000
11-15-2007	10,470,000	995,000
05-15-2008	10,475,000	995,000
11-15-2008	12,440,000	1,180,000
05-15-2009	12,440,000	1,180,000
11-15-2009	12,690,000	1,210,000
05-15-2010	12,695,000	1,210,000
11-15-2010	7,330,000	695,000
05-15-2011	7,330,000	700,000
05-15-2012	9,905,000	940,000
05-15-2013	7,785,000	750,000
05-15-2014*	11,320,000	1,075,000
05-15-2015*	6,210,000	600,000
05-15-2016	7,085,000	675,000

*represents mandatory sinking fund redemption for term bond maturing in the year 2016

(2) City of Austin, Texas Combined Utility System Revenue Refunding Bonds, Series 1996B, dated August 1, 1996, being the bonds of said series scheduled to mature on November 15 in each of the years 2007 through 2013, 2016, 2021 and 2025, and aggregating in principal amount \$49,875,000;

AND WHEREAS, in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207, as amended (the "Act") and the ordinance authorizing the issuance of the Refunded Bonds, the City is authorized to sell refunding bonds and deposit the proceeds of such refunding bonds with any place of payment for such obligations, or other authorized depository, in an amount sufficient to provide for the full payment thereof and enter into an escrow or similar agreement with such place of payment for the safekeeping, investment, reinvestment, administration and disposition of such deposit, upon such terms and conditions as the parties may agree, provided such deposits may be invested only in (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent (hereinafter referred to as the "Governmental Securities") that mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of the Refunded Bonds; and

WHEREAS, the ordinances authorizing the Refunded Bonds restrict the escrowed securities eligible for deposit to direct obligations of the United States of America, including obligations the principal of and interest on are unconditionally guaranteed by the United States of America (the "Federal Securities"); and

WHEREAS, such deposit, if made on or before the payment date for such obligations, shall constitute the making of firm banking and financial arrangements for their discharge and final payment and such obligations shall cease to be outstanding obligations of the City for all purposes except for being paid from the deposit of funds placed in escrow; and

WHEREAS, the Refunded Bonds are scheduled to mature and interest thereon is payable on the dates and in the manner set forth in Exhibit A attached hereto and incorporated herein by reference as a part of this Agreement for all purposes; and

WHEREAS, the City on the 17th day of November, 2005, pursuant to an ordinance (the "Ordinance") finally passed and adopted by the City Council, authorized the issuance of bonds known as "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2006" (the "Bonds") being issued to refund, discharge and make final payment of the principal of and interest on the Refunded Bonds; and

WHEREAS, upon the delivery of the Bonds, the proceeds of sale, together with other available funds of the City, are to be deposited with the Bank and used in part to purchase Federal Securities listed and identified in Exhibit B attached hereto and incorporated herein by reference as a part of this Agreement for all purposes (together with substituted securities therefor in accordance with the provisions of Section 11 hereof hereinafter referred to as the "Escrowed Securities"); and

WHEREAS, the Escrowed Securities, together with the beginning cash balance in the Escrow Fund, shall mature and the interest thereon shall be payable at such times to insure the existence of monies sufficient to pay in full the aggregate amount of the Refunded Bonds in

accordance with the terms of the ordinances pertaining to Issuance of the Refunded Bonds and as set forth in Exhibit A attached hereto; and

WHEREAS, the City has completed all arrangements for the purchase of the Escrowed Securities listed in Exhibit B and the deposit and credit of the same to the Escrow Fund as provided herein; and

WHEREAS, the Bank is a banking corporation organized and existing under the laws of the State of New York, possessing trust powers and is fully qualified and empowered to enter into this Agreement and the Bank does not act as a depository of the City; and

WHEREAS, in Section 25 of the Ordinance, the City Council duly approved and authorized the execution of this Agreement; and

