

ORDINANCE NO. 1762
ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF SUGAR LAND,
TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE BONDS,
SERIES 2009

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SUGAR LAND:

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1: Findings and Determinations. It is hereby officially found and determined that the City is authorized by Chapter 1502, Texas Government Code, as amended, to issue bonds payable from the net revenues of its waterworks and sanitary sewer system to provide funds to acquire, purchase, construct, improve, renovate, enlarge or equip such system.

ARTICLE II

DEFINITIONS AND INTERPRETATIONS

Section 2.1: Definitions. In this Ordinance, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

“Additional Parity Bonds” means the additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.1 of this Ordinance.

“Blanket Issuer Letter of Representations” means the Blanket Issuer Letter of Representations between the City, the Registrar and DTC.

“Bond Purchase Agreement” means the agreement between the City and the Underwriters described in Section 8.1 of this Ordinance.

“Bonds” or “Series 2009 Bonds” means the City of Sugar Land, Texas, Waterworks and Sewer System Revenue Bonds, Series 2009, authorized by this Ordinance.

“Business Day” means any day which is not a Saturday, Sunday, or a day on which the Registrar is authorized by law or executive order to close.

“City” means the City of Sugar Land, Texas, and where appropriate, the City Council thereof and any successor to the City as owner of the System.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended.

“Comptroller” means the Comptroller of Public Accounts of the State of Texas.

“DTC” means The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“Gross Revenues” means all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System and the interest income from the investment or deposit of money in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund.

“Initial Bond” means the Initial Bond authorized by Section 3.4(d).

“Interest Payment Date”, when used in connection with any Bond, means February 15, 2010, and each August 15 and February 15 thereafter until maturity or earlier redemption.

“Maintenance and Operation Expenses” means the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means all Gross Revenues remaining after deducting the Maintenance and Operation Expenses.

“Ordinance” means this bond ordinance and all amendments hereof and supplements hereto.

“Outstanding Parity Bonds” means the outstanding bonds of the City’s Waterworks and Sewer System Revenue Bonds, Series 2002, the City’s Waterworks and Sewer System Revenue Bonds, Series 2002A, the City’s Waterworks and Sewer System Revenue Bonds, Series 2005, the City’s Waterworks and Sewer System Revenue Bonds, Series 2006, the City’s Waterworks and Sewer System Revenue Bonds, Series 2008, the City’s Waterworks and Sewer System Revenue Refunding Bonds, Series 2009 (in process of being issued) and the Bonds.

“Owner” or “Registered Owner”, when used with respect to any Bond means the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under this Ordinance, exclusive of Bonds held by the City.

“Parity Bonds” means the Bonds, the Outstanding Parity Bonds, and each series of Additional Parity Bonds from time to time hereafter issued, but only to the extent such Parity Bonds remain outstanding within the meaning of this Ordinance.

“Record Date” means, for any Interest Payment Date, the last Business Day of the month next preceding each Interest Payment Date.

“Register” means the books of registration kept by the Registrar in which are maintained the names and addresses of, and the principal amounts of the Bonds registered to, each Owner.

“Registrar” means The Bank of New York Mellon Trust Company, N.A., and its successors in that capacity.

“Reserve Fund Requirement” means the average annual principal and interest requirements on the Parity Bonds, which may be determined and redetermined each year by the City but in no event less frequently than upon the issuance of each series of Parity Bonds.

“Reserve Fund Surety Policy” means a surety bond, insurance policy, letter of credit, or other similar instrument issued by a financial institution, provided that the claims paying ability of such issuer is rated in one of the highest category of ratings by Standard & Poor’s, a division of the McGraw Hill Companies, Inc., and Moody’s Investors Service, Inc.

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

“SEC” means the United States Securities and Exchange Commission.

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

“System” means all properties, facilities, improvements, equipment, interests, and rights constituting the waterworks and sanitary sewer system of the City, including all water production, treatment, storage and distribution facilities and all wastewater collection, transportation and treatment facilities formerly owned by Fort Bend County Municipal Utility District No. 13 and assumed by the City upon annexation and dissolution of said District and including all future extensions, replacements, betterments, additions, and improvements to the System, but excluding any Special Project.

“Underwriters” mean Morgan Keegan & Co., Inc., Coastal Securities, Inc. and Merrill Lynch & Co.

