

MAYOR'S OFFICE

HOUSTON, TEXAS

April 10, 2013

To the Honorable City Council of the City of Houston, Texas

In accordance with the provisions of Article VII, Section 7 of the Charter of the City of Houston, I submit and introduce to you the Ordinance set out as attached with the request that it be passed finally on the date of its introduction. There exists a public emergency requiring such action and I accordingly request that you pass the same if it meets with your approval.


Mayor, City of Houston, Texas

City of Houston Ordinance No. 2013-313

CITY OF HOUSTON ORDINANCE NO. 2013-313

AN ORDINANCE SUPPLEMENTING THE CITY OF HOUSTON, TEXAS COMBINED UTILITY SYSTEM MASTER ORDINANCE; PROVIDING FOR THE ISSUANCE OF COMBINED UTILITY SYSTEM FIRST LIEN REVENUE AND REFUNDING BONDS, SERIES 2013B IN ONE OR MORE SERIES OR SUBSERIES AS MAY BE FURTHER DESIGNATED; AUTHORIZING THE MAYOR AND CITY CONTROLLER TO APPROVE THE AMOUNTS, INTEREST RATES, PRICES, AND TERMS THEREOF AND CERTAIN OTHER MATTERS RELATING THERETO; PROVIDING FOR THE PAYMENT THEREOF; MAKING OTHER PROVISIONS REGARDING SUCH BONDS INCLUDING THE USE OF A PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING THE PREPARATION AND DISTRIBUTION OF AN OFFICIAL STATEMENT AND MATTERS INCIDENT THERETO; AWARDED THE SALE OF THE BONDS; AUTHORIZING THE DEFEASANCE, FINAL PAYMENT, AND DISCHARGE OF CERTAIN OUTSTANDING COMBINED UTILITY SYSTEM COMMERCIAL PAPER NOTES; AUTHORIZING THE EXECUTION AND DELIVERY OF AN ESCROW AGREEMENT; AUTHORIZING THE PURCHASE OF AND SUBSCRIPTION FOR CERTAIN ESCROWED SECURITIES; AUTHORIZING ESCROW VERIFICATION AND ENGAGEMENT OF AN ESCROW AGENT; AUTHORIZING A CO-BOND COUNSEL AGREEMENT AND A SPECIAL DISCLOSURE CO-COUNSEL AGREEMENT; AUTHORIZING THE EXECUTION AND DELIVERY OF A PAYING AGENT/REGISTRAR AGREEMENT, AND OTHER RELATED DOCUMENTS; MAKING OTHER PROVISIONS REGARDING SUCH BONDS; AND DECLARING EMERGENCY

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

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1.1. Findings and Determinations. It is hereby officially found and determined that:

(a) The City of Houston, Texas (the "City") is an incorporated city operating under a home-rule charter adopted pursuant to Article XI, Section 5, of the Constitution of Texas having a population according to the latest federal decennial census of 50,000 or more and having outstanding long-term debt secured by the Net Revenues of the System which is rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations.

(b) The City has adopted Ordinance No. 2004-299 (as amended through the date hereof, the “Master Ordinance”) providing for the issuance of bonds and other obligations to be secured by revenues from the City’s combined utility system.

(c) The City has heretofore issued and there presently remain outstanding certain of the City’s Combined Utility System Commercial Paper Notes, Series B (hereinafter defined as the “Refunded Notes”), which are to be refunded and defeased with all or a portion of the revenue refunding bonds proposed to be issued pursuant to this Supplemental Ordinance.

(d) The City is authorized by Chapter 1207 Texas Government Code, as amended, to issue the Series 2013B Bonds substantially in the form set forth in Exhibit A attached hereto for the purpose of refunding the Refunded Notes and to accomplish such refunding by depositing directly with the paying agent for the Refunded Notes proceeds of such refunding Bonds, together with other available funds, which may be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, which shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of the Refunded Notes, and such deposits shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Notes.

(e) The City intends to issue the Series 2013B Bonds for the following purposes: (i) paying the costs of the extension, construction, improvement, or repair of the System, (ii) refunding the Refunded Notes, and (iii) making a cash deposit into the First Lien Bond Reserve Fund in an amount not to exceed 10% of the Series 2013B Bond proceeds, which includes funding the Series 2013B Bond Reserve Fund Requirement, and (iv) proceeds of the Bonds will also be used to pay the costs of issuing the Series 2013B Bonds.

(f) The City has determined that the issuance of the Series 2013B Bonds to redeem the Refunded Notes is in the best interests of the City, and that the manner in which the refunding is being executed does not make it practical to make the determination required by Section 1207.008(a) of the Texas Government Code, as amended.

ARTICLE II

DEFINITIONS AND INTERPRETATIONS

Section 2.1. Definitions Generally. All terms capitalized but not defined in Section 2.2 or elsewhere in this Supplemental Ordinance shall have the meanings assigned to them in the Master Ordinance.

Section 2.2. Definitions. In this Supplemental Ordinance, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

“Bond Insurer” shall mean any third party insurance company that provides a Credit Facility in the form of a municipal bond insurance policy, if any.

“Bond Insurance Policy” shall mean a municipal bond insurance policy or policies, if any, issued by a Bond Insurer insuring the scheduled payment when due of the principal of and interest on the Series 2013B Bonds.

“Bond Purchase Agreement” shall mean the agreement between the City and the Underwriters in substantially the form attached hereto as Exhibit G.

“Business Day” shall mean, for purposes of this Supplemental Ordinance, a day other than (i) a Saturday and Sunday, (ii) a day on which the Paying Agent/Registrar or banks and trust companies in New York, New York are authorized or required to remain closed, (iii) a day on which the New York Stock Exchange is closed.

“Co-Bond Counsel” shall mean a firm or firms of nationally recognized attorneys experienced in the issuance of bonds acceptable to the City, initially Andrews Kurth LLP and Bates & Coleman, each of Houston, Texas and any successor firms thereto.

“DTC” shall mean The Depository Trust Company of New York, New York or any successor securities company.

“DTC Participant” shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities and to facilitate the clearance and settlement of securities transactions among DTC Participants through electronic book-entry changes in the accounts of the DTC Participants, thereby eliminating the need for physical movement of definitive certificates.

“Escrow Agent” shall mean the escrow agent, if any, named in the Officers’ Pricing Certificate, and its successors in such capacity.

“Escrow Agreement” shall mean the agreement, if any, provided for in the Officers’ Pricing Certificate between the City and the Escrow Agent.

“Officers’ Pricing Certificate” shall mean a certificate or certificates to be signed by the Mayor and the City Controller pursuant to Section 3.3 hereof and delivered to the City Secretary, in substantially the form attached hereto as Exhibit B.

“Ordinance” shall mean collectively, the Master Ordinance, the Series 2004 Ordinance, this Supplemental Ordinance, and all amendments thereof and supplements thereto.

“Paying Agent/Registrar” shall mean The Bank of New York Mellon Trust Company, National Association, Houston, Texas and its successors in that capacity.

“Paying Agent/Registrar Agreement” shall mean the agreement between the City and the Paying Agent/Registrar in substantially the form attached hereto as Exhibit C.

“Refunded Notes” shall mean the outstanding City of Houston, Texas, Combined Utility System Commercial Paper Notes, Series B, in an aggregate principal amount of \$250,000,000, as further designated in the Officers’ Pricing Certificate, which are being redeemed and defeased upon the issuance of the Series 2013B Bonds.

“Report” shall mean the report or reports, if any, prepared by Grant Thornton LLP, Certified Public Accountants, with respect to the adequacy of the escrowed securities referred to in the Escrow Agreement to pay, when due, the principal of, and interest on, the Refunded Notes.

“Series 2004 Ordinance” shall mean City of Houston Ordinance No. 2004-300 adopted by the City on April 21, 2004, as the same has been amended, modified or supplemented through the date hereof.

“Special Disclosure Co-Counsel” means a firm or firms of nationally recognized attorneys acceptable to the City, initially Greenberg Traurig, LLP, Houston, Texas and Edgardo Colon, P.C., Houston, Texas and any successor firm thereto.

“Series 2013B Bonds” shall mean the bonds authorized by this Supplemental Ordinance, as provided for in Article III.

“Series 2013B Bond Reserve Fund Requirement” shall mean an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of this Supplemental Ordinance, and (ii) all subsequent issues of First Lien Bonds for which the City elects to fund a shared First Lien Bond Reserve Fund on a parity with the First Lien Bond Reserve Fund funded by this Supplemental Ordinance. To date, the City has elected that all First Lien Bonds issued to date are Reserve Fund Participants in such shared First Lien Bond Reserve Fund, and all such Reserve Fund Participants together with the Series 2013B Bonds, and all future First Lien Bonds for which such election is made are entitled to a parity claim on the funds deposited in this shared Bond Reserve Fund.

“Underwriters” shall have the meaning set forth in the Bond Purchase Agreement.

ARTICLE III

TERMS OF THE SERIES 2013B BONDS

Section 3.1. Name, Premium Amount, Purpose, Authorization. The Series 2013B Bonds, to be known and designated as the “CITY OF HOUSTON, TEXAS, COMBINED UTILITY SYSTEM FIRST LIEN REVENUE AND REFUNDING BONDS, SERIES 2013B,” are authorized to be issued as fixed rate bonds, in one or more subseries, in fully registered form, without coupons, in substantially the form set forth in Exhibit A hereto with such appropriate variations, omissions and insertions as are permitted by this Supplemental Ordinance and in accordance with the terms of the Master Ordinance and the further provisions of this Article, as determined in the Officers’ Pricing Certificate, a form of which is attached hereto as Exhibit B. The Series 2013B Bonds shall be issued for one of the following purposes (i) paying the costs of the extension, construction, improvement or repair of the system, (ii) refunding the Refunded Notes, (iii) making a cash deposit into the First Lien Bond Reserve Fund in an amount not to exceed 10% of the Series 2013B Bond proceeds, which includes funding the Series 2013B Bond Reserve Fund Requirement, and (iv) paying costs of issuance, under and pursuant to the authority of Chapters 1201, 1207, 1371 and 1502, Texas Government Code, and all other applicable law, and as further determined and designated in the Officers’ Pricing Certificate.