WHEREAS, the City and the Bank, as the case may be, shall take all action necessary to pay the full aggregate amount of the Refunded Bonds in accordance with the provisions thereof, including, without limitation, all actions required by the ordinances pertaining to the Refunded Bonds, the Act, the Ordinance, and this Agreement;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, and to secure the payment of the Refunded Bonds as provided in Exhibit A attached hereto, the City and the Bank hereby mutually undertake, promise and agree as follows:

SECTION 1: Receipt of Refunded Ordinances. Receipt of copies of the ordinances authorizing the issuance of the Refunded Bonds and the Bond Ordinance are hereby acknowledged by the Bank. Reference herein to or citation herein of any provision of said documents shall be deemed an incorporation of such provision as a part hereof in the same manner and with the same effect as if it were fully set forth herein.

SECTION 2: Escrow Fund Creation/Funding. There is hereby created by the City with the Bank a special segregated and irrevocable trust fund designated "SPECIAL 2006 CITY OF AUSTIN, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS ESCROW FUND" (hereinafter called the "Escrow Fund") for the payment of the Refunded Bonds, and the City agrees and covenants to cause to be deposited with the Bank the following:

\$ _____ for the purchase of the Escrowed Securities Identified in Exhibit B to be held for the account of the Escrow Fund;

\$ _____ for deposit in the Escrow Fund as a beginning cash balance.

The Bank hereby accepts the Escrow Fund and further agrees to receive said moneys, apply the same as set forth herein, and to hold the cash and Escrowed Securities deposited and credited to the Escrow Fund for application and disbursement for the purposes and in the manner provided for in this Agreement.

SECTION 3: Escrow Fund Sufficiency-Warranty. The City hereby represents that the cash and Escrowed Securities specified in Section 2 hereof, together with the interest to be earned thereon, deposited to the credit of the Escrow Fund will be sufficient to pay in full and in a timely manner the Refunded Bonds as shown in Exhibit A, and such Refunded Bonds shall be paid at the times and in the amounts set forth and Identified in Exhibit A attached hereto.

SECTION 4: Pledge of Escrow. The Bank agrees that all cash and Escrowed Securities, together with any income or interest earned thereon, held in the Escrow Fund shall be and is hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds in the amounts and timely manner shown in Exhibit A, and such funds initially deposited and to be received from maturing principal and interest on the Escrowed Securities in the Escrow Fund shall be applied solely in accordance with the provisions of this Agreement.

SECTION 5: Escrow Insufficiency-City Warranty to Cure. If, for any reason, the funds on hand in the Escrow Fund shall be insufficient to make the payments set forth in Exhibit A attached hereto, as the same becomes due and payable, the City shall make timely deposits to the Escrow Fund, from lawfully available funds, of additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be immediately given by the Bank to the City by the fastest means possible, but the Bank shall in no manner be responsible for the City's failure to make such deposits.

SECTION 6: Escrow Fund Securities/Segregation. The Bank shall hold said Escrowed Securities and moneys in the Escrow Fund at all times as a special and separate trust fund, wholly segregated from other moneys and securities on deposit with the Bank; shall never commingle said Escrowed Securities and moneys with other moneys or securities of the Bank; and shall hold and dispose of the assets therein only as set forth herein. Nothing herein contained shall be construed as requiring the Bank to keep the identical moneys, or any part thereof, in said Escrow Fund, if it is impractical, but moneys of an equal amount, except to the extent such are represented by the Escrowed Securities, shall always be maintained on deposit in the Escrow Fund by the Bank, as escrow agent; and a special account evidencing such facts shall at all times be maintained on the books of the Bank.

SECTION 7: Escrow Fund Collections/Payments. The Bank shall collect and receive the principal of and interest on the Escrowed Securities as they respectively mature and become due and credit the same to the Escrow Fund. On or before each principal and/or interest payment date for the Refunded Bonds shown in Exhibit A attached hereto, the Bank, without further direction from anyone, including the City, shall cause to be withdrawn from the Escrow Fund the amounts required to pay the accrued interest due and payable on said payment date on the Refunded Bonds and the principal of the Refunded Bonds due and payable on said payment date and the amount withdrawn from the Escrow Fund shall be immediately transmitted and deposited with the paying agent for the Refunded Bonds to be paid with such amount. The paying agent for the Refunded Bonds is JPMorgan Chase Bank, National Association.