Section 2.2: Interpretations. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Parity Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Parity Bonds.

ARTICLE III

TERMS OF THE BONDS

Section 3.1: Authorization and Authorized Amount. The Bonds shall be issued in fully registered form, without coupons, in the aggregate principal amount of [\$29,405,000] for the purpose of acquiring and constructing property, facilities and improvements for the City’s waterworks and sanitary sewer system.

Section 3.2: Designation, Date, and Interest Payment Dates. The Bonds shall be designated as “City of Sugar Land, Texas, Waterworks and Sewer System Revenue Bonds, Series 2009”, and shall be dated November 15, 2009. The Bonds shall bear interest at the rates set out in Section 3.3 of this Ordinance from the later of November 15, 2009, or the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months, with such interest payable on each Interest Payment Date.

Section 3.3: Initial Bonds; Numbers and Denomination. The Bonds shall be issued in the principal amounts and bearing interest at the rates set forth in the following schedule, and may be transferred and exchanged as set out in this Ordinance. The Bonds shall mature on August 15 in each of the years and in the amounts set out in such schedule. The Initial Bond shall be numbered I-1 and all other Bonds shall be numbered in sequence beginning with R-1. Bonds delivered on transfer of or in exchange for other Bonds shall be numbered in order of their authentication by the Registrar, shall be in the denomination of \$5,000 or integral multiples thereof, and shall mature on the same date and bear interest at the same rate as the Bond or Bonds in lieu of which they are delivered.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2010	\$ _____	_____ %
2011	_____	_____ %
2012	_____	_____ %
2013	_____	_____ %
2014	_____	_____ %
2015	_____	_____ %
2016	_____	_____ %
2017	_____	_____ %
2018	_____	_____ %
2019	_____	_____ %
2020	_____	_____ %
2021	_____	_____ %
2022	_____	_____ %
2023	_____	_____ %
2024	_____	_____ %
2025	_____	_____ %
2026	_____	_____ %
2027	_____	_____ %
2028	_____	_____ %
2029	_____	_____ %

Section 3.4: Execution and Registration of Bonds. (a) The Bonds shall be signed on behalf of the City by the Mayor and countersigned by the City Secretary, by their manual, lithographed, or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the City had been manually impressed upon each of the Bonds.

(b) If any officer of the City whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Registrar’s Authentication Certificate substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Registrar. In lieu of the executed Registrar’s Authentication Certificate described above, the Initial Bond delivered at the Issuance Date shall have attached hereto the Comptroller’s Registration Certificate substantially in the form provided herein, manually executed by the Comptroller, or by his duly authorized agent, which certificate shall be evidence that the Initial Bond has been

duly approved by the Attorney General of the State of Texas and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(d) On the Closing Date, the Initial Bond, being a single bond representing the entire principal amount of the Bonds, payable in stated installments to the Initial Purchaser or its designee, executed by manual or facsimile signature of the Mayor and City Secretary of the City, approved by the Attorney General, and registered and manually signed by the Comptroller, shall be delivered to the Initial Purchaser or its designee. Upon payment for the Initial Bond, the Registrar shall cancel the Initial Bond and deliver definitive Bonds to DTC.

Section 3.5. Payment of Principal and Interest. The Registrar is hereby appointed as the paying agent for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable at maturity or earlier redemption to the Registrar at its principal payment office in Dallas, Texas. The interest on each Bond shall be payable by check payable on the Interest Payment Date, mailed by the Registrar on or before each Interest Payment Date to the Owner of record as of the Record Date, to the address of such Owner as shown on the Register.

If the date for the payment of principal or interest on any Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date such payment was due.

Section 3.6. Successor Registrars. The City covenants that at all times while any Bonds are outstanding it will provide a commercial bank or trust company organized under the laws of the United States or of any state and duly qualified and legally authorized to act as Registrar for the Bonds. The City reserves the right to change the Registrar for the Bonds on not less than 30 days written notice to the Registrar, so long as any such notice is effective not less than 60 days prior to the next succeeding principal or interest payment date on the Bonds. Promptly upon the appointment of any successor Registrar, the previous Registrar shall deliver the Register or a copy thereof to the new Registrar, and the new Registrar shall notify each Owner, by United States mail, first class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

Section 3.7. Special Record Date. If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class, postage prepaid, not later than five (5) days prior to the Special Record Date, to each Owner or record of an affected Bond as of the close of business on the day prior to the mailing of such notice.

