

**NEW ISSUE/Book-Entry Only**

**RATINGS: Moody's "Aa2"  
Standard & Poor's "AAA"  
See "OTHER INFORMATION – Ratings" herein.**

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

**THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.**

**\$25,600,000  
CITY OF ARLINGTON, TEXAS  
(Tarrant County, Texas)  
Municipal Drainage Utility System Revenue Bonds, Series 2011**

**Dated: April 15, 2011**

**Due: June 1, as shown on inside of cover page**

**PAYMENT TERMS...**Interest on the \$25,600,000 City of Arlington, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2011 (the "Bonds") will accrue from April 15, 2011 (the "Dated Date") and will be payable on June 1 and December 1 of each year commencing December 1, 2011 until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds, will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Fort Worth, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE...**The Bonds are issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 552, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council approving the issuance of the Bonds. The Bonds are special obligations of the City and are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Revenues (as defined in the Ordinance) of the Municipal Drainage Utility System (the "System"). The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by the levy and execution against the property owned by the City.

**PURPOSE...**Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) to pay the costs of drainage improvements, including the acquisition and construction of equipment and facilities for the System and (ii) to pay costs of issuance associated with the sale of the Bonds.

**OPTIONAL REDEMPTION...**The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 1, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on June 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

**LEGALITY...**The Bonds are offered for delivery when, as and if issued and received by the Initial Purchasers and subject to the approving opinion of the Attorney General of Texas and the opinion of Vinson & Elkins L.L.P., Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

**DELIVERY...**It is expected that the Bonds will be available for delivery through DTC on May 19, 2011.

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### Maturity Schedule

(June 1)					(June 1)				
Maturity	Amount	Rate	Yield	CUSIP <sup>(1)</sup>	Maturity	Amount	Rate	Yield	CUSIP <sup>(1)</sup>
2012	1,280,000	3.000%	0.470%	041838 AA1	2022	1,280,000	4.000%	3.370%	041838 AL7
2013	1,280,000	3.000%	0.750%	041838 AB9	2023	1,280,000	5.000%	3.580%	041838 AM5
2014	1,280,000	3.000%	1.150%	041838 AC7	2024	1,280,000	5.000%	3.740%	041838 AN3
2015	1,280,000	4.000%	1.540%	041838 AD5	2025	1,280,000	4.000%	4.000%	041838 AP8
2016	1,280,000	4.000%	1.840%	041838 AE3	2026	1,280,000	4.000%	4.125%	041838 AQ6
2017	1,280,000	4.000%	2.170%	041838 AF0	2027	1,280,000	4.000%	4.200%	041838 AR4
2018	1,280,000	4.000%	2.490%	041838 AG8	2028	1,280,000	4.125%	4.300%	041838 AS2
2019	1,280,000	5.000%	2.830%	041838 AH6	2029	1,280,000	4.250%	4.400%	041838 AT0
2020	1,280,000	4.000%	3.060%	041838 AJ2	2030	1,280,000	4.375%	4.500%	041838 AU7
2021	1,280,000	4.000%	3.250%	041838 AK9	2031	1,280,000	4.500%	4.600%	041838 AV5

**(Accrued interest from April 15, 2011 to be added)**

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

*No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell and is not to be used in an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.*

*Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Financial Advisor. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.*

*Neither the City, nor its, Financial Advisor, make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by the Depository Trust Company.*

*The Bonds are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Bonds in accordance with applicable securities law provisions of the jurisdiction in which the Bonds have been registered, qualified, or exempted should not be regarded as a recommendation thereof.*

*The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.*

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

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## OFFICIAL STATEMENT SUMMARY

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

<b>THE CITY</b> .....	The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and eight miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.4 square miles, operates under a Council/Manager form of government (see "INTRODUCTION – Description of the City").
<b>THE BONDS</b> .....	The \$25,600,000 City of Arlington, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2011, dated April 15, 2011, are issued as serial bonds maturing June 1 in each of the years 2012 through 2031. (see "THE BONDS - Description of the Bonds").
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from April 15, 2011 and will be paid on December 1, 2011, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption. (see "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 552, Texas Local Government Code, as amended, Texas Local Government Code), and an ordinance (the "Ordinance") passed by the City Council, (see "THE BONDS – Authority for Issuance").
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute special obligations on the City payable as to principal and interest solely from and secured by a lien on and pledge of the Revenues of the City's Municipal Drainage Utility System (the "System") all as defined in the Ordinance (see "SELECTED PROVISIONS OF THE ORDINANCE – Definition"). <b>The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.</b>
<b>OPTIONAL REDEMPTION</b> .....	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 1, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on June 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not "private activity bonds". See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) to pay the costs of drainage improvements, including the acquisition and construction of equipment and facilities for the System and (ii) to pay costs of issuance associated with the sale of the Bonds.
<b>RATINGS</b> .....	The Bonds are rated "Aa2" by Moody's and "AAA" by S&P. (see "OTHER INFORMATION - Ratings").

**BOOK-ENTRY-ONLY**

**SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

**PAYMENT RECORD**..... The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

**QUALIFIED TAX-EXEMPT OBLIGATION**..... The City will NOT designate the bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

**SELECTED FINANCIAL INFORMATION <sup>(1)</sup>**

	<b>Budgeted</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Storm Water Revenues <sup>(2)</sup>	10,343,312	8,809,000	7,043,000	5,078,000	3,060,000
Storm Water Expenses	3,222,325	2,358,000	2,054,000	2,288,000	
Net Revenues of the System	7,120,987	6,451,000	4,989,000	2,790,000	3,060,000
Transfers (out)/in	(673,612)	(520,000)	3,562,000	202,000	
Capital Outlay		(1,514,000)	(1,351,000)	(1,969,000)	(3,080,000)
Remaining Revenue	6,447,375	4,417,000	7,200,000	1,023,000	(20,000)

<sup>(1)</sup> 2007-2010 data from Annual Financial Statements. 2011 data from 2010-2011 Budget.

<sup>(2)</sup> The Bonds are secured by a gross pledge on these revenues.

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**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<b>City Council</b>	<b>Length of Service</b>	<b>Term Expires</b>	<b>Occupation</b>
Robert Cluck, M.D. Mayor	10 years <sup>(1)</sup>	May, 2011	Doctor
Mel LeBlanc Council Member	3 years	May, 2012	Account Manager
Sheri Capehart Council Member	8 years <sup>(2)</sup>	May, 2012	Computer Security Analyst, Retired
Robert Rivera Council Member	4 years	May, 2011	Banker/Vice President
Kathryn Wilemon Mayor Pro Tem	6 years	May, 2011	Community Volunteer
Lana Wolff Council Member	6 years	May, 2011	Community Volunteer
Gene Patrick Council Member	6 years	May, 2011	Small Business Owner
Robert Shepard Council Member	2 years	May, 2012	Attorney
Jimmy Bennett Council Member	2 years	May, 2012	Certified Public Accountant

<sup>(1)</sup> Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.

<sup>(2)</sup> Served as Council member from May 1999 to May 2003.