SECTION 8: Escrow Fund Encumbrance. The escrow created hereby shall be irrevocable and an express lien shall exist on all moneys and Escrowed Securities in the Escrow Fund as security for the payment of the Refunded Bonds until such funds are paid out, used and applied in accordance with this Agreement.

Unless disbursed in payment of the Refunded Bonds, all funds and the Escrowed Securities received by the Bank for the account of the City hereunder shall be and remain the property of the Escrow Fund and the City and the owners of the Refunded Bonds shall be entitled to a preferred claim and shall have a first lien upon such funds and Escrowed Securities enjoyed by a trust beneficiary. The funds and Escrowed Securities received by the Bank under this Agreement shall not be considered as a banking deposit by the City and the Bank and the City shall have no right or title with respect thereto, except as otherwise provided herein. Such funds and Escrowed Securities shall not be subject to checks or drafts drawn by the City.

SECTION 9: Absence of Bank Claim/Lien on Escrow Fund. The Bank shall have no lien whatsoever upon any of the moneys or Escrowed Securities in the Escrow Fund for payment of services rendered hereunder, services rendered as Paying Agent for the Refunded Bonds, or for any costs or expenses incurred hereunder and reimbursable from the City.

SECTION 10: Substitution of Investments/Reinvestments. (a) The Bank shall be authorized to accept initially and temporarily cash and/or substituted Escrowed Securities pending the delivery of the Escrowed Securities Identified in the Exhibit B attached hereto, or shall be authorized to redeem the Escrowed Securities and reinvest the proceeds thereof, together with other moneys held in the Escrow Fund in Federal Securities provided such early redemption and reinvestment of proceeds does not change the repayment schedule of the Refunded Bonds appearing in Exhibit A and the Bank receives the following:

(1) an opinion by an Independent certified public accountant to the effect that (i) the initial and/or temporary substitution of cash and/or securities for one or more of the Escrowed Securities identified in Exhibit B pending the receipt and delivery thereof to the Escrow Agent or (ii) the redemption of one or more of the Escrowed Securities and the reinvestment of such funds in one or more substituted Federal Securities (which shall be noncallable direct obligations of the United States of America), together with the interest thereon and other available moneys then held in the Escrow Fund, will, in either case, be sufficient, without reinvestment, to pay, as the same become due in accordance with Exhibit A, the principal of, and interest on, the Refunded Bonds which have not previously been paid, and

(2) with respect to an early redemption of Escrowed Securities and the reinvestment of the proceeds thereof, an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such investment will not cause interest on the Bonds or Refunded Bonds to be included in the gross income for federal income tax purposes, under the Code and related regulations as in effect on the date of such investment, or otherwise make the interest on the Bonds or the Refunded Bonds subject to Federal income taxation and (b) such reinvestment complies with the Constitution and laws of the State of Texas and with all relevant documents relating to the issuance of the Refunded Bonds and the Bonds.

(b) If on the dates and in the amounts shown in Exhibit C attached hereto there exists cash in the Escrow Fund, the Bank and the City agree at least fifteen (15) days prior to such date, to subscribe for the purchase of United States Treasury Securities - State and Local Government Series (SLGS) bearing zero interest (0%) and on such date, in the amount and scheduled to mature as provided in Exhibit C and subscription forms prepared therefor as may be then required by the United States Department of the Treasury; provided that the then existing rules and regulations and policy of United States Department of the Treasury permit and authorize such investments. Should the policy, rules and regulations of the United States Department of Treasury not permit or authorize the purchase of such SLGS at such time or times, such cash balance or balances shall remain uninvested and held in trust for the benefit of the holders of the Refunded Bonds and used for the payment of the Refunded Bonds on the dates and in the amount such moneys would have been expended had such SLGS been acquired and matured.