Section 3.8. Ownership; Unclaimed Principal and Interest. Subject to the further provisions of this Section, the City, the Registrar and any other person may treat the person in whose name any Bond is registered as the absolute Owner of such Bond for the purpose of making and receiving payment of the principal of or interest on such Bond, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with this Section shall be valid and effectual and shall discharge the liability of the City and the Registrar upon such Bond to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Bonds remaining unclaimed by the Owner after the expiration of three years from the date such amounts have become due and payable shall be reported and disposed of by the Registrar in accordance with the applicable provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

Section 3.9. Registration, Transfer, and Exchange. So long as any Bonds remain outstanding, the Registrar shall keep the Register at its principal payment office in Dallas, Texas, and, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of this Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof at the principal payment office of the Registrar in Dallas, Texas, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Bond in proper form for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three (3) Business Days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount, bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Registrar in Dallas, Texas, for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this Section. Each Bond delivered in accordance with this Section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The City or the Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the City.

Section 3.10. Cancellation of Bonds. All Bonds paid or redeemed in accordance with this Ordinance, and all Bonds in lieu of which exchange Bonds or replacement Bonds are

authenticated and delivered in accordance herewith, shall be canceled and destroyed upon the making of proper records regarding such payment or redemption. The Registrar shall furnish the City with appropriate certificates of destruction of such Bonds.

Section 3.11. Mutilated, Lost, or Stolen Bonds. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. The City or the Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

If any Bond is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute and the Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

- (1) furnished to the City and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;
- (2) furnished such security or indemnity as may be required by the Registrar and the City to save them harmless;
- (3) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and
- (4) met any other reasonable requirements of the City and the Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a replacement Bond, authorize the Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

Section 3.12: Book-Entry System. (a) The Initial Bond shall be registered in the name of Morgan Keegan & Co., Inc. Except as provided in Section 3.13 hereof, all other Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such DTC Participant holds an interest in the Bonds, except as provided in this Ordinance. Without limiting the immediately preceding sentence, the City and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Register as the absolute Owner of such Bond for the purpose of payment of principal of and interest on the Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfer with respect to such Bond, and for all other purposes whatsoever. The Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Register as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payments of principal, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a Bond certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions of this Ordinance with respect to interest checks being mailed to the Owner of record as of the Record Date, the phrase "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

Section 3.13: Successor Securities Depository; Transfer Outside Book-Entry Only System. In the event that the City in its sole discretion, determines that the beneficial owners of the Bonds be able to obtain certificated Bonds, or in the event DTC discontinues the services described herein, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants, as identified by DTC, of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants, as identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts, as identified by DTC. In such event, the Bonds shall not longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance.

Section 3.14: Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bonds, and all notices with respect to such Bonds, shall be made and given, respectively, in the manner provided in the Blanket Letter of Representations.

Section 3.15: Optional [and Mandatory] Redemption; Defeasance. The Bonds are subject to optional [and mandatory] redemption as set forth in the Form of Bond in this Ordinance.

Principal amounts may be redeemed only in integral multiples of \$5,000. If less than all of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by the City. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 3.9 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty days prior to the date fixed for redemption by sending written notice by first class mail, postage prepaid, to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding of a particular maturity are to be redeemed, the numbers of the Bonds or portions thereof of such maturity to be redeemed. Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

The Bonds may be discharged, defeased, redeemed or refunded in any manner now or hereafter permitted by law.

check on August 15 and February 15, beginning on February 15, 2010, mailed to the registered owner as shown on the books of registration kept by the Registrar as of the last business day of the month next preceding each interest payment date.

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS aggregating [\$29,405,000], issued for the purpose of constructing improvements to the City's waterworks and sanitary sewer system, under and in strict conformity with the Constitution and laws of the State of Texas, particularly Chapter 1502, Texas Government Code, as amended, and pursuant to an ordinance adopted by the City Council (the "Ordinance").

THE CITY RESERVES THE RIGHT to redeem Bonds maturing on and after August 15, 2019, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on August 15, 2018, or any date thereafter at par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. Reference is made to the Ordinance for complete details concerning the manner of redeeming the Bonds.