**SELECTED ADMINISTRATIVE STAFF**

<b>Name</b>	<b>Position</b>	<b>Years of with City</b>
Jim Holgersson	City Manager	5
Gilbert Perales	Deputy City Manager	4
Trey Yelverton	Deputy City Manager	17
Bob Byrd	Interim Deputy City Manager <sup>(1)</sup>	26
April Nixon	Director, Finance and Management Resources	18
Jay Doegey	City Attorney	24
Mary Supino	City Secretary	1

<sup>(1)</sup> Currently serving in an interim capacity until the position is permanently filled.

**CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS**

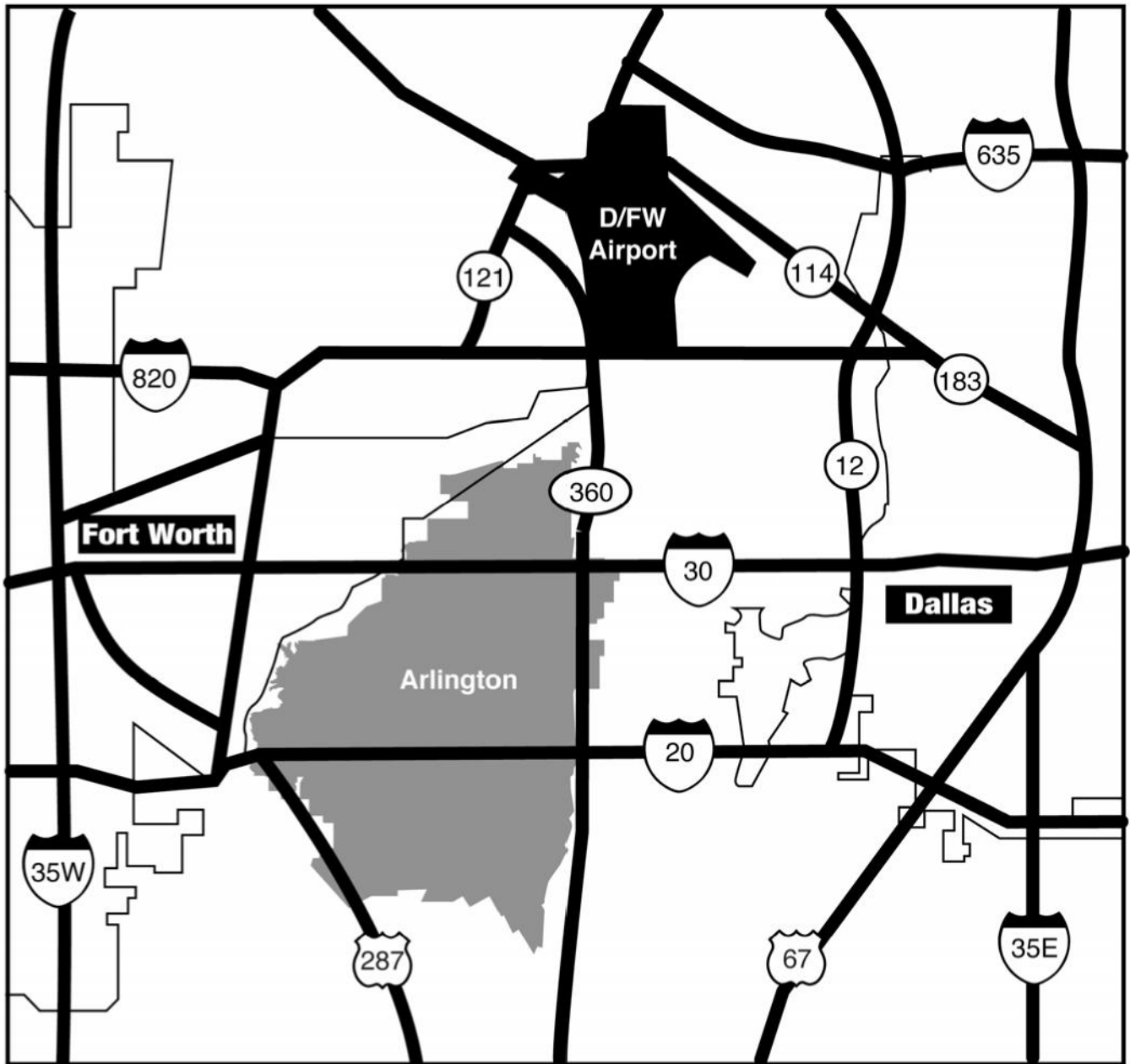
Independent Auditors	Deloitte & Touche LLP Dallas, Texas
Bond Counsel	Vinson & Elkins L.L.P., Dallas Texas.
Financial Advisor	Estrada Hinojosa & Company, Inc., Dallas, Texas

For additional information regarding the City, please contact:

Ms. April Nixon Mr. Mike Finley City of Arlington 101 W. Abram Street, 3 <sup>rd</sup> Floor Arlington, Texas (817) 459-6100	or	Mr. Dave Gordon Ms. Nicole Roberts Estrada Hinojosa & Company, Inc. 1717 Main Street, Suite 4700 Dallas, Texas 75201 (214) 658-1670
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# Dallas/Fort Worth/Arlington Metropolitan Area



**OFFICIAL STATEMENT**

**RELATING TO**

**\$25,600,000**

**CITY OF ARLINGTON, TEXAS**

**(Tarrant County, Texas)**

**Municipal Drainage Utility System Revenue Bonds, Series 2011**

**INTRODUCTION**

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of \$25,600,000 City of Arlington, Texas Municipal Drainage Utility System Revenue Bonds, Series 2011 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined) authorizing the issuance of the Bonds, except as otherwise indicated herein. Reference is made to "Selected Provisions of the Ordinance" which contains defined terms and selected provisions of the Ordinance that are summarized under "The Bonds."

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from fees and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "FORWARD-LOOKING STATEMENTS").

**DESCRIPTION OF THE CITY...**The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and eight miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.4 square miles, had a 2010 census population of 365,438. The City operates under a Council/Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its municipal drainage utility system, its water and wastewater system and its sanitary landfill operation as self supporting enterprise funds.

**PLAN OF FINANCING**

**PURPOSE...**Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) to pay the costs of drainage improvements, including the acquisition and construction of equipment and facilities for the System and (ii) to pay costs of issuance associated with the sale of the Bonds.

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**SOURCES AND USES OF PROCEEDS...**The proceeds from the sale of the Bonds will originate and be applied approximately as follows:

Sources:	
Par amount of the Bonds	\$ 25,600,000.00
Accrued Interest	98,222.22
Net Reoffering Premium	1,265,651.20
Total Sources of Funds	<u>\$ 26,963,873.42</u>
Uses:	
Deposit to Project Fund	\$ 26,588,867.20
Accrued Interest	98,222.22
Underwriters' Discount	126,784.00
Cost of Issuance	150,000.00
Total Uses of Funds	<u>\$ 26,963,873.42</u>

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## THE BONDS

**DESCRIPTION OF THE BONDS...** The Bonds are dated April 15, 2011 (the "Dated Date"), and mature on June 1 in each of the years and in the amounts shown on page ii hereof. Interest will accrue from the Dated Date and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on June 1 and December 1, commencing December 1, 2011 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds – Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE...**The Bonds are issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 552, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council authorizing the issuance of the Bonds. The Bonds are special obligations of the City and are payable both as to principal and interest, solely from and secured by a lien on and pledge of the Revenues (as defined in the Ordinance) of the Municipal Drainage Utility System (the "System").