SECTION 11: Restriction on Escrow Fund Investments – Reinvestments. Except as provided in Section 10 hereof, moneys in the Escrow Fund will be invested only in the Escrowed Securities listed in Exhibit B, and neither the City nor the Bank shall reinvest any moneys deposited in the Escrow Fund except as specifically provided by this Agreement.

SECTION 12: Excess Funds. If at any time through redemption or cancellation of the Refunded Bonds there exists or will exist excesses of interest on or maturing principal of the Escrowed Securities in excess of the amounts necessary hereunder for the Refunded Bonds, the Bank may transfer such excess amounts to or on the order of the City, provided that the City delivers to the Bank the following:

(1) an opinion by an independent certified public accountant that after the transfer of such excess, the principal amount of securities in the Escrow Fund, together with the interest thereon, and other available monies then held in the Escrow Fund, will be sufficient to pay, as the same become due and without reinvestment, in accordance with Exhibit A, the principal of, and interest on, the Refunded Bonds which have not previously been paid, and

(2) an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such transfer will not cause interest on the Bonds or the Refunded Bonds to be included in gross income for federal income tax purposes, under the Code and related regulations as in effect on the date of such transfer, or otherwise make the interest on the Bonds or the Refunded Bonds subject to Federal income taxation, and (b) such transfer complies with the Constitution and laws of the State of Texas and with all relevant documents relating to the issuance of the Refunded Bonds or the Bonds.

SECTION 13: Collateralization. The Bank shall continuously secure the monies in the Escrow Fund not invested in Escrowed Securities by a pledge of direct obligations of the United States of America, in the par or face amount at least equal to the principal amount of said uninvested monies to the extent such money is not insured by the Federal Deposit Insurance Corporation.

SECTION 14: Absence of Bank's Liability for Investments. The Bank shall not be liable or responsible for any loss resulting from any investment made in the Escrowed Securities or substitute securities as provided in Section 10 hereof.

SECTION 15: Bank's Compensation – Escrow Administration/Settlement of Paying Agent's Charges. The City agrees to pay the Bank for the performance of services hereunder and as reimbursement for anticipated expenses to be incurred hereunder the amount of \$350.00 and, except for reimbursement of costs and expenses incurred by the Bank pursuant to Sections 3 and 19 hereof, the Bank hereby agrees said amount is full and complete payment for the administration of this Agreement.

The Bank acknowledges that on the effective date of this Agreement, the sum of \$_____, which represents the total charges due the paying agent for the Refunded Bonds, and the Bank and the City acknowledge and agree amount is and represents the total amount of compensation due for services rendered as paying agents for the Refunded Bonds. Furthermore, the Bank agrees to transmit to such paying agents for the Refunded Bonds the amount included in such deposit for paying agent services to be rendered for the Refunded Bonds in accordance with the City's instructions.

SECTION 16: Escrow Agent's Duties/Responsibilities/Liability. The Bank shall not be responsible for any recital herein, except with respect to its organization and its powers and authority. As to the existence or nonexistence of any fact relating to the City or as to the sufficiency or validity of any instrument, paper or proceedings relating to the City, the Bank shall be entitled to rely upon a certificate signed on behalf of the City by its Mayor or City Manager of the City as sufficient evidence of the facts therein contained. The Bank may accept a certificate of the City Clerk under the City's seal, to the effect that a resolution or other instrument in the form therein set forth has been adopted by the City Council of the City, as conclusive evidence that such resolution or other instrument has been duly adopted and is in full force and effect.

The duties and obligations of the Bank shall be determined solely by the express provisions of this Agreement and the Bank shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Bank.

In the absence of bad faith on the part of the Bank, the Bank may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Bank, conforming to the requirements of this Agreement; but notwithstanding any provision of this Agreement to the contrary, in the case of any such certificate or opinion or any evidence which by any provision hereof is specifically required to be furnished to the Bank, the Bank shall be under a duty to examine the same to determine whether it conforms to the requirements of this Agreement.

The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Bank unless it shall be proved that the Bank was negligent in ascertaining or acting upon the pertinent facts.