Section 3.2. Numbers, Date, and Denomination. The Series 2013B Bonds shall be dated as provided in the Officers' Pricing Certificate. The Series 2013B Bonds shall initially be evidenced by an initial bond for each series of bonds. Such initial Series 2013B Bonds shall be numbered AGD-1 for the initial series issued hereunder, and for each series thereafter shall be numbered upward and such that the letter designation after the letters "AG" corresponds to the letter suffix in the caption of the respective series of Series 2013B Bonds. Thereafter the Series 2013B Bonds shall be evidenced by definitive bonds numbered in sequence beginning with RC-1 for each series, with each series thereafter numbered with the appropriate letter designation after "R" which corresponds to the letter suffix in the caption of the respective series of Series 2013B Bonds, as may be further designated in the Officers' Pricing Certificate.

Section 3.3. Terms. (a) The Series 2013B Bonds shall be issued in fully registered form, without coupons, under and pursuant to the authority of Chapters 1201, 1207, 1371, and 1502, Texas Government Code, the City's Home Rule Charter and other applicable law. Each series or subseries of Series 2013B Bonds may be designated with or without letter suffix (e.g. 2013, 2013A, 2013B). The Series 2013B Bonds shall bear interest from the dates and at the rates per annum to be set forth in the Officers' Pricing Certificate, until maturity or earlier redemption, payable as set forth in the Officers' Pricing Certificate. The Series 2013B Bonds shall be issued in the aggregate principal amount set forth in the Officers' Pricing Certificate, but not to exceed \$250,000,000. The Series 2013B Bonds (and any series or subseries) shall be payable on the dates and in the principal amounts set forth in the Officers' Pricing Certificate.

(b) As authorized by Chapters 1207 and 1371, Texas Government Code, the Mayor (and in the absence of the Mayor, the Director of Finance) and City Controller (and in the absence of the City Controller, the Deputy City Controller) are hereby authorized to act on behalf of the City in selling and delivering the Series 2013B Bonds and carrying out the other procedures specified in this Supplemental Ordinance, including the selection of the Refunded Notes to be refunded with the proceeds of the Series 2013B Bonds, any additional designation or title by which the Series 2013B Bonds shall be known, the price at which the Series 2013B Bonds will be sold, the date or dates on which the Series 2013B Bonds shall be sold, the year or years in which the Series 2013B Bonds will mature, the total principal amount and the principal amount to mature in each of such years, the rate of interest to be borne by each such maturity, the first interest payment date, the dates, prices, and terms, if any, upon and at which the Series 2013B Bonds shall be subject to redemption prior to maturity at the option of the City, as well as any mandatory sinking fund redemption provisions, and such officers are also hereby authorized to act on behalf of the City in approving the amount of bond proceeds to deposit into the First Lien Bond Reserve Fund and/or the purchase of one or more bond insurance policies for all or a portion of the Series 2013B Bonds, one or more Reserve Fund Surety Policies for the First Lien Bond Reserve Fund to fund the First Lien Bond Reserve Fund and/or to satisfy the Series 2013B Bond Reserve Fund Requirement and one or more credit agreements, as defined in Chapter 1371, Texas Government Code, and all other matters relating to the issuance, sale and delivery of the Series 2013B Bonds, and the refunding of the Refunded Notes, all of which shall be specified in the Officers' Pricing Certificate for the Series 2013B Bonds, provided that:

- (i) the price to be paid for each series of the Series 2013B Bonds shall not be less than 90% of the aggregate original principal amount thereof;

- (ii) none of the Series 2013B Bonds shall bear interest at a rate greater than 10% per annum or in excess of the maximum rate allowed by Chapter 1204, Texas Government Code;
- (iii) the aggregate principal amount of the Series 2013B Bonds shall not exceed the maximum amount authorized in Section 3.3(a) hereof and the aggregate proceeds of the Series 2013B Bonds shall equal an amount sufficient to provide for the redemption of the Refunded Notes up to a maximum principal amount of \$200,000,000;
- (iv) the Series 2013B Bonds to be issued, prior to delivery, must have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations; and
- (v) any finding by the Mayor or the City Controller relating to the sale and delivery of the Series 2013B Bonds, the refunding of the Refunded Notes, shall have the same force and effect as a finding or determination made by the City Council.

Section 3.4. Redemption Prior to Maturity. The Series 2013B Bonds are subject to redemption in the manner provided in the FORM OF SERIES 2013B BONDS set forth in Exhibit A of this Supplemental Ordinance. The Authorized Representative shall have the authority on behalf of and in the name of the City to direct and/or consent to the delivery to the Registered Owners and other required notice parties of any notice of redemption of the Series 2013B Bonds, provided that any notice of optional redemption may be conditioned on the authorization and issuance of a series of refunding bonds by the City or on any other condition.

Section 3.5. Manner of Payment, Characteristics, Execution, and Authentication. The Paying Agent/Registrar shall be the paying agent for the Series 2013B Bonds. The Series 2013B Bonds shall be payable, shall have the characteristics, shall be signed and executed, shall be sealed, and shall be authenticated, all as provided and in the manner indicated in the FORM OF SERIES 2013B BONDS set forth in Exhibit A of this Supplemental Ordinance, subject to revisions as are necessary or advisable to describe the terms approved in the Officers' Pricing Certificate.

Section 3.6. The Depository Trust Company of New York. (a) Notwithstanding any provision of this Supplemental Ordinance to the contrary, unless the City shall otherwise direct, all Series 2013B Bonds issued hereunder shall be registered in the name of Cede & Co., as nominee of DTC, as the Registered Owner of the Series 2013B Bonds, and held in the custody of DTC. Unless otherwise requested by DTC, a single certificate will be issued and delivered to DTC for each maturity of Series 2013B Bonds. Beneficial owners of Series 2013B Bonds will not receive physical delivery of Series 2013B Bond certificates except as provided hereinafter as long as DTC shall continue to serve as securities depository for the Series 2013B Bonds as provided herein, all transfers of beneficial ownership interests in the Series 2013B Bonds will be made by book-entry only, and no investor or other party purchasing, selling, or otherwise transferring beneficial ownership interests in Series 2013B Bonds is to receive, hold, or deliver any Series 2013B Bond certificate; provided, that, if DTC fails or refuses to act as securities depository for the Series 2013B Bonds, the City shall take the actions necessary to provide for the issuance of Series 2013B Bond certificates to the Registered Owners of such Series 2013B Bonds.

With respect to Series 2013B Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom a DTC Participant holds an interest in the Series 2013B Bonds. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Series 2013B Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown on the Register, of any notice with respect to the Series 2013B Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Registered Owner, as shown in the Register, of any amount with respect to the principal of, premium, if any, or interest on the Series 2013B Bonds.

(b) In the event that (i) DTC determines not to continue to act as securities depository for the Series 2013B Bonds (which determination shall become effective no less than ninety (90) days after written notice to such effect to the City and the Paying Agent/Registrar); (ii) the City determines (which determination is conclusive as to DTC and the beneficial owners of the Series 2013B Bonds) that DTC is incapable of discharging its responsibilities described herein; or (iii) the City determines (which determination is conclusive as to DTC and the beneficial owners of the Series 2013B Bonds) that it is in the best interests of the beneficial owners of the Series 2013B Bonds not to continue DTC's book-entry only system of transfer for the Series 2013B Bonds, then the City shall use its best efforts to appoint a successor securities depository, qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended. In the event of such an appointment, the City shall notify DTC of the appointment of such successor securities depository and transfer one or more separate Series 2013B Bonds to such successor securities depository or notify DTC Participants of the availability through DTC of Series 2013B Bonds and transfer one or more separate Series 2013B Bonds to DTC Participants having Series 2013B Bonds credited to their DTC accounts. In such event, the Series 2013B Bonds shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Registered Owners transferring or exchanging Series 2013B Bonds shall designate, in accordance with the provisions of this Supplemental Ordinance.

In the event the City fails to appoint a successor securities depository for the Series 2013B Bonds, the City shall cause to be authenticated and delivered replacement Series 2013B Bonds, in certificated form, to the beneficial owners of the Series 2013B Bonds.

(c) Notwithstanding any other provision of this Supplemental Ordinance to the contrary, as long as any Series 2013B Bonds are registered in the name of Cede & Co., as nominee of DTC, (i) all payments with respect to the principal of, premium, if any, and interest on the Series 2013B Bonds and all notices with respect to such Series 2013B Bonds shall be made and given, respectively, in accordance with DTC's Operational Arrangements, as provided in the Blanket Letter of Representations between DTC and the City; (ii) the requirements of this Supplemental Ordinance of holding, delivering or transferring Series 2013B Bonds shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC; and (iii) delivery of the Series 2013B Bonds will be in accordance with arrangements among the City, the Paying Agent/Registrar, and DTC.

(d) If at any time DTC ceases to hold the Series 2013B Bonds in book-entry only form, all references herein to DTC shall be of no further force or effect.

ARTICLE IV

PLEDGE AND SOURCE OF PAYMENT FOR SERIES 2013B BONDS

The Series 2013B Bonds shall constitute First Lien Bonds pursuant to the Master Ordinance. In the Master Ordinance, the City covenants and agrees that (as defined in the Previous Ordinance) Gross Revenues shall, as collected and received by the City, be applied first to provide for the payment of all Required Payments and then Gross Revenues shall be deposited and paid into the special funds established by the Master Ordinance, to provide for the payment of all remaining Maintenance and Operation Expenses that are not paid as Required Payments. Under the Master Ordinance, Net Revenues shall be applied to provide for the payment of all principal of, interest on and any redemption premiums on the First Lien Bonds (including the Series 2013B Bonds), any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same. Remaining Net Revenues thereafter shall be applied as set forth in the Master Ordinance. The First Lien Bonds, including the Series 2013B Bonds, shall constitute special obligations of the City that shall be payable solely from and shall be equally and ratably secured by a lien on the Net Revenues as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner provided by the Master Ordinance, be set aside for and pledged to the payment of the First Lien Bonds and parity Obligations in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as provided by the Master Ordinance, and the First Lien Bonds shall be, in all respects, on a parity with and of equal dignity with one another and are Reserve Fund Participants in the First Lien Bond Reserve Fund. The Owners of the First Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the First Lien Bonds out of any funds raised or to be raised by taxation.