**SECURITY AND RATE COVENANT...**In the Ordinance, the City has covenanted and agreed that the Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds and any Additional Bonds (collectively, the "Parity Bonds"), are irrevocably pledged to the payment and security of the Bonds and Additional Bonds, if issued, including the establishment and maintenance of the special funds created and maintained for their payment and security. The City has no outstanding Previously Issued Bonds secured by and payable from Revenues on parity with the Bonds.

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

The Ordinance establishes a Reserve Fund, but such Reserve Fund is not required to be funded and maintained unless revenues of the System are less than 2.00 times the Maximum Annual Debt Service requirements on the Bonds plus any Additional Bonds (the "Reserve Fund Requirement"). If the City funds a Reserve Fund, it will be funded by (i) depositing revenues of the System to the Reserve Fund over a period of 60 months, (ii) depositing proceeds from the sale of Additional Bonds, (iii) depositing to the credit of the Reserve Fund, to the extent permitted by law, one or more Credit Facilities (as defined in the Ordinance), or (iv) depositing any combination of Revenues, Additional Bond proceeds or credit facilities. (See "Selected Provisions of the Ordinance"). To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the City may substitute a Credit Facility for cash or investment securities on deposit in the Reserve Fund or in substitution or replacement of any existing Credit Facility. The Reserve Fund Requirement will be determined annually and at the time of the issuance of any Additional Bonds.

**PLEGGED REVENUES . . .** All of the Revenues of the System (as defined in the Ordinance), with the exception of those in excess of the amounts required to establish and maintain the Bond Fund and the Reserve Fund, are irrevocably pledged for the payment of the Bonds and any Additional Bonds and interest thereon. The Bonds and the Additional Bonds, if issued, shall be equally and ratably secured by a lien upon and pledge of the Revenues of the System.

The term "Revenues" is defined as "all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding impact fees and gifts restricted as to use and federal or state grants for construction of drainage system facilities) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts established and maintained for the payment and security of the Parity Bonds and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System. (See "Selected Provisions of the Ordinance").

The City has covenanted in the Ordinance, while any of the Bonds or Additional Bonds are outstanding, to establish, maintain and impose drainage charges for services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to be sufficient to: (i) produce revenues each year in an amount reasonably anticipated to be not less than 1.10 times the maximum annual principal and interest requirements of the Bonds and Additional Bonds then outstanding (ii) make any required deposits to the Reserve Fund and any contingency fund created for payment and security of the Bonds and any Additional Bonds, (iii); pay all Operating and Maintenance Expenses of the System and (iv) pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System (See "Selected Provisions of the Ordinance").

**ADDITIONAL BONDS . . .** In the Ordinance, the City reserves the right to issue Additional Bonds payable from and equally and ratably secured by a parity lien on and pledge of the Revenues subject to satisfying certain terms and conditions including obtaining a certificate or opinion from a certified public accountant to the effect that, according to the books and records of the City, the Revenues received by the City for the last completed Fiscal Year or for any twelve consecutive months out of the

eighteen months immediately preceding the month in which the ordinance authorizing the issuance of the Additional Bonds is passed were equal to 1.25 times the Maximum Annual Debt Service for all outstanding Parity Bonds after giving effect to the issuance of the Additional Bonds then being issued. (See "Selected Provisions of the Ordinance").

**OPTIONAL REDEMPTION...**The City has reserved the right at its option to redeem the Bonds scheduled to mature on and after June 1, 2022 prior to their scheduled maturities, in whole or in part, on June 1, 2021, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amounts of \$5,000 or any integral multiple thereof. If less than all of the Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION...**Not less than 30 days prior to any redemption date, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each Owner of a Bond to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

**DEFEASANCE...** The City may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either by (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in Book-Entry-Only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid.

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

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

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

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

**USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT...** In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM...**In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the City, printed bonds will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance, summarized under "THE BONDS- Registration" below.

**REGISTRATION...**The Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Bonds. Principal and semiannual interest on the Bonds will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where 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 on which 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.

Future Registration. In the event that DTC is no longer the securities depository for the Bonds and a successor securities depository is not appointed by the City, printed Bond certificates shall be delivered to the Owners thereof and thereafter, the Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the

Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Ordinance. Such new Bonds must be in the denomination of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate designated amount as the Bond surrendered for exchange or transfer. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar. See "Book-Entry Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bonds called for redemption, in whole or in part, within 45 days of the date fixed for redemption provided however, such limitation of transfer shall be applicable to an exchange by the registered owner of the uncalled balance of the Bond.

**PAYING AGENT/REGISTRAR...**The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Fort Worth, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**BONDHOLDERS' REMEDIES.** . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in payments to be made to the Bond Fund or the Reserve Fund as required by the Ordinance, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bonds, and the continuation thereof for a period of 30 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State of Texas. Under current Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

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

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



## THE SYSTEM

**MUNICIPAL DRAINAGE UTILITY SYSTEM ...** Chapter 552, Subchapter C of the Texas Local Government Code provides the authority for municipalities to establish a municipal drainage utility system and to develop a schedule of charges within the City. This enabling legislation was created in order to provide municipalities a funding source to address Environmental Protection Agency (“EPA”) mandated storm water quality requirements, as well as local drainage system operating and maintenance costs.

The City established a Municipal Drainage Utility System in August, 1990, to protect the public health and safety from loss of life and property caused by surface water overflows and surface water stagnation.

**DRAINAGE UTILITY CHARGES AND BILLING ...**The City charges “Storm Water” Fees in support of the System. The current storm water fee structure and rates became effective on October 1, 2010. The current residential fee structure is described in “Table 1 – Residential Monthly Storm Water Drainage Fee Rates”. Commercial property owners are charged based on an impervious area calculation shown. A storm water fee is added to each monthly utility bill. The City has the authority to impose storm water fees by ordinance without limitation.

**RESIDENTIAL PROPERTY...**Residential parcels include any benefited property platted, zoned or used for residential development including single family, duplex, triplex, quadraplex, town homes, manufactured homes or other improved parcel upon which buildings contain less than five dwelling units. Residential parcels will be billed based on one Equivalent Residential Unit (“ERU”) at the scheduled rate, for the number of dwelling units.

**TABLE 1 – RESIDENTIAL MONTHLY DRAINAGE UTILITY FEE RATES**

The fee structure and historical rates are as follows:

<u>Date of Rate Change</u>	<u>Flat Rate</u>
October 1, 2007	\$2.00
October 1, 2008	\$2.75
October 1, 2009	\$3.50
October 1, 2010	\$4.25 <sup>(1)</sup>

<sup>(1)</sup> Commercial rate is calculated using the residential rate times the ERU. The minimum ERU is 1.0.

**COMMERCIAL PROPERTY...** Every Commercial property owner pays the same unit rate based on the amount of impervious area on the property. Impervious area is defined as a surface that is resistant to infiltration by water. Several examples of impervious area include asphalt or concrete pavement, parking lots, driveways, sidewalks and buildings. Based on a study of Arlington residential property, the average square feet of impervious surface is 2800, referred to as an Equivalent Residential Unit (ERU).