[Insert mandatory redemption language, if applicable]

NOTICE OF ANY REDEMPTION shall be given at least thirty (30) days prior to the date fixed for redemption by first class mail, addressed to the registered owners of each Bond to be redeemed in whole or in part at the address shown on the books of registration kept by the Registrar. When Bonds or portions thereof have been called for redemption, and due provision has been made to redeem the same, the principal amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the amounts called for redemption shall terminate on the date fixed for redemption.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the principal payment office of the Registrar in Dallas, Texas, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THE BONDS ARE EXCHANGEABLE at the principal payment office of the Registrar in Dallas, Texas, for bonds in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THIS BOND AND THE SERIES OF WHICH IT IS A PART, together with the City's outstanding waterworks and sewer system revenue bonds (the "Outstanding Parity Bonds"), are special obligations of the City that are payable from and are equally and ratably secured by a first lien on the revenues of the City's waterworks and sewer system remaining after deduction of the operation and maintenance expenses of that system (the "Net Revenues"), as defined and provided in the Ordinance, which Net Revenues are required to be set aside and pledged to the payment of the Bonds, the Outstanding Parity Bonds and all additional bonds issued on a parity therewith, in the Interest and Sinking Fund and the Reserve Fund maintained for the payment of all such bonds, all as more fully described and provided for in the Ordinance. This Bond and the series of which it is a part, together with the interest thereon, are payable solely from such Net Revenues and do not constitute an indebtedness or general obligation of the City. The owner

hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

IT IS HEREBY DECLARED AND REPRESENTED that this Bond has been duly and validly issued and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the issuance and delivery of this Bond have been performed, existed, and been done in accordance with law; that the Bonds do not exceed any statutory limitation; and that provision has been made for the payment of the principal of and interest on this Bond and all of the Bonds by the creation of the aforesaid lien on and pledge of the Net Revenues.

IN WITNESS WHEREOF, this Bond has been signed with the manual or facsimile signature of the Mayor and countersigned with the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed, or placed in facsimile, on this Bond.

(AUTHENTICATION
CERTIFICATE)

(SEAL)

CITY OF SUGAR LAND, TEXAS

Mayor

City Secretary

(b) Form of Registration Certificate.

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

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 that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY SIGNATURE AND SEAL this _____.

(SEAL)

Comptroller of Public Accounts
of the State of Texas

(c) Form of Authentication Certificate.

AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been delivered pursuant to the Bond Ordinance described in the text of this Bond.

The Bank of New York Mellon Trust Company, N.A.
As Paying Agent/Registrar

By _____
Authorized Signature
Date of Authentication _____

(d) Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

(Please print or type name, address, and zip code of Transferee)

(Please insert Social Security or Taxpayer Identification Number of Transferee)
the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to transfer said Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature Guaranteed:

NOTICE: Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

Registered Owner

NOTICE: The signature above must correspond to the name of the registered owner as shown on the face of this Bond in every particular, without any alteration, enlargement or change whatsoever.

(e) The Initial Bond shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Bond, the headings “INTEREST RATE” and “MATURITY DATE” shall both be completed with the words “As Shown Below” and the word “CUSIP” deleted;

(ii) in the first paragraph of the Bond, the words “on the maturity date specified above” and “at the rate shown above” shall be deleted and the following shall be inserted at the end of the first sentence “..., with such principal to be paid in installments on August 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

[Information to be inserted from schedule in Section 3.3]

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

Section 4.2: CUSIP Numbers; Bond Insurance. CUSIP Numbers may be printed on the Bonds, but errors or omissions in the printing of such numbers shall have no effect on the validity of the Bonds. If bond insurance is obtained by the Initial Purchaser, the Bonds may bear an appropriate legend as provided by the insurer.

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL PARITY BONDS

Section 5.1: Pledge and Source of Payment. The City hereby covenants and agrees that all Gross Revenues of the System shall be deposited and paid into the special funds established for Parity Bonds in this Ordinance and the ordinances authorizing the Outstanding Parity Bonds, and shall be applied in the manner set out herein, to provide for the payment of all Maintenance and Operation Expenses and to provide for the payment of principal, interest and any redemption premium of the Parity Bonds and all expenses of paying same. The Parity Bonds shall constitute special obligations of the City that shall be payable solely from, and shall be equally and ratably secured by a first lien on, the Net Revenues, as collected and received by the City, from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the Parity Bonds in the Interest and Sinking Fund and Reserve Fund as hereinafter provided, and the Parity Bonds shall be in all respects on a parity with and of equal dignity with one another. The owners of the Parity Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation.