ARTICLE V

CONCERNING THE PAYING AGENT/REGISTRAR AGREEMENT AND PROFESSIONAL SERVICES

Section 5.1. Acceptance. The Bank of New York Mellon Trust Company, N.A., Houston, Texas, is hereby appointed as the initial Paying Agent/Registrar for the Series 2013B Bonds. Such initial Paying Agent/Registrar, and any successor thereto, by undertaking the performance of the duties of the Paying Agent/Registrar hereunder, and in consideration of the payment of fees and/or deposits of money pursuant to this Supplemental Ordinance, shall be deemed to accept and agree to abide by the terms of this Supplemental Ordinance.

Section 5.2. Fiduciary Account. All money transferred to the Paying Agent/Registrar under this Supplemental Ordinance (except sums representing Paying Agent/Registrar's fees) shall be held in a fiduciary account for the benefit of the City, shall be the property of the City, and shall be disbursed in accordance with this Supplemental Ordinance.

Section 5.3. Series 2013B Bonds Presented. Subject to the provisions of Section 5.5, all matured Series 2013B Bonds presented to the Paying Agent/Registrar for payment shall be paid without the necessity of further instructions from the City. Such Series 2013B Bonds shall be canceled as provided herein.

Section 5.4. Series 2013B Bonds Not Timely Presented. Funds held by the Paying Agent/Registrar that represent principal of and interest on the Series 2013B Bonds remaining unclaimed by any Registered Owner after the expiration of three (3) years from the date such funds have become due and payable (a) shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Title 6 of the Texas Property Code, to the extent such provisions are applicable to such funds, or (b) to the extent such provisions do not apply to the funds, such funds shall be paid by the Paying Agent/Registrar to the City upon receipt by the Paying Agent/Registrar of a written request therefor from the City. The Paying Agent/Registrar shall remit to the City, upon receipt of the written request provided for herein, a sum equal to the aggregate face amount of all Series 2013B Bonds which have not been presented for payment prior to the date specified in such certificate. Such certificate shall:

- (a) Specify the Series 2013B Bonds or portions thereof to which it applies and the amount of each;
- (b) Specify the date on which the City believes itself to be no longer obligated to pay such Series 2013B Bonds or portions thereof by virtue of the expiration of the applicable statute of limitations under the laws of the State of Texas; and
- (c) Be signed by the Mayor and attested by the City Secretary.

The Paying Agent/Registrar shall have no liability to the Owners of Series 2013B Bonds by virtue of actions taken in compliance with this Section.

Section 5.5. Paying Agent/Registrar May Own Series 2013B Bonds. The Paying Agent/Registrar in its individual or any other capacity, may become the owner or pledgee

of Series 2013B Bonds with the same rights it would have if it were not the Paying Agent/Registrar.

Section 5.6. Successor Paying Agent/Registrar. The City covenants that at all times while any Series 2013B Bonds are Outstanding, it will have appointed a legally qualified bank or trust company, in each case with trust powers, to act as Paying Agent/Registrar for the Series 2013B Bonds. If the Paying Agent/Registrar or its successor for any reason can no longer act as Paying Agent/Registrar hereunder, the City covenants that it will appoint a bank in the same city as the Paying Agent/Registrar initially appointed to perform the duties of Paying Agent/Registrar hereunder. Any successor Paying Agent/Registrar shall be either a national or state banking institution and a corporation organized and doing business under the laws of the United States of America or any state, which is authorized under such laws to exercise trust powers and is subject to supervision or examination by federal or state authority.

The City reserves the right to change the Paying Agent/Registrar for any series of Series 2013B Bonds on not less than sixty (60) days written notice to the Paying Agent/Registrar as long as any such notice applicable to the Paying Agent/Registrar is effective not less than sixty (60) days prior to the next succeeding principal or interest payment date on the Series 2013B Bonds. Promptly upon the appointment of any successor Paying Agent/Registrar, the previous Paying Agent/Registrar shall deliver the Register or a copy thereof to the new Paying Agent/Registrar. Upon the payment by the City of any fees due to be paid to the previous Paying Agent/Registrar, as appropriate, the new Paying Agent/Registrar shall notify each Registered Owner, by first-class mail, postage prepaid, of such change and of the address of the new Paying Agent/Registrar, as appropriate. Each Paying Agent/Registrar hereunder, by acting in such capacity, respectively, shall be deemed to have agreed to the provisions of this Supplemental Ordinance.

Section 5.7. Professional Services. Co-Bond Counsel services in connection with the issuance of the Series 2013B Bonds and other matters pertaining thereto, shall be provided pursuant to the terms of a Co-Bond Counsel Letter Agreement to be entered into by and between the City and Andrews Kurth LLP, Houston, Texas and Bates & Coleman, Houston, Texas, which shall be substantially in the form attached hereto as Exhibit D, the terms and provisions of which are hereby approved. Special Disclosure Co-Counsel services in connection with the issuance of the Series 2013B Bonds shall be provided pursuant to the terms of a Special Disclosure Co-Counsel Letter Agreement to be entered into by and between the City and Greenberg Traurig, LLP, Houston, Texas, and Edgardo Colon, P.C., Houston, Texas, which shall be substantially in the form attached hereto as Exhibit E, the terms and provisions of which are hereby approved. The Mayor and the City Controller are hereby authorized to execute and deliver such Co-Bond Counsel Letter Agreement and Special Disclosure Co-Counsel Letter Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto and affix the City's seal.

ARTICLE VI

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF SERIES 2013B BONDS

Section 6.1. Sale of Series 2013B Bonds. Upon the execution of the Officers' Pricing Certificate for any Series 2013B Bonds, sale of the Series 2013B Bonds is hereby awarded to the underwriters shown on the cover of, and more particularly described under the heading "UNDERWRITING" in, the Preliminary Official Statement for the Series 2013B Bonds, in accordance with the provisions of the Bond Purchase Agreement for the Series 2013B Bonds substantially in the form presented to the City Council concurrently with the adoption of this Supplemental Ordinance and attached hereto as Exhibit F, the terms and provisions of which are hereby accepted, approved, and authorized, and, upon the completion of the terms of the Bond Purchase Agreement in accordance with the terms of the Officers' Pricing Certificate for the Series 2013B Bonds and this Supplemental Ordinance, the Mayor and the City Controller are authorized and directed to enter into and execute and the City Secretary to attest and affix the City's seal to said Bond Purchase Agreement for the Series 2013B Bonds on behalf of the City.

Section 6.2. Approval, Registration, and Delivery The Mayor and the City Controller are hereby authorized to have control and custody of the Series 2013B Bonds and all necessary records and proceedings pertaining thereto pending their delivery, and the Mayor, the City Controller, and the City Secretary and other officers and employees of the City are hereby authorized, directed and instructed to make such certifications and to execute such instruments (including by printed facsimile signature, the Series 2013B Bonds) as may be necessary to accomplish their delivery and to assure the investigation, examination, and approval thereof by the Attorney General of Texas and the registration of the initial Series 2013B Bonds by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Series 2013B Bonds, the Comptroller of Public Accounts of the State of Texas (or a deputy designated in writing to act for him) shall be requested to sign manually the registration certificate prescribed herein to be attached or affixed to each Series 2013B Bond initially delivered and the seal of the Comptroller of Public Accounts of the State of Texas shall be impressed or printed or lithographed thereon. Delivery of each of the Series 2013B Bonds is subject to the related unqualified approving opinions as to the legality of the Series 2013B Bonds of the Attorney General of Texas and of Co-Bond Counsel.

Section 6.3. Offering Documents. The City Council hereby authorizes and approves, in connection with the sale of the Series 2013B Bonds, the preparation and distribution of a Preliminary Official Statement (whether one or more) relating to the Series 2013B Bonds, substantially in the form attached hereto as Exhibit F and a final Official Statement (whether one or more), containing such additional information and amendments as may be necessary to conform to the terms of the Series 2013B Bonds and this Supplemental Ordinance.

The City hereby ratifies and confirms that the Preliminary Official Statement approved by this Section 6.3 is deemed to be "final" by the City as of its date, except for the omission of no more than the information permitted by Subsection (b)(1) of Rule 15c2-12 of the Securities and Exchange Commission.

The City Council hereby ratifies, authorizes, and approves the actions of the Mayor, City Controller and the City's financial advisor and other consultants in seeking ratings on the Series 2013B Bonds from one or more of the Rating Agencies, and such action is hereby ratified and confirmed.

Section 6.4. Application of Proceeds of Series 2013B Bonds and Other Available Funds. Proceeds from the sale of the Series 2013B Bonds (together with other available funds that the City may provide) shall, promptly upon receipt by the City, be applied as follows:

- a. Sufficient proceeds shall be applied, together with other legally available funds of the City, to pay the principal premium of, if any, and accrued interest on the Refunded Notes on their respective maturity date or to establish an Escrow Fund in the amount shown in the Report, if any, to pay the principal of premium, if any, and accrued interest on the Refunded Notes at maturity and to pay all expenses (or to reimburse amounts withdrawn from legally available funds of the City to pay such expenses) arising in connection with the issuance of the Series 2013B Bonds, the establishment of any Escrow Fund and the refunding of the Refunded Notes.
- b. Sufficient proceeds shall be applied, together with other legally available funds of the City, to make a cash deposit into the First Lien Bond Reserve Fund in an amount not to exceed 10% of the Series 2013B Bond proceeds, which includes funding the Series 2013B Bond Reserve Fund Requirement.
- c. Sufficient proceeds shall be applied to pay all expenses in connection with the issuance of the Series 2013B Bonds.
- d. The amount set forth in the Officers' Pricing Certificate shall be deposited to the General Purpose Fund for reimbursement of previously incurred System expenses.
- e. Any proceeds of the Series 2013B Bonds remaining after making all such deposits and payments shall be deposited into the Project Account described herein

Section 6.5. Covenants to Maintain Tax Exempt Status.