Non-residential parcels include all benefited property that is not defined as residential by the Storm Water Drainage ordinance, including commercial, industrial, institutional, multi-family and governmental property. The monthly fee for non-residential parcels is determined by dividing impervious area square footage by 2800 square feet and multiplying by the current rate – the result shall be a minimum of 1 ERU for each non-residential account.

**OTHER DRAINAGE UTILITY FEE INFORMATION...**Failure to pay drainage utility fees promptly when due shall subject users to discontinuance of any utility services provided by the City. Apartments are considered non-residential for the purpose of the calculation of the storm water fee. Any non-residential property on which mitigation measures have been taken may be eligible for a credit to the storm water fee. The Director of Public Works and Transportation shall adjust the fee for such properties according to the actual mitigative effect of the measures taken. Best Management Practices (BMPs) that were required as part of development plan approval will not be eligible for such credits.

**DRAINAGE FEE HISTORY...**The following table details storm water fee revenue history for the last five years.

**TABLE 2 – DRAINAGE FEE REVENUE AND ACCOUNT HISTORY <sup>(1)</sup>**

	2010	2009	2008	2007	2006
Residential	\$ 4,726,641	\$ 3,817,743	\$ 2,730,945	\$ 1,782,556	\$ 1,760,404
Commercial	3,977,604	3,078,744	2,181,759	1,113,039	1,091,069
Total	\$ 8,704,245	\$ 6,896,487	\$ 4,912,704	\$ 2,895,595	\$ 2,851,473

	2010	2009	2008	2007	2006
Residential	92,649	92,353	92,068	91,427	90,092
Commercial	5,233	5,209	5,169	5,171	5,337
Total	97,882	97,562	97,237	96,598	95,429

<sup>(1)</sup> Amounts do not include interest.

**TABLE 3 - MUNICIPAL DRAINAGE UTILITY FACILITIES SYSTEM REVENUE DEBT SERVICE REQUIREMENTS**

The following table sets forth the debt service requirements on the Bonds of the Municipal Drainage Utility System. There are currently no outstanding Parity Bonds.

Fiscal Year Ended	Municipal Drainage Utility System Revenue Bonds, Series 2011			Total Debt Service Requirements	% of Principal Retired	Fiscal Year Ended
	Principal	Interest	Total			
9/30						9/30
2011	\$ -	\$ -	\$ -	\$ -		2011
2012	1,280,000	1,172,889	2,452,889	2,452,889		2012
2013	1,280,000	1,001,600	2,281,600	2,281,600		2013
2014	1,280,000	963,200	2,243,200	2,243,200		2014
2015	1,280,000	924,800	2,204,800	2,204,800		2015
2016	1,280,000	873,600	2,153,600	2,153,600	30.53%	2016
2017	1,280,000	822,400	2,102,400	2,102,400		2017
2018	1,280,000	771,200	2,051,200	2,051,200		2018
2019	1,280,000	720,000	2,000,000	2,000,000		2019
2020	1,280,000	656,000	1,936,000	1,936,000		2020
2021	1,280,000	604,800	1,884,800	1,884,800	57.39%	2021
2022	1,280,000	553,600	1,833,600	1,833,600		2022
2023	1,280,000	502,400	1,782,400	1,782,400		2023
2024	1,280,000	438,400	1,718,400	1,718,400		2024
2025	1,280,000	374,400	1,654,400	1,654,400		2025
2026	1,280,000	323,200	1,603,200	1,603,200	80.52%	2026
2027	1,280,000	272,000	1,552,000	1,552,000		2027
2028	1,280,000	220,800	1,500,800	1,500,800		2028
2029	1,280,000	168,000	1,448,000	1,448,000		2029
2030	1,280,000	113,600	1,393,600	1,393,600		2030
2031	1,280,000	57,600	1,337,600	1,337,600	100.00%	2031
	<u>\$ 25,600,000</u>	<u>\$ 11,534,489</u>	<u>\$ 37,134,489</u>	<u>\$ 37,134,489</u>		

**ANTICIPATED ISSUANCE OF MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS...**The City may issue additional municipal drainage utility system revenue bonds in the amount of approximately \$8 million within the next twelve months although plans have not been finalized.

**HISTORICAL FINANCIAL INFORMATION...**The following two tables present five-year historical information and coverage and fund balances for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report.

**TABLE 4- MUNICIPAL DRAINAGE UTILITY SYSTEM CONDENSED SCHEDULE OF OPERATIONS**

	<b>Fiscal Years Ended September 30,</b>				
	<b>2011 <sup>(1)</sup></b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<u>Revenues</u>					
Service Charges	\$ 10,343,312	\$ 8,702,000	\$ 6,920,000	\$ 4,913,000	\$ 2,896,000
Interest Revenue	-	104,000	120,000	163,000	155,000
Net Increase (decrease) in the fair value of investments	-	3,000	3,000	2,000	9,000
Other Income					
Total Revenues <sup>(2)</sup>	<u>\$ 10,343,312</u>	<u>\$ 8,809,000</u>	<u>\$ 7,043,000</u>	<u>\$ 5,078,000</u>	<u>\$ 3,060,000</u>
<u>Expenses</u>					
Salaries and Wages	-	1,190,000	1,139,000	-	-
Employee's Retirement	-	193,000	149,000	-	-
Supplies	-	41,000	30,000	-	-
Maintenance and Repairs	3,222,325	176,000	113,000	-	3,080,000
Utilities	-	-	1,000	2,288,000	-
Miscellaneous Services	-	758,000	622,000	-	-
Total Operating Expenses Before Depreciation	<u>\$ 3,222,325</u>	<u>\$ 2,358,000</u>	<u>\$ 2,054,000</u>	<u>\$ 2,288,000</u>	<u>\$ 3,080,000</u>
Net Revenues of the System	7,120,987	6,451,000	4,989,000	2,790,000	(20,000)
Transfers in/(out)	(673,612)	(520,000)	3,562,000	202,000	-
Capital Outlay	-	(1,514,000)	(1,351,000)	(1,969,000)	-
Net Remaining Revenues Available for Debt Service	<u>\$ 6,447,375</u>	<u>\$ 4,417,000</u>	<u>\$ 7,200,000</u>	<u>\$ 1,023,000</u>	<u>\$ (20,000)</u>
Beginning Fund Balance	15,789,000	11,372,000	4,172,000	3,149,000	3,169,000
Ending Fund Balance	<u>\$ 22,236,375</u>	<u>\$ 15,789,000</u>	<u>\$ 11,372,000</u>	<u>\$ 4,172,000</u>	<u>\$ 3,149,000</u>

<sup>(1)</sup> Budgeted.

<sup>(2)</sup> The Bonds are secured by a gross pledge of these revenues.

**TABLE 5 – COVERAGE**

Maximum Principal and Interest Requirements, 2012	\$ 2,452,889
Coverage of Maximum Requirements by Fiscal Year End 09/30/10 Revenues	3.59X
Average Principal and Interest Requirements, 2012-2031	\$ 1,856,724
Coverage of Average Requirements by Fiscal Year End 09/30/10 Revenues	4.74X

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## SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance that authorizes the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof. Copies of the Ordinance are available from the Department of Finance of the City of Arlington upon request.

The Bonds, the Outstanding Bonds and any Additional Bonds hereafter issued, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Gross Revenues of the System.

### DEFINITIONS

“Act” means Subchapter C of Chapter 552 of the Texas Local Government Code, as amended.