Section 5.2: Rates and Charges. So long as any Parity Bonds remain outstanding, the City shall fix, charge and collect rates and charges for the use and services of the System which are fully sufficient to produce Net Revenues in each fiscal year at least equal to 110% of the principal and interest requirements scheduled to occur in such fiscal year on all Parity Bonds then outstanding plus an amount equal to the sum of all deposits required to be made to the Reserve Fund in such fiscal year; but in no event shall Net Revenues ever be less than the amount required to maintain the Interest and Sinking Fund and the Reserve Fund as hereinafter provided, and, to the extent that funds for such purpose are not otherwise available, to pay all other outstanding obligations payable from the Net Revenues of the System as and when the same become due.

The City will not grant or permit any free service from the System except for public buildings and institutions operated by the City.

Section 5.3: Special Funds. The following special funds have previously been established and have been maintained and accounted for as hereinafter provided, so long as any Parity Bonds remain outstanding:

- (a) Waterworks and Sewer System Revenue Bonds Revenue Fund (the “Revenue Fund”);
- (b) Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund (the “Interest and Sinking Fund”); and
- (c) Waterworks and Sewer System Revenue Bonds Reserve Fund (the “Reserve Fund”).

The Revenue Fund shall be maintained as a separate account on the books of the City. The Interest and Sinking Fund and the Reserve Fund shall be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City and shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Parity Bonds and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be and are hereby pledged to the payment of the Parity Bonds. All of the Funds named above shall be used solely as provided in this Ordinance so long as any Parity Bonds remain outstanding.

Section 5.4: Flow of Funds. All Gross Revenues of the System shall be deposited as collected into the Revenue Fund. Money from time to time on deposit to the credit of the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to pay Maintenance and Operation Expenses;
- (b) Second, to make all deposits into the Interest and Sinking Fund required by this Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds;

- (c) Third, to make all deposits into the Reserve Fund required by this Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds; and
- (d) Fourth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the Interest and Sinking Fund and the Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Parity Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the Interest and Sinking Fund or the Reserve Fund.

Section 5.5: Interest and Sinking Fund. On or before the last Business Day of each month so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, there shall be transferred into the Interest and Sinking Fund from the Revenue Fund

- (i) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the interest scheduled to become due on the Parity Bonds on the next interest payment date; and
- (ii) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the next maturing principal of the Parity Bonds, including the principal amounts of, and any redemption premium on, any Parity Bonds payable as a result of the exercise or operation of any optional or mandatory redemption provision contained in this Ordinance or in any ordinance authorizing the issuance of Additional Parity Bonds.

Money deposited to the credit of the Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and any redemption premium on the Parity Bonds, plus all bank charges and other costs and expenses relating to such payment. On or before each principal and/or interest payment date on the Parity Bonds, the City shall transfer from the Interest and Sinking Fund to the paying agents an amount equal to the principal, interest and any redemption premium payable on the Parity Bonds on such date, together with an amount equal to all bank charges and other costs and expenses relating to such payment. The paying agents shall destroy all paid Parity Bonds and shall provide the City with appropriate certificates of destruction.

Section 5.6: Reserve Fund. Unless the Reserve Fund is fully funded, on or before the last Business Day of each month so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, and after making the transfers into the Interest and Sinking Fund required in the preceding Section, there shall be transferred into the Reserve Fund from the Revenue Fund such amounts, in approximately equal monthly installments, as shall be required so that the Reserve Fund shall