(a) Definitions. When used in this Section, the following terms have the following meanings:

“Code” means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

“Computation Date” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Gross Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Investment” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Issue Date” for each series or sub-series of the Series 2013B Bonds or other obligations of the City is the respective date on which such series or sub-series of the Series 2013B Bonds or other obligations of the City is delivered against payment therefor.

“Net Sale Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Nonpurpose Investment” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Rebate Amount” has the meaning stated in Section 1.148-3 of the Regulations.

“Regulations” means the temporary or final Income Tax Regulations applicable to the Series 2013B Bonds issued pursuant to Sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to Sections 141 through 150 of the Code and applicable to the Series 2013B Bonds.

“Yield of”

(1) any Investment shall be computed in accordance with Section 1.148-5 of the Regulations, and

(2) the Series 2013B Bonds shall be computed in accordance with Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The City shall not use, permit the use of or omit to use Gross Proceeds of the Series 2013B Bonds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds of the Series 2013B Bonds) in a manner which, if made or omitted, respectively, would cause the interest on such Series 2013B Bond to become includable in the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City shall have received a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Series 2013B Bond, the City shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by Section 141 of the Code and the regulations and rulings thereunder, the City shall, at all times after the Issue Date of any Series 2013B Bond and prior to the last stated maturity of the Series 2013B Bonds

- (i) exclusively own, operate, and possess all property the acquisition, construction, or improvement of which is to be financed directly or indirectly with Gross Proceeds of such Series 2013B Bond (including property financed with Gross Proceeds of the Refunded Notes or notes refunded by the Refunded Notes) and not use or permit the use of such Gross Proceeds or any property acquired, constructed, or improved with such Gross Proceeds in any activity carried on by any person or entity other than a state or local government, unless such use is solely as a member of the general public, or
- (ii) not directly or indirectly impose or accept any charge or other payment for use of Gross Proceeds of such Series 2013B Bond or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Notes or notes refunded by the Refunded Notes) other than taxes of general application and interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by Section 141 of the Code and the regulations and rulings thereunder, the City shall not use Gross Proceeds of such Series 2013B Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be “loaned” to a person or entity if (1) property acquired, constructed or improved with Gross Proceeds (including property financed with Gross Proceeds of the Refunded Notes or notes refunded by the Refunded Notes) is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes, (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output, or similar contract or arrangement, or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or such property are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by Section 148 of the Code and the regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the final stated maturity or final payment of such Series 2013B Bond, directly or indirectly invest Gross Proceeds of such Series 2013B Bond in any Investment (or use such Gross Proceeds to replace money so invested), if as a result of such investment the Yield of all Investments allocated to such Gross Proceeds whether then held or previously disposed of, exceeds the Yield on the Series 2013B Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by Section 149(b) of the Code and the regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Series 2013B Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code and the regulations and rulings thereunder.

(g) Information Report. The City shall timely file with the Secretary of the Treasury the information required by Section 149(e) of the Code with respect to each converted series of the Series 2013B Bonds on such forms and in such place as such Secretary may prescribe.

(h) Payment of Rebate Amount. Except to the extent otherwise provided in Section 148(f) of the Code and the regulations and rulings thereunder, the City shall:

- (i) account for all Gross Proceeds of the Series 2013B Bonds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of such accounting for at least six (6) years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of the Series 2013B Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith,
- (ii) calculate the Rebate Amount with respect to such Series 2013B Bond not less frequently than each Computation Date, in accordance with rules set forth in Section 148(f) of the Code, Section 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six (6) years after the final Computation Date,
- (iii) as additional consideration for the purchase of the Series 2013B Bonds by the initial purchasers thereof and the loan of the money represented thereby, and in order to induce such purchase by measures designed to ensure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (ii) above at the times, in the installments, to the place, in the manner and accompanied by such forms or other information as is or may be required by Section 148(f) of the Code and the regulations and rulings thereunder, and
- (iv) exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (ii) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by Section 148 of the Code and the regulations and rulings thereunder, the City shall not, at any time after the Issue Date of the Series 2013B Bonds and prior to the earlier of the final stated maturity or final payment of the Series 2013B Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Series 2013B Bonds, not been relevant to either party.

(j) Not Hedge Bonds. The City did not invest more than 50 (50%) percent of the Proceeds of each series of the Refunded Notes and the Series 2013B Bonds in Nonpurpose Investments having a guaranteed yield for four (4) years or more. On the Issue Date of each series of the Refunded Notes and the Series 2013B Bonds, the City reasonably expected that at least 85 percent of the Net Sale Proceeds of each series of the Refunded Notes and the Series

2013B Bonds would be used to carry out the governmental purpose of such series within three (3) years after the Issue Date of such series.

Section 6.6. Redemption Prior to Maturity. To provide for the deposit of proceeds of the Series 2013B Bonds into the escrow fund, the discharge and defeasance of the Refunded Notes may be effectuated pursuant to the terms and provisions of an Escrow Agreement to be entered into by and between the City and the Escrow Agent, which shall be substantially in the form attached to the Officers' Pricing Certificate, the terms and provisions of which are hereby approved, subject to such insertions, additions, and modifications as shall be necessary (i) to carry out the program designed for the City by the Underwriters, and which shall be certified as to mathematical accuracy in the Report, (ii) to comply with all applicable laws and regulations relating to the refunding of the Refunded Notes, and (iii) to carry out the other intents and purposes of this Supplemental Ordinance and the Officers' Pricing Certificate, and the Mayor and the City Controller are hereby authorized to execute and deliver such Escrow Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto and affix the City's seal. The City hereby directs that the Refunded Notes shall be defeased in the amounts, on the dates and at the redemption prices set forth in the Officers' Pricing Certificate.

In order to assure the purchase of the escrowed securities shown in the Officers' Pricing Certificate and to be held pursuant to the Escrow Agreement, the City Controller is hereby authorized to subscribe for, agree to purchase and purchase, securities authorized by the ordinances relating to the Refunded Notes and by applicable law, in such amounts, maturities, and bearing interest at such rates as may be provided for in the Report, and the Mayor and the City Controller are authorized to execute, and the City Secretary is authorized to attest and affix the City's seal, as appropriate, to any and all subscriptions, purchase agreements, forward purchase agreements, commitments, letters of authorization, and other documents necessary to effectuate the foregoing, and any actions heretofore taken by the City Controller for such purpose are hereby ratified and approved.

Section 6.7. Continuing Disclosure Undertaking.

(a) Annual Reports. The City shall provide annually to MSRB, within six (6) months after the end of each fiscal year ending in or after 2013, in an electronic format prescribed by the MSRB, financial information and operating data with respect to the City of the general type included in the final Official Statement authorized by Section 6.3 of this Supplemental Ordinance, being the information described in Exhibit H hereto. Any financial statements so provided shall be (1) prepared in accordance with the accounting principles described in Exhibit H hereto and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the City shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within the above-described six-month period.

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

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) if available to the public on the MSRB's website or filed with the SEC, or may be provided in any other manner consistent with the Rule. All filings shall be made electronically, in the format specified by the MSRB.

(b) Material Event Notices. The City shall notify the MSRB in an electronic format prescribed by 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 Series 2013B Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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 Series 2013B Bonds or other material events affecting the tax status of the Series 2013B Bonds;
- (vii) Modifications to rights of holders of the Series 2013B Bonds, if material;
- (viii) Series 2013B Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Series 2013B Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City;
- (xiii) 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

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall notify the MSRB in an electronic form prescribed by the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 6.8(a) of this Supplemental Ordinance by the time required by such Section.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

(c) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an “obligated person” with respect to the Series 2013B Bonds within the meaning of the Rule, except that the City in any event will give the notice required by Section 8.1 of any Series 2013B Bond calls and defeasance that cause the City to be no longer such an “obligated person.”

The provisions of this Section are for the sole benefit of the Owners and beneficial owners of the Series 2013B Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City’s financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2013B Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY SERIES 2013B BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

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

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

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Series 2013B Bonds in the primary offering of the Series 2013B Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Supplemental Ordinance that authorizes such an amendment) of the Outstanding Series 2013B Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Series 2013B Bonds. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with Section 8.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The City may also amend or repeal the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2013B Bonds in the primary offering of the Series 2013B Bonds.

(d) Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

“*MSRB*” means the Municipal Securities Rulemaking Board.

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

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

Section 6.8. Related Matters. In order that the City shall satisfy in a timely manner all of its obligations under the Ordinance, the Mayor, the City Secretary, and the City Controller of the City and all other appropriate officers and agents of the City are hereby authorized and directed to take all other actions that are reasonably necessary to provide for issuance and delivery of the Series 2013B Bonds and the refunding of the Refunded Notes, including without limitation, executing by manual or facsimile signature and delivering on behalf of the City all certificates, consents, receipts, requests, notices, investment agreements, and other documents as may be reasonably necessary to satisfy the City’s obligations under the Bond Purchase Agreement, the First Lien Bond Reserve Fund Surety Policies and the Ordinance, and paying costs incurred in connection with the issuance of the Series 2013B Bonds and the

refunding of the Refunded Notes, and to direct the transfer and application of funds of the City consistent with the provisions of this Supplemental Ordinance. If requested by any rating agency rating the Series 2013B Bonds, the Authorized Representative may authorize such changes to this Supplemental Ordinance, and any exhibits incorporated herein, as may be necessary to maintain or improve the City's rating on the Series 2013B Bonds. If requested by the Attorney General of Texas or his representatives, the City Attorney or his designee may authorize such ministerial changes in the written text of this Supplemental Ordinance as are necessary to obtain the Attorney General's approval and as he determines are consistent with the intent and purposes of this Supplemental Ordinance, which determination shall be final.