“Additional Bonds” means revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in Section 9.02 hereof and, by their terms, are equally and ratably secured by a parity lien on and pledge of the Revenues of the System.

“Bonds” means the “City of Arlington, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2011” authorized by this Ordinance.

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

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

“Debt Service” means, as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts required to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear, or would have borne, interest at a rate equal to the greater of: (i) the actual rate in effect on the date of calculation, (ii) the average variable rate for the 12 months preceding the date of calculation if the outstanding obligations were subject to a variable rate during such 12-month period or (iii) (1) if interest on the indebtedness is excludable from gross income under the Code, the most recently reported Bond Buyer Revenue Bond Index rate as of the date of computation (or a comparable index if this index does not exist on such date), plus 50 basis points, or (2) if interest is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities, plus 50 basis points; and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

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

“Outstanding” means when used in this Ordinance with respect to the Bonds or any Additional Bonds, as the case may be, as of the date of determination, all Bonds and any Additional Bonds theretofore sold, issued and delivered by the City, except:

- (1) Bonds or any Additional Bonds cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;
- (2) Bonds or any Additional Bonds paid or deemed to be paid in accordance with the provisions of Section 9.09 hereof; and
- (3) Bonds or any Additional Bonds that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

“Parity Bonds” means the Bonds and any Additional Bonds as the same may be from time to time Outstanding.

“Reserve Fund Obligations” means cash or investment securities of any of the type or types permitted under Section 7.06 of this Ordinance.

“Reserve Fund Requirement”: means an amount equal to the maximum annual Debt Service on the Bonds plus any Additional Bonds.

“Revenues” means all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding impact fees and gifts restricted as to use and federal or state grants for construction of drainage facilities) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Parity Bonds and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System.

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

**PLEDGE OF SECURITY.** The City hereby covenants and agrees that all of the Revenues of the System, with the exception of those in excess of the amounts required for the payment of the Parity Bonds, are hereby irrevocably pledged to the payment of the Bonds and Additional Bonds, if issued, and the interest thereon, including the establishment and maintenance of the special funds created and established by this Ordinance, all as hereinafter provided. It is hereby ordained that such pledge of Revenues securing the payment of the Parity Bonds and interest thereon shall constitute a first lien on such Revenues of the System and be valid and binding and fully perfected from and after the date of adoption of this Ordinance without physical delivery or transfer of control of the Revenues, the filing of this Ordinance or any other act; all as provided in Chapter 1208 of the Texas Government Code.

**RATES AND CHARGES.** For the benefit of the Owners of the Bonds, and any Additional Bonds and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City hereby expressly stipulates and agrees, while any of the Bonds or any Additional Bonds are Outstanding, to establish, maintain and impose drainage charges for services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to be sufficient to:

- (i) Produce revenues each year in an amount reasonably anticipated to be not less than 1.10 times the maximum annual principal and interest requirements of the Bonds and any Additional Bonds then Outstanding;
- (ii) Make any required deposits to the Reserve Fund and any contingency fund created for the payment and security of the Bonds and any Additional Bonds;
- (iii) Pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System; and
- (iv) Pay all Operating and Maintenance Expenses of the System.

**BONDS AS SPECIAL OBLIGATIONS.** The Bonds are special obligations of the City payable from the pledged Revenues and the Owners thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

**FUNDS AND ACCOUNTS.** All revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special Funds, to be held by the City’s depository bank, are hereby established:

“City of Arlington, Texas Municipal Drainage Utility System Fund,” hereinafter called the “System Fund.”

“City of Arlington, Texas Municipal Drainage Utility System Reserve Fund,” hereinafter called the “Reserve Fund.”

“City of Arlington, Texas Municipal Drainage Utility System Bond Fund,” hereinafter called the “Bond Fund.”

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

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

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

Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any lawful purpose, except to the extent such transfer or use is prohibited by Section 552.049 of the Act.

**BOND FUND.** Moneys on deposit in the Bond Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as the same becomes due and payable. The City hereby covenants that there shall be deposited into the Bond Fund from the System Fund an amount sufficient to pay the principal of and interest on the Bonds when due, either at maturity or prior redemption. Deposits to the Bond Fund shall be made in substantially equal monthly installments on or before the 25th day of each month, beginning the month next following the delivery of the Bonds to the Purchaser.

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

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

**RESERVE FUND.** The City hereby establishes a debt service reserve fund (the "Reserve Fund") to secure principal of and interest on the Parity Bonds. Commencing on the 10th day of the month succeeding the Closing Date, and on the 10th day of each month thereafter, the City will deposit to the Reserve Fund such amounts in equal monthly installments to cause the Reserve Fund Obligations in the Reserve Fund to equal the Reserve Fund Requirement within 60 months of the date such deposits by the City begin. Upon issuance of Additional Bonds, it will increase, if necessary, and accumulate the amount to be deposited in the Reserve Fund in accordance with the requirements set forth in Section 9.02 hereof. At its option, the City may choose to deposit proceeds of the Additional Bonds, in the form of cash or a Credit Facility, into the Reserve Fund upon their issuance in lieu of or in addition to making monthly deposits. For so long as the funds on deposit in the Reserve Fund are equal to amounts then required to be on deposit therein, no additional deposit need be made therein. In the event the Reserve Fund at any time contains less than the amount then required to be on deposit therein, then, subject and subordinate to making the required deposits to the credit of the Bond Fund, the City shall deposit to the Reserve Fund from the Revenues amounts equal to such deficiency; provided, however, the City shall cause any such deficiency to be cured by making monthly installments of at least 1/24th of any such deficiency on or before the 25th day of each month following a deficiency. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds and any Additional Bonds at any time there are not sufficient moneys on deposit in the Bond Fund.

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

For the purpose of determining compliance with the requirements of subsection (a) of this Section, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book entry form shall be continuously valued at their par value or face principal amount. The City shall also determine when the Reserve Fund must be funded pursuant to (a) above, on the last day of the City's fiscal year.

To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the City may replace or substitute a Credit Facility for cash or investment securities, of any of the type or types permitted by Section 7.05 hereof, on deposit in the Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities of any of the types permitted by Section 7.06 hereof, on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Reserve Fund Requirement may be withdrawn by the City, at its option, and transferred to the Revenue Fund; provided that the face

amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used. Any interest due on any reimbursement obligation under the Credit Facility shall not exceed the highest lawful rate of interest which may be paid by the City.

For the purpose of determining compliance with the requirements of subsection (a) of this Section, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal first from available moneys or investment securities then on deposit in the Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency. In the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, equal to the Reserve Fund Requirement, then, after making required deposits to the Bond Fund, the City shall deposit to the Reserve Fund from the first available Revenues amounts necessary to satisfy the Reserve Fund Requirement; provided, however, the City shall cause any such deficiency to be cured by making monthly installments of at least 1/24th of the Reserve Fund Requirement on or before the 10th day of each month following such deficiency.