The Bank shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in aggregate principal amount of all said Refunded Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bank not in conflict with the intent and purpose of this Agreement. For the purposes of determining whether the holders of the required principal amount of said Refunded Bonds have concurred in any such direction, Refunded Bonds owned by any obligor upon the Refunded Bonds, or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such obligor, shall be disregarded, except that for the purposes of determining whether the Bank shall be protected in relying on any such direction only Refunded Bonds which the Bank knows are so owned shall be so disregarded.

The term "Responsible Officers" of the Bank, as used in this Agreement, shall mean and include the Chairman of the Board of Directors, the President, any Vice President and any Second Vice President, the Secretary and any Assistant Secretary, the Treasurer and any Assistant Treasurer, and every other officer and assistant officer of the Bank customarily performing functions similar to those performed by the persons who at the time shall be officers, respectively, or to whom any corporate trust matter is referred, because of his knowledge of and familiarity with a particular subject; and the term "Responsible Officer" of the Bank, as used in this Agreement, shall mean and include any of said officers or persons.

SECTION 17: Time of the Essence. Time shall be of the essence in the performance of obligations from time to time imposed upon the Bank by this Agreement.

SECTION 18: Interpleader. In the event conflicting demands or notices are made upon the Bank growing out of or relating to this Agreement or the Bank in good faith is in doubt as to what action should be taken hereunder, the Bank shall have the right at its election to:

(a) Withhold and stop all further proceedings in, and performance of, this Agreement with respect to the issue in question and of all instructions received hereunder in regard to such issue; and

(b) File a suit in interpleader and obtain an order from a court of appropriate jurisdiction in the State of Texas requiring all persons involved to interplead and litigate in such court their several claims and rights among themselves.

In the event the Bank becomes involved in litigation in connection with this Section, the City to the extent permitted by law agrees to indemnify and save the Bank harmless from all loss, cost, damages, expenses and attorney fees suffered or incurred by the Bank as a result thereof. The obligations of the Bank under this Agreement shall be performable at the principal corporate office of the Bank in the City of New York, New York.

The Bank may advise with legal counsel in the event of any dispute or question regarding the construction of any of the provisions hereof or its duties hereunder, and in the absence of negligence or bad faith on the part of the Bank, no liability shall be incurred by the Bank for any action taken pursuant to this Section and the Bank shall be fully protected in acting in accordance with the opinion and instructions of legal counsel that is knowledgeable and has expertise in the field of law addressed in any such legal opinion or with respect to the instructions given.

SECTION 19: . Accounting – Annual Report. Following the final payment and redemption of the Refunded Bonds, the Bank shall forward by letter to the City, to the attention of the Acting City Treasurer, or other designated official of the City, a final accounting statement with respect to the Escrowed Securities and the payment and discharge of the Refunded Bonds.

SECTION 20: Notices. Any notice, authorization, request or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed as follows:

CITY OF AUSTIN:

**P. O. Box 1088
Austin, Texas 78767**

**700 Lavaca, Suite 1510
Austin, Texas 78701**

Attention: City Treasurer

DEUTSCHE BANK TRUST COMPANY AMERICAS

**60 Wall Street
27th Floor, MS NYC60-2715
New York, New York 1005**

Attention: Trust & Securities Services (Municipal Group)

The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery.

Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten (10) days prior notice thereof.

SECTION 21: Performance. Whenever under the terms of this Agreement the performance date of any provision hereof, including the payment dates for the Refunded Bonds shown in Exhibit A, shall be a Sunday or a legal holiday or a day when the Bank is authorized by law to close, then the performance thereof need not be made on such date but may be performed or paid, as the case may be, on the next succeeding business day of the Bank with the same force and effect as if made on the date of performance or payment and with respect to a payment, no interest shall accrue for the period after such date.