contain, in no more than 60 months after the issuance of each issue of Parity Bonds, money and investments in an aggregate amount equal to the average annual principal and interest requirements on all Parity Bonds then outstanding. After such amount has accumulated in the Reserve Fund and so long thereafter as the Reserve Fund contains such amount, no further deposits shall be required to be made into the Reserve Fund, and any excess amounts may be transferred to the Revenue Fund. But if and whenever the balance in the Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the average annual principal and interest requirements on the Parity Bonds until the Reserve Fund has been restored to such amount. The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose and may be used to pay and retire the last Parity Bonds to mature or be redeemed. At the option of the City, all or any part of the amount required to be on deposit in the Reserve Fund may be satisfied through the purchase of a Reserve Fund Surety Policy, provided that at the time of delivery of the policy the City is authorized by applicable law to pay reimbursement obligations under such a policy and the interest due on any such reimbursement obligation does not exceed the highest lawful rate of interest which may be paid by the City. Any Reserve Fund Surety Policy shall be authorized by ordinance and approved by the Attorney General of Texas, if such approval is required. Net Revenues shall be used to pay reimbursement obligations to the issuer of any Reserve Fund Surety Policy for amounts drawn thereunder, but only after making the payments into the Interest and Sinking Fund and Reserve Fund required by Section 5.5 and this Section. Absent of default by the provider of a Reserve Fund Surety Policy once deposited in the Reserve Fund, a change in ratings of the provider of any Reserve Fund Surety Policy shall have no effect upon satisfying the Reserve Fund Requirement.

Section 5.7: Deficiencies in Funds. If in any month there shall not be deposited into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and paid into such Fund or Funds from the first available and unallocated money in the Revenue Fund, and such payment shall be in addition to the amounts otherwise required to be paid into such Funds during the succeeding month or months. To the extent necessary, the rates and charges for the System shall be increased to make up for any such deficiencies.

Section 5.8: Investment of Funds; Transfer of Investment Income. (a) Money in the Revenue Fund, the Interest and Sinking Fund and the Reserve Fund may, at the option of the City, be invested as permitted by the Public Funds Investment Act and the City's investment policy; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Reserve Fund mature later than the final maturity date of the Parity Bonds. Any obligation in which money is so invested shall be kept and held in the Fund from which the investment was made. All such investments shall be promptly sold when necessary to prevent any default in connection with the Parity Bonds.

(b) All interest and income derived from such deposits and investments shall be transferred or credited as received to the Revenue Fund, and shall constitute Gross Revenues of the System.

Section 5.9: Security for Funds. So long as any Parity Bonds remain outstanding, all money on deposit in, or credited to, the Revenue Fund, the Interest and Sinking Fund and the Reserve Fund shall be secured as provided by Texas law, including the Public Funds Collateral Act.

Section 5.10: Application of Chapter 1208, Government Code. Chapter 1208, Government Code, applies to the issuance of the Bonds and the pledge of the revenues granted by the City under Section 5.1 of this Ordinance, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the revenues granted by the City under Section 5.1 of this Ordinance is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the 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.

ARTICLE VI

ADDITIONAL BONDS

Section 6.1: Additional Parity Bonds. The City reserves the right to issue, for any lawful purpose (including the refunding of any previously issued Parity Bonds or any other bonds or obligations of the City issued in connection with or payable from the revenues of the System), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Net Revenues of the System on a parity with the Bonds, the Outstanding Parity Bonds, and any previously issued Additional Parity Bonds; provided, however, that no Additional Parity Bonds may be issued unless:

- (a) The Additional Parity Bonds mature on, and interest is payable on, the same days of the year as the Bonds;
- (b) The Interest and Sinking Fund and the Reserve Fund each contains the amount of money then required to be on deposit therein;
- (c) For either the preceding fiscal year or a 12 consecutive calendar month period ending no more than 90 days prior to adoption of the ordinance authorizing such Additional Parity Bonds, Net Revenues were equal to at least 125% of the average annual principal and interest requirements on all Parity Bonds that will be outstanding after the issuance of the series of Additional Parity Bonds then proposed to be issued, as certified by the City's Director of Finance or Controller or by an independent certified public accountant or firm of independent certified public accountants; or

- (d) If the City cannot meet the test described in (c) above, but a change in the rates and charges applicable to the System becomes effective at least sixty (60) days prior to the adoption of the ordinance authorizing Additional Parity Bonds and the City's Director of Finance or Controller certifies that, had such change in rates and charges been effective for the preceding fiscal year or 12 consecutive calendar month period ending no more than 90 days prior to adoption of said ordinance, the Net Revenues for such period would have met the test described in (c) above.
- (e) So long as all or any part of the City's Waterworks and Sewer System Revenue Bonds, Series 2002 are owned by the TWDB, the certification required in (c) or (d) above will be provided by an independent certified public accountant or firm of independent certified public accountants.

Section 6.2: Subordinate Lien Bonds. The City reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Parity Bonds. Such subordinate lien obligations may be further secured by any other source of payment lawfully available for such purposes.