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

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

Notwithstanding anything to the contrary contained herein, the requirement set forth in subsection (a) above to maintain the Reserve Fund Requirement in the Reserve Fund shall be suspended for such time as the Revenues for the next following Fiscal Year, calculated at the beginning of each Fiscal Year, are less than 2.00 times the maximum annual Debt Service requirements for Parity Bonds. In the event that the Revenues for the next following Fiscal Year are less than 2.00 times the maximum annual Debt Service requirements for Parity Bonds, the Issuer will be required to commence making deposits to the Reserve Fund, as provided in subsection (a) above, and to continue such deposits until the earlier of (i) such time as the Reserve Fund contains the Reserve Fund Requirement or (ii) the Revenues in the next completed Fiscal Year have been equal to not less than 2.00 times the maximum annual Debt Service requirements for Parity Bonds. Notwithstanding the provisions of subsection (a) above, if the Issuer commences deposits in the Reserve Fund and later is authorized to suspend payments into the fund under this section, any funds so accumulated may, at the discretion of the Issuer: (i) remain in the Reserve Fund or (ii) be used for any lawful purpose including additional projects or to pay debt service on the Bonds. At the time of issuance of the Bonds, the requirement set forth in subsection (a) above to maintain the Reserve Fund Requirement in the Reserve Fund shall be suspended for such time as the Revenues for the current Fiscal Year, calculated at the time of issuance of the Bonds, are equal to at least 2.00 times the maximum annual Debt Service requirements for the Bonds.

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

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

**SECURITY OF FUNDS.** Money in any Fund may, at the option of the City, be invested in funds and obligations authorized and identified in the Public Funds Investment Act, as amended or other applicable law; provided, however, the investment of moneys held in the Bond Fund and the Reserve Fund shall be restricted to time deposits or certificates of deposit secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America and obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its

full faith and credit or represent its general obligations; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times and provided further the maximum stated maturity for any investment acquired with money in the Reserve Fund shall be limited to five (5) years from the date of the investment of such money. Such investments (except State and Local Government Series investments held in book-entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 7.04 hereof, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Parity Bonds.

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

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

**ISSUANCE OF ADDITIONAL PARITY BONDS.** In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds, under and in accordance with this Section 9.02, for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds or any Additional Bonds then Outstanding. The Additional Bonds shall be secured by and payable from a first lien on and pledge of the Revenues in the same manner and to the same extent as the Bonds; and the Bonds and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under this Section in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met, to-wit:

(i) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the Bonds or any Additional Bonds;

(ii) Each of the special Funds created for the payment and security of the Previously Issued Bonds, the Bonds and any Additional Bonds then Outstanding contain the amount of money then required to be on deposit therein;

(iii) The Additional Bonds shall be scheduled to mature or be payable as to principal on June 1 or December 1 (or both) in each year the same are to be outstanding or during the term thereof.

(iv) The City has secured a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months immediately preceding the month in which the ordinance authorizing the issuance of the then proposed Additional Bonds is passed, are at least equal to 1.25 times the maximum annual Debt Service for all Outstanding Parity Bonds after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the Accountant may take into consideration a change in the charges for services afforded by the System that became effective at least 30 days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above Revenues test, make a pro forma determination of the Revenues of the System for the period of time covered by his certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the Accountant.

(v) The ordinance authorizing the Additional Bonds (i) requires that deposits shall be made into the Bond Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and (ii) provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Bonds to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months from the date of the Additional Bonds; and

**ADDITIONAL BONDS RESERVE FUND REQUIREMENT.** Whenever Additional Bonds are issued, the amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Parity Bonds to be outstanding after the issuance of the Additional Bonds, if the Reserve Fund has been funded pursuant to Section 7.04 herein. Such additional amount shall be so accumulated in equal monthly installments during a period not to exceed five years from the



date of the Additional Bonds. The City may at its option choose to fund the Reserve fund with a cash deposit of bond proceeds or with a Credit Facility.

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

**REFUNDING BONDS.** The City reserves the right to issue refunding bonds to refund all or any part of the Parity Bonds (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all of such Parity Bonds then Outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in Section 9.02 hereof shall be satisfied and the certificate or opinion of the Accountant required in Section 9.02 shall give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service on the bonds being refunded following their cancellation or provisions being made for their payment). The City is not required to obtain a certificate or opinion of the Accountant or satisfy the requirements of Section 9.02 for a refunding that produces a net present value savings and lower debt service in each year of the refunded bonds.

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

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

Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

- (i) a detailed statement of the income and expenditures of the System for such Fiscal Year.
- (ii) A balance sheet as of the end of such Fiscal Year.
- (iii) The Accountant’s comments regarding the manner in which the City has carried out the requirements of this Ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System.
- (iv) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy’s expiration date.
- (v) A list of the securities which have been on deposit as security for the money in the Bond Fund throughout the Fiscal Year, a list of the securities, if any, in which the reserve portion has been invested, and a statement of the manner in which money in the System Fund has been secured in such Fiscal Year.

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

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

**SPECIAL COVENANTS.** The City further covenants and agrees by and through this Ordinance as follows:

(i) It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds issued hereunder, together with any Additional Bonds, shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(ii) The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Bonds.

(iii) To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 552.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefited property who is delinquent in the payment of drainage charges.

No free service of the System shall be allowed for non-governmental entities.

**REMEDIES IN EVENT OF DEFAULT.** In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City:

(i) defaults in payments to be made to the Bond Fund or the Reserve Fund as required by this Ordinance;

(ii) An order of relief shall be issued by the Bankruptcy Court of the United States District Court having jurisdiction, granting the City any relief under any Applicable Law, or any other court having valid jurisdiction shall issue an order or decree under applicable federal or state law providing for the appointment of a receiver, liquidator, assignee, trustee, sequestrator, or other similar official for the City of any substantial part of its property, affairs or assets, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; or

(iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of thirty days after notice of such default is given by any Owner to the City, the Owners 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 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.

## **TAX MATTERS**

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

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not

independently verified. If the City fails to comply with the covenants contained in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the respective Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

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

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

#### **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

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

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS...**The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

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

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS...**The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the

period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – TAX EXEMPTION” and “TAX MATTERS – ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – COLLATERAL TAX CONSEQUENCES,” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City made the following agreement for the benefit of the owners and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rule Making Board (the “MSRB”). This information will be available free of charge via the Electronic Municipal Market Access (“EMMA”) System at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS...** The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to the MSRB, and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

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

**MATERIAL EVENT NOTICES...**The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final

determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Obligations, if material; (11) Rating changes; (12) Bankruptcy, insolvency receivership or similar event of the City <sup>(1)</sup>; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

**AVAILABILITY OF INFORMATION FROM MSRB...**The City has agreed to provide the foregoing information, only as described above to the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein 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 (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the owners and Beneficial Owners of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

## **OTHER INFORMATION**

**RATINGS...**The Bonds are rated "Aa2" by Moody's Investors Service ("Moody's"), and "AAA" by Standard and Poor's Rating Services, a Standard and Poor's Financial Services LLC business ("S&P"). There are currently no outstanding municipal drainage utility revenue bonds.

An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

<sup>(1)</sup> For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The legal opinion of Bond Counsel will be printed on, or will accompany the definitive Bonds and the form of such opinion is attached hereto as Appendix C.

**LITIGATION...** The City is currently involved in an employment lawsuit, *Lubke v. City of Arlington*, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the "Y2K" weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The case was tried to a jury in April 2004. Judgment in the amount of \$1.1 million was rendered against the City. The case was appealed and remanded by the 5th Circuit. The case is currently before the trial court on issues of damages and the effect of the plaintiff's failure to disclose the judgment in a bankruptcy he filed during the appeal. Settlement negotiations with the bankruptcy trustee, who now owns the Judgment, were unsuccessful.