ARTICLE VII

PROJECT ACCOUNT

Section 7.1. Project Account. The creation of the special fund of the City, known as the Series 2013B Combined Utility System Bond Project Account (the "Project Account"), is confirmed as the construction fund for the Series 2013B Bonds. The Project Account, which may include sub-accounts, will be maintained as a separate account on the books of the City.

Section 7.2. Investment of Money in the Project Account. Money on deposit in the Project Account may, at the option of the City be invested as permitted under the Texas Public Funds Investment Act, as amended; provided that all such deposits and investments must be made in such manner (which may include repurchase agreements for such investments with any national bank) that the money required to be expended from the Project Account will be available at the proper time or times. All investments will be valued in terms of current market value no less frequently than the last Business Day of the City's Fiscal Year, except that any direct obligations of the United States of America, State and Local Government Series, will be continuously valued at their par value or principal face amount. Any obligation in which money is so invested must be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in the Project Account may be invested, together with money in the funds maintained pursuant to Article V of the Master Ordinance or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which is kept and held at an official depository of the City, which is deemed not to be or constitute a commingling of such money or funds, provided that records clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by the Project Account is held by or on behalf of the Project Account.

All interest and income derived from such deposits and investments must be deposited in the Project Account, applied to the purposes permitted by this Section 9 or other qualified System purposes, and does not constitute Gross Revenues of the System, except that, to the extent required by law, such interest and income may be applied to make payments to the United States as shall be required to assure that interest on the Series 2013B Bonds is excludable from gross income for federal income tax purposes as described in Section 6.5(h) of this Supplemental Ordinance.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Defeasance.

The City may defease the Series 2013B Bonds pursuant to the provisions of the Ordinance and thereby discharge its obligation to the Registered Owners of any or all of the Series 2013B Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Paying Agent/Registrar, the Comptroller or any other entity with which such deposits may be made (as specified by Section 1207.061, Texas Government Code), either: (a) cash in an amount equal to the principal amount of such Series 2013B Bonds plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement (or, if payment or redemption shall occur on or before the next Interest Payment Date, by deposit to the debt service fund for the Series 2013B Bonds), any of the following:

- (a) cash;
- (b) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States;
- (c) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves the proceedings authorizing the issuance of refunding Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent;
- (d) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves the proceedings authorizing the issuance of refunding Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and/or
- (e) any other securities or obligations which, at the time of such defeasance, are authorized by state law to be used to effectuate a defeasance of the Bonds

in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount of the Series 2013B Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of the Series 2013B Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in this Supplemental Ordinance. Upon such deposit, such Series 2013B Bonds shall no longer be regarded to be outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the City.

Section 8.2. Further Proceedings. The Mayor of the City, the City Controller of the City and the City Secretary of the City and other appropriate officials of the City are hereby

authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Supplemental Ordinance.

Section 8.3. Severability. If any Section, paragraph, clause, or provision of this Supplemental Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Supplemental Ordinance.

Section 8.4. Open Meeting. It is hereby found, determined, and declared that a sufficient written notice of the date, hour, place, and subject of the meeting of the City Council at which this Supplemental Ordinance was adopted was posted at a place convenient and readily accessible at all times to the general public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended, and that this meeting has been open to the public as required by law at all times during which this Supplemental Ordinance and the subject matter thereof has been discussed, considered and formally acted upon. The City Council further ratifies, approves, and confirms such written notice and the contents and posting thereof.

Section 8.5. Declaration of Emergency and Public Security Authorization. It is hereby officially found and determined that a case of emergency and urgent public necessity exists which requires the holding of the meeting at which this Supplemental Ordinance is passed and further requires that this Supplemental Ordinance be passed finally and take effect immediately on the date of its introduction, such emergency and urgent public necessity being that the proceeds from the sale of the Series 2013B Bonds are required as soon as possible and without delay for the purposes set forth herein. It is further officially found and determined that this Supplemental Ordinance is a public security authorization, and therefore this Supplemental Ordinance shall be effective immediately upon approval by the City Council pursuant to Section 1201.028 of the Texas Government Code, as amended.

Section 8.6. Authority to Modify Attachments. When used herein with respect to agreements and other documents that are attached as exhibits hereto, the phrase “substantially in the form of” authorizes the execution of an agreement or document that is not materially inconsistent with the purpose, intent and general substantive parameters of the agreement or other document as attached. The determination by an officer or employee of the City acting under authority delegated thereto by this Supplemental Ordinance or the Master Ordinance to execute any such agreement or other document in substantially the form attached to this Supplemental Ordinance shall have the same force and effect as a determination made by the City Council.

Section 8.7. Repealer. All ordinances, or parts thereof inconsistent herewith are hereby repealed to the extent of such inconsistency.

PASSED AND APPROVED THIS 10th day of April, 2013.

Annise D. Parker
 Mayor

Approved as to Form:

Duy I Wood
 Senior Assistant City Attorney
 (Requested by Daniel W. Krueger, P.E.
 Director of Department of
 Public Works and Engineering)
 (L.D. File No. 0341300015 001)

AYE	NO	
✓		MAYOR PARKER
....	COUNCIL MEMBERS
✓		BROWN
✓		DAVIS
✓		COHEN
✓		ADAMS
✓		MARTIN
✓		HOANG
✓		PENNINGTON
✓		GONZALEZ
✓		RODRIGUEZ
✓		LASTER
✓		GREEN
✓		COSTELLO
✓		BURKS
✓		NORIEGA
✓		BRADFORD
✓		CHRISTIE
CAPTION	ADOPTED	

CAPTION PUBLISHED IN DAILY COURT
 REVIEW
 DATE: APR 16 2013

MAY 017 Rev. 12/12

Execution Page

EXHIBITS:

Exhibit A	Form of Series 2013B Bonds
Exhibit B	Officers' Pricing Certificate
Exhibit C	Paying Agent/Registrar Agreement
Exhibit D	Co-Bond Counsel Engagement Letter
Exhibit E	Special Disclosure Co-Counsel Engagement Letter
Exhibit F	Preliminary Official Statement
Exhibit G	Bond Purchase Agreement
Exhibit H	Description of Annual Financial Information

EXHIBIT A

FORM OF SERIES 2013B BONDS

The Series 2013B Bonds shall be in substantially the following form, with such omissions, insertions and variations as may be permitted or required pursuant to the terms of this Supplemental Ordinance and the Officers' Pricing Certificate.

[FORM OF SERIES 2013B BOND]

UNITED STATES OF AMERICA
STATE OF TEXAS

CITY OF HOUSTON, TEXAS,
COMBINED UTILITY SYSTEM
FIRST LIEN
REVENUE AND REFUNDING BOND,¹
SERIES 2013B[_]²

NUMBER
R- _____
REGISTERED

DENOMINATION
\$ _____
REGISTERED

INTEREST RATE³: _____% BOND DATE: _____, 2013 ISSUANCE DATE: _____, 20__ MATURITY DATE⁴: November 15, ____ CUSIP NO.⁵: _____

Registered Owner:

Principal Amount:

DOLLARS

The CITY OF HOUSTON, TEXAS, a political subdivision of the State of Texas (the "City"), for value received, hereby promises to pay to the Registered Owner identified above or its registered assigns, the principal amounts and interest rates set forth on November 15 in the following schedule: [Insert information regarding years of maturity, principal amounts and interest rates from Officers' Pricing Certificate], upon presentation and surrender of this Bond at the payment office of The Bank of New York Mellon Trust Company, N.A., Houston, Texas, or its successor (the "Paying Agent/Registrar"), such interest calculated on a basis of a 360-day year composed of twelve 30-day months, from the later of the Issuance Date identified above or the most recent interest payment date to which interest has been paid or duly provided for, such principal and interest payable in any coin or currency of the United States of America which on the date of payment of such principal and interest is legal tender for the payment of debts due to the United States of America. Interest on this Bond is payable on November 15, 2013, and each May 15 and November 15 thereafter until maturity or prior redemption of this Bond, by check sent by United States mail, first class, postage prepaid, by the Paying Agent/Registrar to the Registered Owner of record as of the close of business on the last business day of the calendar month immediately preceding the applicable interest payment date, as shown on the registration books kept by the Paying Agent/Registrar. Any accrued interest payable at maturity

¹ Modify as appropriate to conform to the applicable Officers' Pricing Certificate.

² Insert appropriate letter of the Series 2013B Bonds from the applicable Officers' Pricing Certificate.

³ Omitted from Initial Bond.

⁴ Omitted from Initial Bond.

⁵ Omitted from Initial Bond.

shall be paid upon presentation and surrender of this Bond at the payment office of the Paying Agent/Registrar.⁶

The CITY OF HOUSTON, TEXAS, a municipal corporation duly incorporated under the laws of the State of Texas (herein the "City"), for value received, hereby promises to pay, to the Registered Owner identified above or registered assigns, solely from certain pledged revenues and funds as hereinafter specified and from no other source, on the Maturity Date specified above, upon presentation and surrender of this bond at the principal corporate trust office of the "Paying Agent/Registrar," initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas, in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due the United States of America, the Principal Amount identified above (or so much as shall not have been paid upon prior redemption), and to pay, solely from such pledged revenues and funds, interest thereon at the Interest Rate shown above, calculated on the basis of a 360-day year composed of twelve 30-day months, from the later of the Issue Date identified above or the most recent interest payment date to which interest has been paid or duly provided for. Interest on this bond is payable on each May 15 and November 15 beginning _____ 15, 20__,⁷ until the maturity or redemption date of this bond or until the City's obligation with respect to this bond has been satisfied. Interest on this bond shall be payable by check mailed by the Paying Agent/Registrar to the Registered Owner of record as of the first business day of the month of the applicable interest payment date as shown on the books of registration kept by the Paying Agent/Registrar.