SECTION 22: Warranty of Parties re: Power to Execute and Deliver Escrow Agreement. The City covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Agreement, in any and every said Refunded Bond as executed, authenticated and delivered and in all proceedings pertaining thereto as said Refunded Bonds shall have been modified as provided in this Agreement. The City covenants that it is duly authorized under the Constitution and laws of the State of Texas to execute and deliver this Agreement, that all actions on its part for the payment of said Refunded Bonds as provided herein and the execution and delivery of this Agreement have been duly and effectively taken.

SECTION 23: Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the parties to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement. In the event any covenant or agreement contained in this Agreement is declared to be severable from the other provisions of this Agreement, written notice of such event shall immediately be given to each national rating service (Moody's Investors Service, Inc., Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc., or Fitch Investors Service) which has rated the Refunded Bonds on the basis of this Agreement.

SECTION 24: Termination. This Agreement shall terminate when the Refunded Bonds have been paid in full in accordance with the provisions of this Agreement. If any Refunded Bond is not paid when due because of failure to satisfy a condition for payment such as surrender and presentation to the paying agent, the nonpayment thereof shall not prevent the termination of this Agreement. Funds for the payment of such Refunded Bonds shall be held by the Bank for such purpose in accordance with Section 7 hereof. Any moneys or Escrowed Securities held in the Escrow Fund at termination and not needed for the payment of the Refunded Bonds shall be paid or transferred to the City.

SECTION 25: Successors/Assigns. (a) Should the Bank not be able to legally serve or perform the duties and obligations under this Agreement, or should the Bank be declared to be insolvent or closed for any reason by federal or state regulatory authorities or a court of competent jurisdiction, the City, upon being notified or discovering the Bank's inability or disqualification to serve hereunder, shall forthwith appoint a successor to replace the Bank, and upon being notified of such appointment, the Bank shall (i) transfer all funds and securities held hereunder, together with all books, records and accounts relating to the Escrow Fund and the

Refunded Bonds, to such successor and (ii) assign all rights, duties and obligations under this Agreement to such successor. If the City should fail to appoint such a successor within ninety (90) days from the date the City discovers, or is notified of, the event or circumstance causing the Bank's inability or disqualification to serve hereunder, the Bank, or a bondholder of the Refunded Bonds, may apply to a court of competent jurisdiction to appoint a successor or assigns of the Bank and such court, upon determining the Bank is unable to continue to serve, shall appoint a successor to serve under this Agreement and the amount of compensation, if any, to be paid to such successor for the remainder of the term of this Agreement for services to be rendered both for administering the Escrow Fund and for paying agent duties and responsibilities for the Refunded Bonds.

(b) Furthermore, the Bank may resign and be discharged from performing its duties and responsibilities under this Agreement upon notifying the City in writing of its intention to resign and requesting the City to appoint a successor. No such resignation shall take effect until a successor has been appointed by the City and such successor has accepted such appointment and agreed to perform all duties and obligations hereunder for a total compensation equal to the unearned proportional amount paid the Bank under Section 16 hereof for the administration of this Agreement and the unearned proportional amount of the paying agents fees for the Refunded Bonds due the Bank.

Any successor to the Bank shall be a bank, trust company or other financial institution that is duly qualified under applicable law to serve as escrow agent hereunder and authorized and empowered to perform the duties and obligations contemplated by this Agreement and organized and doing business under the laws of the United States or the State of Texas, having its principal office and place of business in the State of Texas, having a combined capital and surplus of at least \$5,000,000 and be subject to the supervision or examination by Federal or State authority.

Any successor or assigns to the Bank shall execute, acknowledge and deliver to the City and the Bank, or its successor or assigns, an instrument accepting such appointment hereunder, and the Bank shall execute and deliver an instrument transferring to such successor, subject to the terms of this Agreement, all the rights, powers and trusts created and established and to be performed under this Agreement. Upon the request of any such successor Bank, the City shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Bank all such rights, powers and duties. The term "Bank" as used herein shall be the Bank and its legal assigns and successor hereunder.