Section 6.3: Special Project Bonds. The City reserves the right to issue revenue bonds secured by liens on and pledges of revenues and proceeds derived from Special Projects.

ARTICLE VII

COVENANTS AND PROVISIONS RELATING TO ALL PARITY BONDS

Section 7.1: Punctual Payment of Parity Bonds. The City will punctually pay or cause to be paid the interest on and principal of all Parity Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any ordinance authorizing the issuance of Additional Parity Bonds.

Section 7.2: Maintenance of System. So long as any Parity Bonds remain outstanding, the City covenants that it will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the City will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative, or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the System.

Section 7.3: Sale or Encumbrance of System. So long as any Parity Bonds remain outstanding, the City will not sell, dispose of or, except as permitted in Article VI, further encumber the System; provided, however, that this provision shall not prevent the City from disposing of any portion of the System which is being replaced or is deemed by the City to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

Section 7.4: Insurance. The City further covenants and agrees that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. The cost of all such insurance shall be a part of the Maintenance and Operation Expenses. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed, or to make other capital improvements to the System, or to redeem Parity Bonds.

Section 7.5: Accounts, Records, and Audits. So long as any Parity Bonds remain outstanding, the City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof. The City shall after the close of each of its fiscal years cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants. Each year promptly after such audit report is prepared, the City shall furnish a copy thereof without cost to the Municipal Advisory Council of Texas and any Owner of Parity Bonds who shall request same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.6: Competition. To the extent it legally may, the City will not grant any franchise or permit for the acquisition, construction, or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

Section 7.7: Pledge and Encumbrance of Net Revenues. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Parity Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of the Parity Bonds, the Net Revenues are not and will not be made subject to any lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Parity Bonds.

Section 7.8: Bondowners' Remedies. This Ordinance shall constitute a contract between the City and the Owners of the Parity Bonds from time to time outstanding and this

Ordinance shall be and remain irrevocable until the Parity Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Parity Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Parity Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Parity Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use and services of the System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues and Net Revenues in the manner required in this Ordinance.

Section 7.9: Discharge by Deposit. The City may discharge its obligation to the Owners of any or all of the Parity Bonds to pay principal, interest and redemption premium (if any) thereon in any manner now or hereafter permitted by law.

Section 7.10: Paying Agents May Own Parity Bonds. The paying agents for the Parity Bonds, in their individual or any other capacity, may become holders or pledgees of the Parity Bonds with the same rights they would have if they were not paying agents.

Section 7.11: No Recourse Against City Officials. No recourse shall be had for the payment of principal of or interest on any Parity Bonds or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Parity Bonds.

ARTICLE VIII

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF BONDS

Section 8.1: Sale; Bond Purchase Agreement. The Bonds shall be sold and delivered to the Underwriters at a price of \$_____ (representing the par amount of the Bonds (\$_____), plus net premium of \$_____, less an underwriter's discount of \$_____), plus accrued interest on the Bonds to the date of delivery, in accordance with the terms of a Bond Purchase Agreement, the form of which is hereby approved by the City Council of the City, which price and terms are hereby found and determined to be the most advantageous reasonably obtainable by the City. The Mayor and other appropriate officials of the City are hereby authorized and directed to execute the Bond Purchase Agreement on behalf of the City, and the Mayor and all other officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Bonds.

Section 8.2: Federal Income Tax Exclusion.

(a) General. The City intends that the interest on the Bonds shall be excludable from gross income for federal income tax purposes pursuant to sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable Income Tax Regulations (the “Regulations”). The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes. In particular, the City covenants and agrees to comply with each requirement of this Section; provided, however, that the City shall not be required to comply with any particular requirement of this Section if the City has received an opinion of nationally recognized bond counsel (“Counsel’s Opinion”) that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the City has received a Counsel’s Opinion to the effect that compliance with some other requirement set forth in this Section will satisfy the applicable requirements of the Code and the Regulations, in which case compliance with such other requirement specified in such Counsel’s Opinion shall constitute compliance with the corresponding requirement specified in this Section.

(b) No Private Use or Payment and No Private Loan Financing. The City shall certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

(c) No Federal Guarantee. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code and the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

(d) No Hedge Bonds. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be “hedge bonds” within the meaning of section 149(g) of the Code and the applicable Regulations thereunder.