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS (herein the "Series 2013B Bonds") in the aggregate principal amount of \$ _____⁸ issued pursuant to a master ordinance and a supplemental ordinance adopted by the City Council of the City (herein the "Ordinance") for the following purposes: (i) paying the costs of the extension, construction, improvement or repair of the System, (ii) refunding the Refunded Notes, (iii) making a cash deposit into the First Lien Bond Reserve Fund in an amount not to exceed 10% of

⁶ THE CITY OF HOUSTON, TEXAS, a political subdivision of the State of Texas (the "City"), for value received, hereby promises to pay to the Registered Owner identified above or its registered assigns, the Principal Amounts and interest rates set forth on November 15 in the following schedule: [Insert information regarding years of maturity, principal amounts and interest rates from Officers' Pricing Certificate], upon presentation and surrender of this Bond at the payment office of The Bank of New York Mellon Trust Company, National Association, or its successor (the "Paying Agent/Registrar"), such interest calculated on a basis of a 360-day year composed of twelve 30-day months, from the later of the Issuance Date identified above or the most recent interest payment date to which interest has been paid or duly provided for, such principal and interest payable in any coin or currency of the United States of America which on the date of payment of such principal and interest is legal tender for the payment of debts due to the United States of America. Interest on this Bond is payable on November 15, 2013, and each May 15 and November 15 thereafter until maturity or prior redemption of this Bond, by check sent by United States mail, first class, postage prepaid, by the Paying Agent/Registrar to the Registered Owner of record as of the close of business on the first business day of the calendar month of the applicable interest payment date, as shown on the registration books kept by the Paying Agent/Registrar. Any accrued interest payable at maturity shall be paid upon presentation and surrender of this Bond at the payment office of the Paying Agent/Registrar.

⁷ Insert date of first interest payment date from the applicable Officers' Pricing Certificate.

⁸ Insert the original aggregate principal amount of the Series 2013B Bonds from the applicable Officers' Pricing Certificate.

the Series 2013B Bond proceeds, which includes funding the Series 2013B Bond Reserve Fund Requirement and (iv) paying costs of issuance, under and pursuant to the authority of Chapters 1201, 1207, 1371 and 1502, Texas Government Code, and all other applicable law.

THIS BOND AND ALL OF THE SERIES 2013__ BONDS are special obligations of the City that are equally and ratably payable from and secured by a lien on the "Net Revenues" collected and received by the City after certain required payments with respect to water and sewer system bonds issued and to be issued by the City and payment of all maintenance and operation expenses of the combined utility system from the operation and ownership of the City's combined utility system as defined and provided in the Ordinance, which Net Revenues are required to be set aside for and pledged to the payment of the City's outstanding combined utility system revenue Bonds, including the Series 2013__ Bonds and all additional bonds issued on a parity therewith, in the interest and sinking fund and the reserve fund required to be maintained for the payment of all such Bonds, all as more fully described and provided for in the Ordinance. This bond and the series of which it is a part, together with the interest thereon, are payable solely from such Net Revenues and do not constitute an indebtedness or general obligation of the City.

[THE CITY SHALL HAVE THE OPTION OF CALLING THE SERIES 2013__ BONDS FOR REDEMPTION PRIOR TO MATURITY on _____ 15, _____, or any date thereafter, in whole or in part (but if less than all the Series 2013__ Bonds of a single maturity are called for redemption, those bonds called shall be selected by lot or other customary random method by the Paying Agent/Registrar), at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

THE SERIES 2013__ BONDS MATURING IN THE YEARS _____ and _____ (HEREIN THE "TERM BONDS") ARE SUBJECT TO MANDATORY REDEMPTION prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemption, if any, and subject to the following conditions:

\$ _____ TERM BOND MATURING IN _____

Maturity Date (November 15)	Principal Amount	Interest Rate
--------------------------------	------------------	---------------

\$

(Maturity)

\$ _____ TERM BOND MATURING IN _____

Maturity Date (November 15)	Principal Amount	Interest Rate
--------------------------------	------------------	---------------

\$

(Maturity)

On or before _____ 1 of every year in which there are mandatory redemption requirements as set forth above for Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on _____ 15 of such year after taking into account deliveries for cancellation and optional redemptions of Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select by lot or other customary random method the Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on _____ 15 of such year, and (iii) shall give notice thereof in the manner herein below provided. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation by _____ 25 of such year. In addition, in the exercise of its right of optional redemption contained herein the City may elect to redeem less than all of the Term Bonds of a particular coupon rate and maturity then outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Term Bonds of such coupon rate and maturity by the principal amount of such Term Bonds optionally redeemed and which has not previously been made the basis for a credit against the mandatory redemption requirements for the Term Bonds.

SERIES 2013__ BONDS MAY BE REDEEMED IN PART only in integral multiples of \$5,000 of principal amount or maturity amount, as applicable. If a Series 2013__ Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2013__ Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Series 2013__ Bonds for redemption, the Paying Agent/Registrar shall treat each Series 2013__ Bond as representing that number of Series 2013__ Bonds of \$5,000 denomination which is obtained by dividing the principal amount (or maturity amount) of such Series 2013__ Bond by \$5,000. Upon surrender of any Series 2013__ Bond

for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefore a Series 2013__ Bond or Series 2013__ Bonds of like maturity and interest rate in an aggregate principal amount (or maturity amount) equal to the unredeemed portion of the Series 2013__ Bond so surrendered.

NOTICE OF ANY SUCH MANDATORY OR OPTIONAL REDEMPTION identifying the Series 2013__ Bonds to be redeemed shall be sent by first-class mail, postage prepaid, to the Registered Owners thereof at their addresses as shown on the books of registration kept by the Paying Agent/Registrar not less than thirty (30) days before the date fixed for such redemption. Notice of redemption shall also be sent by certified mail, return receipt requested, to at least two national information services, and any securities depository institution registered under the Securities Exchange Act of 1934, as amended, acting as securities depository under the Ordinance. Each redemption notice shall contain the complete official name of the Series 2013__ Bonds, CUSIP numbers, certificate numbers, the redemption date, the redemption price, the redemption agent's name and address with a contact person's name and telephone number, the date of issuance, the maturity date, and any other information appropriate to identify sufficiently the Series 2013__ Bonds being redeemed. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Series 2013__ Bonds called for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, the Series 2013__ Bonds which are to be so redeemed thereby automatically shall be redeemed prior to their scheduled maturities, they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the purpose of being paid by the Paying Agent/Registrar with the funds so provided for such payment.]⁹

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL COMBINED UTILITY SYSTEM REVENUE BONDS, subject to the restrictions contained in the Ordinance, which bonds may be secured by a lien on a parity with, or subordinate and inferior to, the lien on the Net Revenues securing this bond and the series of which it is a part.

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

THIS BOND IS EXCHANGEABLE upon presentation and surrender at the principal corporate trust office of the Paying Agent/Registrar for Series 2013__ Bonds in the principal amount (or maturity amount) of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

⁹ Insert optional redemption provisions, if any, and Term Bond mandatory redemption provisions, if any, for the Series 2013B Bonds in bracketed provisions and revise as necessary to conform to the Officers' Pricing Certificate.

THE PAYING AGENT/REGISTRAR IS NOT REQUIRED TO ACCEPT for transfer or exchange any Series 2013__ Bond called for redemption during the fifteen (15) days prior to mailing of any notice of redemption; provided, however, that such limitation shall not apply to the transfer or exchange by the registered owner of a Series 2013__ Bond called for redemption in part.

THE REGISTERED OWNER HEREOF shall never have the right to demand payment out of any funds raised or to be raised by taxation.

REFERENCE IS HEREBY MADE TO THE ORDINANCE, a copy of which is on file in the office of the Paying Agent/Registrar, and to all of the provisions of which the Registered Owner of this bond by the acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the security for the Series 2013__ Bonds; the priority for the application and use of the income and revenues of the System; the Net Revenues pledged to the payment of the principal of and interest on the Series 2013__ Bonds; the nature and extent and manner of enforcement of the lien and pledge securing the payment of the Series 2013__ Bonds; the terms and conditions for the issuance of additional revenue obligations, including additional First Lien Bonds; the terms and conditions for amending the Ordinance; the terms and conditions relating to the transfer or exchange of this bond; the rights, duties, and obligations of the City and the Paying Agent/Registrar; the terms and provisions upon which the liens, pledges, charges and covenants made therein may be discharged at or prior to the maturity of this bond, and deemed to be no longer Outstanding thereunder; and for the other terms and provisions thereof. A capitalized term used herein, unless otherwise defined, have the same meaning assigned to it in the Ordinance.

IT IS HEREBY DECLARED AND REPRESENTED that this bond has been duly and validly issued and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the issuance and delivery of this bond have been performed, existed, and been done in accordance with law; that the Series 2013__ Bonds do not exceed any statutory limitation; and that provision has been made for the payment of the principal of and interest on this bond and all of the Series 2013__ Bonds by the aforesaid lien on and pledge of the Net Revenues.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this bond either (i) is registered by the Comptroller of Public Accounts of the State of Texas or (ii) is authenticated by the Paying Agent/Registrar by due execution of the authentication certificate manually endorsed hereon. Such duly executed certificate of authentication shall be conclusive evidence that this bond was delivered by the Paying Agent/Registrar under the provisions of the Ordinance.

IN WITNESS WHEREOF, the City has caused its corporate seal to be impressed or placed in facsimile hereon and has in the Ordinance directed this bond to be signed by the Mayor and the City Controller and countersigned by the City Secretary by their printed facsimile signatures.

(SEAL)

Mayor

City Controller

City Secretary

[FORM OF COMPTROLLER'S REGISTRATION CERTIFICATE]

The following form of Comptroller's Registration Certificate shall be attached or affixed to each of the Series 2013__ Bonds initially delivered.

THE STATE OF TEXAS

REGISTER NO. _____

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this bond and the proceedings for the issuance hereof have been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas and that it is a valid and binding special obligation of the City of Houston, Texas, payable from the revenues and other funds pledged to its payment by and in the proceedings authorizing the same, and I do further certify that this bond has this day been registered by me.

WITNESS MY SIGNATURE AND SEAL OF OFFICE this _____.

Comptroller of Public Accounts
of the State of Texas

[SEAL]

[FORM OF AUTHENTICATION CERTIFICATE]

The following form of Authentication Certificate shall appear on each of the Series 2013__ Bonds except the Series 2013__ Bonds initially delivered.