SECTION 26: Limitation re: Bank's Duties, Responsibilities and Liabilities to Third Parties. The Bank shall not be responsible or liable to any person in any manner whatever for the sufficiency, correctness, genuineness, effectiveness, or validity of this Agreement with respect to the City, or for the identity or authority of any person making or executing this Agreement on behalf of the City. The Bank is authorized by the City to rely upon the representations of the City with respect to this Agreement and the deposits made pursuant hereto and as to the City's right and power to execute and deliver this Agreement, and the Bank shall not be liable in any manner as a result of such reliance. The duty of the Bank hereunder shall only be to the City and the holders of the Refunded Bonds. Neither the City nor the Bank shall assign or attempt to assign or transfer any interest hereunder or any portion of any such interest. Any such assignment or attempted assignment shall be in direct conflict with this Agreement and be without effect.

SECTION 27: Escrow Agreement – Amendment/Modification. This Agreement shall be binding upon the City and the Bank and their respective successors and legal representatives and shall inure solely to the benefit of the holders of the Refunded Bonds, the City, the Bank and their respective successors and legal representatives. Furthermore, no alteration, amendment or modification of any provision of this Agreement (1) shall alter the firm financial arrangements made for the payment of the Refunded Bonds or (2) shall be effective unless (i) prior written consent of such alteration, amendment or modification shall have been obtained from the holders of all Refunded Bonds outstanding at the time of such alteration, amendment or modification and (ii) such alteration, amendment or modification is in writing and signed by the parties hereto; provided, however, the City and the Bank may, without the consent of either the holders of the Refunded Bonds, amend or modify the terms and provisions of this Agreement to cure any ambiguity, formal defect or omission in this Agreement. If the parties hereto agree to any amendment or modification to this Agreement, prior written notice of such amendment or proposed modification, together with the legal documents amending or modifying this Agreement, shall be furnished to each national rating service (Moody's Investors Service, Inc., Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc., or Fitch Investors Inc.) which has rated the Refunded Bonds on the basis of this Agreement, prior to such amendment or modification being executed.

SECTION 28: Bank Not a Depository. The Bank and the City each hereby acknowledge and certify that the Bank does not act as a depository of the City.

SECTION 29: Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

SECTION 30: Governing Law. This Agreement shall be governed by the laws of the State of Texas.

[remainder of page left blank intentionally]

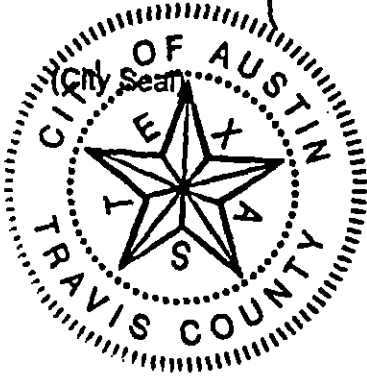
IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly authorized officers and their corporate seals to be hereunto affixed and attested as of the date first above written.

CITY OF AUSTIN, TEXAS

Will Wynn
Title: MAYOR

ATTEST:

Aurèle A. Brown
City Clerk



DEUTSCHE BANK TRUST COMPANY
AMERICAS, New York, New York,
as Escrow Agent

Title: _____

Title: _____

ATTEST:

Authorized Signer

(Bank Seal)

Exhibit G-1
NOTICE OF REDEMPTION
CITY OF AUSTIN, TEXAS
COMBINED UTILITY SYSTEM REVENUE REFUNDING BONDS
SERIES 1996A, DATED AUGUST 1, 1996

NOTICE IS HEREBY GIVEN that a portion of the bonds of the above series maturing on May 15 and/or November 15 in each of the years 2007 through 2013 and 2016, and aggregating in principal amount \$13,485,000 have been called for redemption on November 15, 2006 at the redemption price of par and accrued interest to the date of redemption, such bonds being identified as follows: :