The case is now styled *Reed v. City of Arlington*. The trial court ruled that the original plaintiff Lubke is estopped from receiving any benefit from his judgment against the City of Arlington. However, the trial court held that the bankruptcy estate should not be estopped from collecting on the judgment for the benefit of Lubke's creditors. At the present time, the estimated value of the bankruptcy estate including debts and costs is about \$624,770.00. The trial court will also recalculate the damage award based on offsets for retirement benefits paid that were not permitted at the trial court level. The City believes that the recalculated damage award will be approximately \$431,123.

The City still strongly believes that judicial estoppel should apply to the bankruptcy trustee and will eventually appeal this case to the 5th circuit. The probability of an unfavorable outcome cannot be made at this time, but the range of exposure in the event of an unfavorable outcome is now \$400,000 to \$650,000. Accordingly, no accrual has been made.

The City is currently involved in an American with Disabilities Act discrimination lawsuit (*Frame, et al. v. City of Arlington*), in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City of Arlington. The City contends that the City is in compliance with the ADA. The City is vigorously contesting this case which is still in the early pleading stages of litigation. A motion to dismiss is pending. The range of exposure to the City in the event of a jury verdict is inestimable. The probability of an unfavorable outcome cannot be determined at this time.

The Americans with Disability Act claim against the City of Arlington was dismissed by the trial court on March 31, 2008. It is anticipated that the plaintiffs' will appeal. If the case were allowed to continue, under the ADA, plaintiffs are limited to the recovery of attorney's fees, there is no compensatory damage provision. However, the plaintiffs are seeking to have the City of Arlington rebuild almost its entire sidewalk system. The range of exposure to the City in the event of an unfavorable outcome cannot be determined at this time.

Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations or insurance coverage, if any, on all such claims will not have a materially adverse effect on the City's financial position, as a whole.

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE...**The sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

**LEGAL MATTERS...** The City will furnish the Purchasers with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing law, including alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firms have reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of

the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

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

**LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS...** Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

**FINANCIAL ADVISOR...**Estrada Hinojosa & Company, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

**INITIAL PURCHASER OF THE BONDS...**After requesting competitive bids for the Bonds, the City accepted the bid of Mesirrow Financial, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the respective cover page of the Official Statement at a price of par plus accrued interest from the Dated Date, plus a premium of \$1,265,651.20 minus an underwriting discount of \$126,784.00. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Bonds.

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

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

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

The Ordinance authorizing the issuance of the Bonds approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the bonds by the Initial Purchasers.

/s/ Robert Cluck, M.D.  
Mayor, City of Arlington, Texas

ATTEST:

/s/ Mary Supino  
Interim City Secretary  
City of Arlington, Texas

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**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

**THE CITY...**The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City's location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundary is approximately 99.4 square miles.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

**GENERAL...**The City operates under the Council-Manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

**MAYOR AND CITY COUNCIL...**Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinances, resolutions and zoning decisions are presented at Council meetings at 6:30 p.m. on the second and fourth Tuesday of each month. Council meetings are broadcast on the local cable public access station and webcast. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

**ADMINISTRATION...**The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney, City Auditor and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City's financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

**CERTAIN CITY COUNCIL APPOINTEES...**The Council appoints the City Attorney who has management, charge, and control of all legal business of the City. He is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is his duty to advise Council concerning the legality of actions by the City and to represent the City in all matters affecting its interest.

The City's Municipal Court Judiciary provides for the adjudication of Class "C" misdemeanor cases, issuance of warrants and the arraignment of prisoners.

The Council appoints the City Auditor who manages the Internal Audit Division which monitors the internal controls and operations of the City and its assets, monitors security of electronic data and responds to management requests for analyses, appraisals and recommendations.

The Council also appoints members to certain boards, commissions, and authorities as it deems necessary to the operation of the City.

**PRINCIPAL EXECUTIVE OFFICERS...** City Manager – Mr. James Holgersson – with the City since June 2005, received his bachelor's degree from Augustana College in Illinois and a Master's degree in Public Administration from the University of Arkansas. He is an active member of the International City/County Management Association. Prior to joining the City, he served as a deputy city manager with the City of San Jose, California, and as city manager of the cities of Waco, Texas and Kalamazoo, Michigan. In addition, he served as Executive Director of the Rapoport Foundation in Waco.

Deputy City Manager for Neighborhood Services and Economic Development – Mr. Trey Yelverton – with the City since January 1993, most recently as the Director of the Neighborhood Services Department since 2000. He received an undergraduate degree in Political Science - Public Administration from the University of Texas at Arlington, and a M.P.A. from University of North Texas.

Deputy City Manager for Strategic Support – Mr. Gilbert Perales – with the City since January 2007. Prior to working for the City, Mr. Perales was the assistant city manager of the City of Irving for over 5 years. He received a Bachelors Degree in Art and a Master's Degree in Public Administration from St. Mary's University.

Interim Deputy City Manager for Capital Investment – Mr. Bob Byrd – retired from the city in 2010. He was with the City since 1985, received his B.S. from the U.S. Naval Academy. He has held management positions in Public Works, Community Development, Neighborhood Services, Municipal Court, and Environmental Services.

City Attorney – Mr. Jay Doegey – with the City since March 1986, a graduate of Southern Illinois University, he received his law degree from the University of Texas. Prior to joining the City, he was Senior Assistant City Attorney for the City of Corpus Christi, Texas.

Director of Financial and Management Resources, CFO – Ms. April Nixon – with the City since November 1992, most recently the Director of Management Resources and Administrative Services since 2005. Ms. Nixon received a Bachelor's Degree in Journalism from the University of Texas at Austin and a Master's of Business Administration from Texas Wesleyan University.

## FUNCTIONAL GROUPS

**GOVERNMENTAL SERVICES AND FACILITIES...** The City provides a full range of municipal services including police and fire, health, parks and recreation, public works, planning, and general administrative services. Water and wastewater services are accounted for in the City's Enterprise Fund. The City leased operation of the landfill to a private company beginning in May 2005.

The City's main municipal facilities include two general administrative buildings and a public safety building. There are 16 fire stations, four geographically distributed police stations, a police training center, a fire training center, one main and six branch libraries, 84 city parks, and four municipal golf courses. Some of the other major facilities provided by the City include a convention center, five recreational centers, two senior citizen centers, and a municipal airport. The City provides a comprehensive range of public services characteristic of its position as the most populous city in the Mid-Cities area of the Dallas-Fort Worth Metroplex. Presented in the following pages is a description of selected City agencies and departments contained within each of the three functional groups.

**NEIGHBORHOOD SERVICES GROUP AND ECONOMIC DEVELOPMENT...** The Deputy City Manager for Neighborhood Services and Economic Development is responsible for the oversight and management of the Police, Fire, Library, Community Services and the Parks and Recreation Departments and the Economic Development Division. The partnering of these departments provides a strong connection between City resources and neighborhoods.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 780 members of the Arlington Police Department enforce the law using a neighborhood based policing model. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 2008.