AUTHENTICATION CERTIFICATE

Registration Date: _____

This bond is one of the bonds described in and delivered pursuant to the within-mentioned Ordinance; and, except for the bonds initially delivered, this bond has been issued in conversion of and exchange for or replacement of a bond, bonds or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.,
Houston, Texas,
as Paying Agent/Registrar

By _____
Authorized Signature

[FORM OF ASSIGNMENT]

The following form of assignment shall appear on each of the Series 2013__ Bonds.

ASSIGNMENT

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

(SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER)

(Print or type name, address, and zip code of transferee)

the within bond and hereby irrevocably constitutes and appoints _____

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

DATED: _____

Signature Guaranteed:

NOTICE: The signature must be guaranteed by a commercial bank or a member firm of a national securities exchange. Notarized or witnessed signatures are not acceptable.

Registered Owner

NOTICE: The signature on this assignment must correspond with the name of the Registered Owner as it appears on the face of the within bond in every particular, without alteration or enlargement or any change whatever.

[FORM OF STATEMENT OF INSURANCE]¹⁰

The following form of Statement of Insurance shall appear on each of the Series 2013__
Bonds.

¹⁰ Insert statement of insurance if bond insurance is obtained pursuant to the Officers' Pricing Certificate.

OFFICERS' PRICING CERTIFICATE

CITY OF HOUSTON, TEXAS,
COMBINED UTILITY SYSTEM
FIRST LIEN REVENUE AND REFUNDING BONDS
SERIES 2013B

THIS OFFICERS' PRICING CERTIFICATE is executed as of the ___ day of April, 2013 by the Mayor and City Controller of the City of Houston pursuant to the authorization contained in City of Houston Ordinance No. 2004-299 (the "Master Ordinance"), adopted April 21, 2004, and City of Houston Ordinance No. 2013-___ (the "Supplemental Ordinance"), adopted on April [10], 2013 (collectively the "Ordinance"), authorizing the issuance of the captioned series of bonds and delegating to the undersigned the authority to agree to and stipulate certain terms and provisions thereof, all of which are set forth herein.

Capitalized terms used in this Officers' Pricing Certificate shall have the meanings assigned to them in the Supplemental Ordinance.

I. TERMS OF THE BONDS.

1. Series Designation, Principal Amounts, and Maturity. The Series 2013B Bonds shall be known and designated as the "CITY OF HOUSTON, TEXAS, COMBINED UTILITY SYSTEM FIRST LIEN REVENUE AND REFUNDING BONDS, SERIES 2013B," shall be issued in the aggregate principal amount of \$_____.

2. Bond Date. The Series 2013B Bonds will be dated _____, 2013, but shall accrue interest as of the date of delivery, which is _____, 2013.

3. Initial Interest Payment Date. The initial Interest Payment Date shall be November 15, 2013, for the Series 2013B Bonds.

4. Maturity Schedule. The Series 2013B Bonds shall mature on November 15 and become payable in the respective principal amounts set forth below, subject to prior redemption as set forth in Sections 5 and 6 below:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
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5. Optional Redemption. The Series 2013B Bonds maturing on and after November 15, ___ are subject to redemption prior to maturity, at the option of the City on November 15, ___, or any date thereafter, in whole or in part (but if less than all the Series 2013B Bonds of a single maturity are called for redemption, those bonds called shall be selected by lot or other customary random method by the Paying Agent/Registrar), for a redemption price of par plus accrued interest to the date fixed for redemption.

6. Mandatory Redemption. The Series 2013B Bonds maturing in the years 20__, 20__ and 20__ are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemptions:

\$_____ Term Bond due November 15, 20__ – Price _____

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
--	-------------------------	----------------------

\$_____ Term Bond due November 15, 20__ – Price _____

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
--	-------------------------	----------------------

\$_____ Term Bond due November 15, 20__ – Price _____

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
--	-------------------------	----------------------

7. Sales Price. The sale of the Series 2013B Bonds is authorized pursuant to the form of Purchase Agreement approved in the Ordinance at the following price:

PRINCIPAL AMOUNT	\$
PLUS NET PREMIUM	\$
LESS UNDERWRITER'S DISCOUNT	
PURCHASE PRICE	

8. YES NO. Bond Insurance. The payment of principal of and interest on the Series 2013B Bonds, when due, shall not be insured by a Bond Insurance Policy.

9. Escrow Agreements and Deposit. The Escrow Agreement for the proceeds of Series 2013B Bonds attached as Exhibit B hereto is hereby approved.

10. Deposits and Authorization to Refund the Refunded Notes. Pursuant to Section 6.4 of the Ordinance, (a) \$_____ from the proceeds of the Series 2013B Bonds, and other legally available funds, if necessary, shall be deposited with the Escrow Agent in accordance with the terms of the Escrow Agreement, to pay the principal of, premium if any, and accrued interest on the Refunded Notes on their respective maturities or redemption dates, (such dates which are separately provided in Schedule 1 attached hereto), and (b) \$_____ from the proceeds of the Series 2013B Bonds shall be deposited to fund the Series 2013B Bond Reserve Fund Requirement, and (c) \$_____ from the proceeds of the Series 2013B Bonds shall be deposited into the Project Account.

11. Form of Bond. Pursuant to Section 3.3 of the Supplemental Ordinance, the form of bond as set forth in Exhibit A is hereby approved and supersedes the form of bond set forth in the Supplemental Ordinance.

II. FINDINGS AND DETERMINATIONS

The undersigned hereby find, determine and declare, that in accordance with the requirements of the Supplemental Ordinance, this Officers' Pricing Certificate complies with and satisfies the terms and provisions of the Supplemental Ordinance in accordance with the delegation contained therein.

Pursuant to Section 3.3(b) of the Supplemental Ordinance, we hereby find and determine that:

- The price to be paid for the Series 2013B Bonds is not less than 90% of the aggregate original amount of the Series 2013B Bonds,
- None of the Series 2013B Bonds bear interest at a rate greater than 10% per annum or in excess of the maximum rate allowed by Chapter 1204, Texas Government Code,
- The aggregate principal amount of the Series 2013B Bonds does not exceed the maximum amount authorized in Section 3.3(a) of the Ordinance, equals an amount sufficient to provide for the redemption of the outstanding principal amount of the Refunded Notes and does not exceed \$200,000,000,
- The Series 2013B Bonds have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations.

In accordance with Section 1201.022(a)(3)(b), Texas Government Code, the Bonds were sold under terms which are in the best interests of the City.

<EXECUTION PAGE FOLLOWS>

EXECUTED as of this _____ day of _____, 2013.

Mayor
Annise D. Parker

City Controller
Ronald C. Green

SCHEDULE 1
TO
OFFICERS' PRICING CERTIFICATE

REFUNDED NOTES

Series	Principal	Interest	Maturity Date	Total
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EXHIBIT A
FORM OF BOND

EXHIBIT B
ESCROW AGREEMENT

(see Tab 7)

EXHIBIT C

PAYING AGENT/REGISTRAR AGREEMENT

(see attached)

PAYING AGENT/REGISTRAR AGREEMENT

THIS PAYING AGENT/REGISTRAR AGREEMENT dated as of _____, 2013 (together with any amendments or supplements hereto, the "Agreement") is entered into by and between the City of Houston, Texas (the "City"), and The Bank of New York Mellon Trust Company, National Association, Houston, Texas, as paying agent/registrar, together with any successor in such capacity (the "Bank").

WITNESSETH:

1. The City has issued its City of Houston, Texas Combined Utility System Commercial Paper Notes, Series B which are being refunded with the proceeds of the City of Houston, Texas Combined Utility System First Lien Revenue and Refunding Bonds, Series 2013B (the "Bonds") pursuant to the Ordinance authorizing the Bonds (the "Ordinance");
2. The City and the Bank wish to provide the terms under which the Bank will act as Paying Agent to pay the principal of and interest on the Bonds and Registrar for the Bonds; and
3. The City and the Bank have duly authorized the execution and delivery of this Agreement and all things necessary to make this Agreement the valid agreement of the parties, in accordance with its terms, have been done.

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE APPOINTMENT OF BANK AS PAYING AGENT/REGISTRAR

Section 1.01. Appointment.

The City hereby appoints the Bank to act as Paying Agent with respect to the Bonds, to pay to the Registered Owners of the Bonds, in accordance with the terms and provisions of this Agreement and the Ordinance, the principal of and interest on all or any of the Bonds.

The City hereby appoints the Bank as Registrar with respect to the Bonds. As Registrar for the Bonds, the Bank shall keep and maintain for and on behalf of the City books and records as to the ownership of said Bonds and with respect to the transfer and exchange thereof as provided herein and in the Ordinance.

The Bank hereby accepts its appointment, and agrees to act as Paying Agent/Registrar with respect to the Bonds.

Section 1.02. Compensation.

As compensation for the Bank's services as Paying Agent/Registrar, the City hereby agrees to pay the Bank the fees and amounts set forth in *Schedule A* attached hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee

schedule then in effect for services as Paying Agent/Registrar for municipalities, *provided however*, that any change in the Bank's fee schedule must be supplied to the City on or before 75 days prior to the date the new fees are to become effective.

In addition, the City agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

If the Bank renders any service hereunder not provided for in this Agreement, or the Bank is made a party to or intervenes in any litigation pertaining to this Agreement or institutes interpleader proceedings relative hereto, to the extent permitted by law, the Bank shall be compensated reasonably by the City for such extraordinary services and reimbursed for any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket and incidental expenses and legal fees occasioned thereby, unless such claim, liability, loss, damages, fine, penalty and expenses is caused by the negligence or willful misconduct of the Bank. The foregoing reimbursement obligation shall survive the resignation or removal of the Bank or the termination of this Agreement.

ARTICLE TWO DEFINITIONS

Section 2.01. Definitions.

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

"Authorized Officer" means the City Controller and any other officer or employee of the City designated as an Authorized Officer for the purposes of this Agreement in a written communication delivered to the Bank.

"Bank" means The Bank of New York Mellon Trust Company, National Association, which is duly organized and existing under the laws of the United States.