<u>Stated Maturity</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Redeemed</u>	<u>CUSIP Number</u>
05-15-2007	\$13,465,000	\$1,280,000	
11-15-2007	10,470,000	995,000	
05-15-2008	10,475,000	995,000	
11-15-2008	12,440,000	1,180,000	
05-15-2009	12,440,000	1,180,000	
11-15-2009	12,690,000	1,210,000	
05-15-2010	12,695,000	1,210,000	
11-15-2010	7,330,000	695,000	
05-15-2011	7,330,000	700,000	
05-15-2012	9,905,000	940,000	
05-15-2013	7,785,000	750,000	
05-15-2016	\$24,615,000	2,350,000	

A LOT SELECTION has been made and your Bond has been selected for redemption. All such bonds selected for redemption shall become due and payable on November 15, 2006, and interest thereon shall cease to accrue from and after said redemption date and payment of the redemption price of said bonds shall be paid to the registered owners of the bonds only upon presentation and surrender thereof to JPMorgan Chase Bank, National Association, Dallas, Texas (successor paying agent/registrars to Texas Commerce Bank, National Association) at its designated offices at the following addresses:

First Class/ Registered/Certified	Express Delivery/Courier	By Hand Only
JPMorgan Chase Bank, N.A.	JPMorgan Chase Bank, N.A.	JPMorgan Chase Bank, N.A.
Institutional Trust Services	Institutional Trust Services	Room 234-North Building
P. O. Box 2320	2001 Bryan Street, 9th Floor	Institutional Trust
Dallas, Texas 75221-2320	Dallas, Texas 75201	Securities Window
		55 Water Street
		New York, New York 10041

THIS NOTICE is issued and given pursuant to the terms and conditions prescribed for the redemption of said bonds and pursuant to an ordinance by the City Council of the City of Austin, Texas.

JPMORGAN CHASE BANK, NATIONAL
ASSOCIATION,
Address: 2001 Bryan Street, 8th Floor

**EXHIBIT G-2
NOTICE OF REDEMPTION
CITY OF AUSTIN, TEXAS
COMBINED UTILITY SYSTEMS REVENUE REFUNDING BONDS
SERIES 1996B, DATED AUGUST 1, 1996**

NOTICE IS HEREBY GIVEN that the bonds of the above series maturing on and after November 15, 2007, and aggregating in principal amount \$49,875,000 have been called for redemption on November 15, 2006 at the redemption price of par and accrued interest to the date of redemption, such bonds being identified as follows:

<u>Year of</u> <u>Maturity</u>	<u>Principal Amount</u>	<u>CUSIP</u> <u>Number</u>	<u>Year of</u> <u>Maturity</u>	<u>Principal Amount</u>	<u>CUSIP</u> <u>Number</u>
2007	\$ 200,000		2016	\$ 6,000,000	
2008	\$1,100,000				
2009	\$1,100,000		2021	\$18,500,000	
2010	\$2,000,000				
2011	\$2,000,000		2025	\$14,975,000	
2012	\$2,000,000				
2013	\$2,000,000				

ALL SUCH BONDS shall become due and payable on November 15, 2006, and interest thereon shall cease to accrue from and after said redemption date and payment of the redemption price of said bonds shall be paid to the registered owners of the bonds only upon presentation and surrender thereof to JPMorgan Chase Bank, National Association, Dallas, Texas (successor paying agent/registrar to Texas Commerce Bank, National Association) at its designated offices at the following addresses:

First Class/

**Registered/Certified
JPMorgan Chase Bank, N.A.
Institutional Trust Services
P. O. Box 2320
Dallas, Texas 75221-2320**

**Express Delivery/Courier
JPMorgan Chase Bank, N.A.
Institutional Trust Services
2001 Bryan Street, 9th Floor
Dallas, Texas 75201**

**By Hand Only
JPMorgan Chase Bank, N.A.
Room 234-North Building
Institutional Trust
Securities Window
55 Water Street
New York, New York 10041**

THIS NOTICE is issued and given pursuant to the terms and conditions prescribed for the redemption of said bonds and pursuant to an ordinance by the City Council of the City of Austin, Texas.

**JPMORGAN CHASE BANK, NATIONAL
ASSOCIATION,
Address: 2001 Bryan Street, 8th Floor
Dallas, Texas 75201**