(e) No Arbitrage. The City shall certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the City will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be “arbitrage bonds” within the

meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be “arbitrage bonds” within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

(f) Arbitrage Rebate. If the City does not qualify for an exception to the requirements of section 148(f) of the Code relating to the required rebate to the United States, the City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the “gross proceeds” of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issue of the City or moneys which do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Bonds which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds or on such other dates as may be permitted under applicable Regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm’s length and had the yield on the issue not been relevant to either party.

(g) Information Reporting. The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Regulations promulgated thereunder.

(h) Continuing Obligation. Notwithstanding any other provision of this Ordinance, the City’s obligations under the covenants and provisions of this Section shall survive the defeasance and discharge of the Bonds.

Section 8.3: Use of Proceeds. Proceeds from the sale of the Bonds shall, promptly upon receipt by the City, be applied as follows:

- (a) Accrued interest in the amount of \$_____ and net premium on the Bonds in the amount of \$_____ shall be deposited into the Interest and Sinking Fund.

- (b) Bond proceeds in the amount of \$_____ shall be used to pay the costs of issuance.
- (c) Bond proceeds in the amount of \$_____ shall be used to pay the Underwriters' compensation.
- (d) Bond proceeds in the amount of \$_____ shall be used to pay for improvements to the System.
- (e) Any proceeds of the Bonds remaining after making all such deposits and payments, including interest earned on the investment of such proceeds, shall be deposited into the Interest and Sinking Fund.

ARTICLE IX

MISCELLANEOUS

Section 9.1: (a) Annual Reports. The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB and available via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the final Official Statement authorized by Section 9.2 of this Ordinance under the headings "WATERWORKS AND SEWER SYSTEM", "CITY WATER AND WASTEWATER FUND OPERATING STATEMENT", "DEBT INFORMATION", "MUNICIPAL UTILITY DISTRICTS WITHIN THE CITY" and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

If the City changes its fiscal year, it will submit a notice of such change to the MSRB, and 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).

(b) Material Event Notices. The City shall submit a notice to 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:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;

- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds; and
- K. Rating changes.

The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 9.1(a) of this Ordinance by the time required by such Section.

(c) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Texas law that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and the 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 comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

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

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, or status or type of operations of the City, if (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate amount of the outstanding Bonds consent to such amendment or (b) a person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If any such amendment is made, the City will include in its next annual update an explanation in narrative form of the reasons for the change and its impact on the type of operating data or financial information being provided.

Section 9.2: Official Statement. The City Council hereby approves the form and content of the Preliminary Official Statement prepared for the initial offering and sale of the Bonds and hereby authorizes the preparation of a final Official Statement reflecting the terms of the Bond Purchase Agreement and other relevant matters. The use of such Official Statement in the reoffering of the Bonds by the Underwriters is hereby approved and authorized.

Section 9.3: Related Matters. To satisfy in a timely manner all of the City's obligations under this Ordinance and the Bond Purchase Agreement, the Mayor or Mayor Pro Tem, the City Secretary or an Assistant City Secretary, and all other appropriate officers and agents of the City are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Ordinance.

Section 9.4: Severability. If any Section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

Section 9.5: Open Meeting. It is hereby officially found and determined that the meeting at which this Ordinance was adopted was open to the public, and that public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act.

Section 9.6: Paying Agent/Registrar Agreement. The form of agreement setting forth the duties of the Registrar is hereby approved, and an appropriate official of the City is hereby authorized to execute such agreement for and on behalf of the City.

Section 9.7: No Personal Liability. No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, or on this Ordinance, against any official or employee of the City or any person executing any Bonds.

Section 9.8: Parties Interested. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Registrar, and the Owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance shall be for the sole and exclusive benefit of the City, the Registrar, and the Owners of the Bonds.

Section 9.9: Repealer. All orders, resolutions and ordinances, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency.

PASSED AND APPROVED this 3rd day of November, 2009.

/s/ James A. Thompson

Mayor
City of Sugar Land, Texas

ATTEST:

/s/ Glenda Gundermann

City Secretary
City of Sugar Land, Texas

(SEAL)

APPROVED AS TO LEGALITY:

/s/ Thomas A. Sage

Bond Counsel
VINSON & ELKINS L.L.P.