The City's Fire Department is responsible for fire prevention, fire suppression and first response emergency medical services. The 423 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Fire Department has responsibility for 9-1-1 dispatch services. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City and reports to the Deputy City Manager.

The Library Department is responsible for the management and operation of the City's central library and six branch libraries. Circulation exceeds 1.5 million items annually.

The Community Services Department has various regulatory and safety responsibilities. The Code Enforcement Division is responsible for enforcing city regulations related to the maintenance, sanitation, rehabilitation and conservation of existing housing. The Health Division is responsible for the inspection of public swimming pools, new septic system installations and overseeing the inspection of food services establishments. In conjunction with Tarrant County, it operates the Public Health Center, which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,683 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and the management of the Bob Duncan Community Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical, social, cultural and environmental needs of the citizens of the City.

Economic Development is responsible for downtown development as well as growing neighborhood businesses, and managing special districts.

**CAPITAL INVESTMENT GROUP...** The Deputy City Manager for Capital Investment is responsible for oversight and management of four departments, a division and two outside organizations. The City functions covered include the Water Utilities Department, and Public Works and Transportation, which includes Environmental Services, Community Development and Planning, the Convention Center and Aviation. They also oversee the City contract with the Convention and Visitors Bureau and the Downtown Arlington Management Corporation.

The Water Utilities Department is responsible for assuring a continuous supply of safe high quality drinking water and collection and safe disposal of wastewater. The City is recognized nationally for its advanced technology in water treatment. Transmission capacity was designed to anticipate future peak demands well into this century. The department has three divisions: Operations, Business Services, and Treatment. The department received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, Texas Water Utilities Association and the American Water Works Association.

Public Works and Transportation plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. The department is structured in divisions focusing on transportation planning, engineering operations, traffic, signal engineering, streets and storm water drainage. This department is also responsible for facilities maintenance and real estate services. Environmental Services oversees solid waste, fleet services contracts, air and water quality, public health concerns, a natural gas program, and storm water management.

Community Development and Planning is responsible for maintaining a long-range Comprehensive Plan, which optimizes the physical, fiscal, and natural resources of the City in its development. The Building Inspection Division enforces City ordinances regarding general construction, zoning, mechanical, electrical and plumbing activities. The planning staff provides coordination services in an effort to facilitate effectively program development and implementation. Additional responsibilities include providing City staff and the public with current zoning and inventory maps and a wide range of demographic statistics.

The Convention and Event Services Department is responsible for the management of the Arlington Convention Center. The City contracts with the Arlington Convention and Visitors Bureau for the tourism marketing of the City of Arlington.

**STRATEGIC SUPPORT GROUP...** The Deputy City Manager for Strategic Support is responsible for the oversight and management of four City departments, which include Financial and Management Resources, Workforce Services, Information Technology, and Municipal Court.

Financial and Management Resources oversees the financial affairs of the City and ensures the financial integrity of City operations. Department services include accounts payable, accounting, payroll, purchasing, treasury management and maintenance of the City's fixed asset inventory. It also oversees the budget division, and the City Secretary's Office, which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. It is also responsible for improving legislative and lobbying efforts as well as public information. It works with news media and issues publications, and implements programs to educate and inform citizens about City policies and programs. It is responsible for providing a communication and service link between the residents of and business owners in the City and all City Departments. It also includes Knowledge Services, which provides printing, copying, records management, and mailroom services to the organization.

Workforce Services is responsible for planning, developing, and administering the functions of employment, testing, training, and employee relations. It also administers the salary, benefit program, and risk management program.

Information Technology has the responsibility for the processing and electronic storage of information used in the daily business of the City.

Municipal Court is responsible for collecting court fines, setting trial dockets, and maintaining Municipal Court records.

### ECONOMIC AND DEMOGRAPHIC FACTORS

**POPULATION...** The 2010 Census population for the City of Arlington is 365,438. The following table presents population figures for selected years.

Population and Rates of Change  
Arlington and the United States  
Selected Years

Year	Arlington	Annual Rate of Change	United States	Annual Rate of Change
1950	(1) 7,692		151,325,798	
1960	(1) 44,775	19.26%	179,323,175	1.71%
1970	(1) 90,643	7.31%	203,211,926	1.26%
1980	(1) 160,113	5.85%	226,545,805	1.09%
1990	(1) 261,721	5.04%	248,709,873	0.94%
2000	(1) 332,969	2.44%	281,421,906	1.24%
2010	(1) 365,438	0.93%	308,745,538	0.93%
2011	(2) 368,854	0.93%	312,759,230	1.30%

(1) Actual Census population.

(2) Estimated population for City of Arlington calculated at 0.9348% annual growth per the City of Arlington, TX. Estimated population from the United States is calculated at 1.28% annual growth rate, per the United States Census Bureau.

EMPLOYMENT

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	5,144
University of Texas at Arlington	Higher Education	4,987
Six Flags Over Texas	Amusement Park	2,500
City of Arlington	Municipality	2,468
General Motors	Automobile Assembly	2,362
Texas Health Resources - AMH	Health Care	2,105
Americredit	Finance	1,570
Texas Rangers Baseball Club	Sports Entertainment	1,295
Medical Center of Arlington	Medical Center	1,250
Chase Bank	Finance	1,117

Source: Arlington Chamber of Commerce. Includes part-time and peak seasonal employees.

As illustrated in the table below, the City has maintained lower unemployment rates than the United States and the State of Texas. As of April 2010, the City's unemployment rate averaged 7.5 percent compared to the U.S. rate of 9.5 percent and the Texas rate, which was 8.1 percent.

	Unemployment Rate Annual Average Rates 2006 to 2010				
	2010	2009	2008	2007	2006
<b>Arlington</b>	7.5%	7.1%	4.5%	4.2%	4.8%
<b>Texas</b>	8.1%	7.5%	4.8%	4.3%	4.9%
<b>United States</b>	9.5%	9.3%	5.8%	4.6%	4.6%

Source: U.S. Bureau of Labor Statistics.

**FINANCIAL INSTITUTIONS...**There are fifty-five commercial banks, state banks and savings and loan associations in the City.

**BUILDING PERMITS...**During the FY 2010 the City issued 4,576 building permits with a total value of \$173,801,000. Presented below is a table covering building permit activity for the last three years:

	2010		2009		2008	
	Permits	Value (000's)	Permits	Value (000's)	Permits	Value (000's)
New Single Family	1,533	\$ 53,054	1,384	\$ 58,559	1,838	\$ 91,597
New Multifamily	-	-	2	2,605	11	35,620
New Commercial	764	112,241	750	202,377	796	197,338
Other (Additions, etc. <sup>(1)</sup> )	2,279	8,506	2,500	3,107	3,264	4,793
<b>Grand Total</b>	<b>4,576</b>	<b>173,801</b>	<b>4,636</b>	<b>266,648</b>	<b>5,909</b>	<b>329,348</b>

Source: City of Arlington Building Inspections Division

<sup>(1)</sup> Number of permits includes: signs, additions, remodels, interior finishes, accessory structures, fences, swimming pools, moves, demolitions and early grading. There is no value associated with move, demolition or early grading permits.

**APPENDIX B**

**AUDITED BASIC FINANCIAL STATEMENTS OF  
THE CITY OF ARLINGTON  
YEAR ENDED SEPTEMBER 30, 2010**

**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**