"Bond" or **"Bonds"** means any one or all of the City of Houston, Texas Combined Utility System First Lien Revenue and Refunding Bonds, Series 2013B.

"Business Day" a day other than (i) a Saturday and Sunday, (ii) a day on which the Bank, the Remarketing Agent, banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

"City" means the City of Houston, Texas.

"Financial Advisor" means First Southwest Company and its successors in such capacity.

"Ordinance" means collectively, the Master Ordinance, the Series 2004 Ordinance and Ordinance No. 2013-____, adopted by the City Council of the City on April [10], 2013.

“Paying Agent” means the Bank when it is performing the function of paying agent.

“Person” means any individual, corporation, partnership, joint venture, associations, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government or any entity whatsoever.

“Registrar” means the Bank when it is performing the function of registrar.

“Registered Owner” means the Person in whose name any Bond is registered in the books of registration maintained by the Bank under this Agreement.

All other capitalized terms shall have the meanings assigned to them in the Ordinance or the recital paragraphs of this Agreement.

ARTICLE THREE DUTIES OF THE BANK

Section 3.01. Initial Delivery of the Bonds.

The Bonds will be initially registered and delivered by the Bank to the purchaser designated by the City as set forth in the Ordinance. If the purchaser delivers a written request to the Bank not later than five business days prior to the date of initial delivery, the Bank will, on the date of initial delivery, exchange the Bonds initially delivered for Bonds of authorized denominations, registered in accordance with the instructions in such request and the Ordinance.

Section 3.02. Duties of Paying Agent.

As Paying Agent, the Bank shall, provided adequate funds have been provided to it for such purpose by or on behalf of the City, timely pay on behalf of the City the principal of and interest on each Bond in accordance with the provisions of the Ordinance.

If a policy of municipal bond insurance is in effect for all or a portion of a series or subseries of Bonds and the City does not have adequate available funds for the payment of principal of and/or interest on such insured Bonds by 12:00 p.m., New York Time, on the Business Day preceding the payment date, then the City shall notify the Bank of the necessity of a draw on the policy in sufficient time for the Bank to make a timely demand for payment on the Bonds.

Because the issue will be Depository Trust Company (DTC) eligible, the Bank shall comply with all eligibility requirements as outlined and agreed upon in the eligibility questionnaire.

The Bank is authorized to receive the purchase price of and, if applicable, accrued interest on the Bonds from the purchaser of the Bonds and to transfer said funds relating to the closing and initial delivery of the Bonds in the manner disclosed in the closing memorandum approved by the City as prepared by the City's Financial Advisor or other agent. The Bank may act on a facsimile or electronic mail transmission of the closing memorandum acknowledged by the City or the City's Financial Advisor as the final closing memorandum to be followed by an

original of the closing memorandum signed by the Financial Advisor or the City. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Section 3.03. Duties of Registrar.

The Bank shall provide for the proper registration of the Bonds and the timely exchange, replacement and registration of transfer of the Bonds in accordance with the provisions of the Ordinance. Any changes to Registered Owners for such exchange, replacement and registration shall be made by the Bank only in accordance with the Ordinance. The Bank will maintain the books of registration in accordance with the Bank's general practices and procedures in effect from time to time; provided, however, that the Bank agrees to comply with the terms of Chapter 1203 of the Texas Government Code, and more specifically agrees also to maintain books of registration for the Bonds at the Bank's offices in Texas, which books of registration may be a copy of the register which shall be kept current by the Bank. The books of registration may be maintained in written form or in any other form capable of being converted into written form within a reasonable period of time.

Section 3.04. Unauthenticated Bonds.

The City shall provide an adequate inventory of unauthenticated Bonds to facilitate transfers. The Bank covenants that it will maintain such unauthenticated Bonds in safekeeping and will use reasonable care in maintaining such Bonds in safekeeping, which shall be not less than the care it maintains for debt securities of other government entities or corporations for which it serves as registrar, or which it maintains for its own obligations.

Section 3.05. Reports.

Upon request of the City, the Bank will provide the City reports, which will describe in reasonable detail all transactions pertaining to the Bonds and the books of registration for the period of time specified by the City. The City may also inspect and make copies of the information in the books of registration and such other documents related to the Bonds and in the Bank's possession at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the content of the books of registration to any person other than to, or at the written request of, an Authorized Officer or employee of the City, except upon receipt of a subpoena, court order or as otherwise required by law. Upon receipt of a subpoena, court order or other lawful request, the Bank will notify the City immediately so that the City may contest the subpoena, court order or other request if it so chooses.

Section 3.06. Cancelled Bonds.

All Bonds surrendered for payment, redemption, transfer, exchange or replacement, if surrendered to the Bank, shall be promptly cancelled by it and, if surrendered to the City, shall be delivered to the Bank and, if not already cancelled, shall be promptly cancelled by the Bank. The City may at any time deliver to the Bank for cancellation any Bonds previously

authenticated and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Bank. The Bank shall retain the cancelled Bonds in accordance with its current document retention policies.

Section 3.07. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank by the City.

(b) The Bank shall not be liable to the City for actions taken under this Agreement as long as it acts in good faith and exercises due diligence, reasonableness and care, as prescribed by law, with regard to its duties hereunder.

(c) This Agreement is not intended to require the Bank to expend its own funds for performance of any of its duties hereunder.

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

Section 3.08. Money Held by Bank.

Money held by the Bank hereunder shall be held in trust for the benefit of the Registered Owners of the Bonds and shall be continuously collateralized by securities or obligations which qualify and are eligible under both the laws of the State of Texas and the laws of the United States of America to secure and be pledged as collateral for fiduciary accounts to the extent such money is not insured by the Federal Deposit Insurance Corporation.

All amounts held by the Bank may be invested, pending their disbursement, at the written direction of an Authorized Officer of the City to the extent permitted by law either in (a) money market mutual funds (investing in U.S. Treasury obligations) maturing no later than the date of scheduled disbursements or (b) other legally authorized short term investments which are scheduled to mature on or before the date or dates on which proceeds of such other investments are required to pay interest and/or principal on the maturing Bonds, if applicable; provided however, that if for any reason such funds are not disbursed on a scheduled payment date, any continued investment of such funds pending disbursement shall be limited to short term direct obligations of the United States of America.

When acting pursuant to the written instructions of the City, the Bank shall not incur any liability for any losses arising as a result of any investment made or any sale of any investment prior to its maturity. Additionally, the Bank shall not incur any liability for any losses arising as a result of the failure of the City to give the Bank instructions to invest or reinvest any amounts or any earnings thereon.

The Bank may assume that investments directed by the City to be purchased with funds held by the Bank hereunder are lawful and a suitable investment for the funds to be invested.

Although the City recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the City agrees that

confirmations of investments are not required to be issued by the Bank for each month in which a monthly statement is rendered. Further, the City agrees that no monthly statement need be rendered for any fund or account if no activity occurred in such fund or account during such month. The Bank acknowledges that the City may request that the Bank provide a broker confirmation or written statement containing comparable information if such broker confirmation or written statement is required in order to respond to a request from the City's auditors.

Any money deposited with the Bank for the payment of the principal of or interest on any Bonds and remaining unclaimed by the Registered Owner after the expiration of three years from the date such funds have become due and payable shall be reported and disposed of by the Bank in accordance with the provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended. To the extent such provisions of the Property Code do not apply to the funds, such funds shall be paid by the Bank to the City upon receipt of a written request therefor from the City. The Bank shall have no liability to the Registered Owners of the Bonds by virtue of actions taken in compliance with the foregoing provision.

ARTICLE FOUR MISCELLANEOUS PROVISIONS

Section 4.01. May Own Bonds.

The Bank, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not the Bank and Registrar for the Bonds.

Section 4.02. Amendment.

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

Section 4.03. Assignment.

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

Section 4.04. Notices.

Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the City or the Bank shall be mailed or delivered to the City or the Bank, respectively, at the addresses shown herein, or such other address as may have been given by one party to the other by 15 days' written notice.

Section 4.05. Effect of Headings.

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

Section 4.06. Successors and Assigns.

All covenants and agreements herein by the City and the Bank shall bind their successors and assigns, whether so expressed or not. This Agreement shall not be assigned by the Bank without the prior written consent of the City.

Section 4.07. Merger, Conversion, Consolidation or Succession.

Any corporation into which the Bank may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Bank shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Bank shall be the successor of the Bank hereunder without the execution or filing of any paper or any further act on the part of either of the parties hereto. In case any Bond shall have been registered, but not delivered, by the Bank then in office, any successor by merger, conversion, or consolidation to such authenticating Bank may adopt such registration and deliver the Bond so registered with the same effect as if such successor Bank had itself registered such Bond.

Section 4.08. Severability.

If any provision of this Agreement shall be invalid or unenforceable, the validity and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

Section 4.09. Benefits of Agreement.

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

Section 4.10. Ordinance Governs Conflicts.

This Agreement and the Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent, Registrar and Calculation Agent and if any conflict exists between this Agreement and the Ordinance, the Ordinance shall govern. The Bank agrees to be bound by the terms of the Ordinance with respect to the Bonds.

Section 4.11. Term and Termination.

This Agreement shall be effective from and after its date and may be terminated for any reason by the City or the Bank at any time upon 60 days' written notice; provided, however, that no such termination shall be effective until a successor has been appointed and has accepted the duties of the Bank hereunder. In the event of early termination, regardless of circumstances, the Bank shall deliver to the City or its designee all funds, Bonds and all books and records pertaining to the Bank's role as Paying Agent and Registrar with respect to the Bonds, including, but not limited to, the books of registration.

Section 4.12. Execution; Governing Law.

This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same agreement. This Agreement shall be construed in accordance with and shall be governed by the laws of the State of Texas.

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

THE CITY OF HOUSTON, TEXAS

By: _____
Mayor

COUNTERSIGNED AS OF THE DATE HEREOF:

By: _____
City Controller

ADDRESS: City of Houston, Texas
P. O. Box 1562
Houston, Texas 77251
Attention: Mayor

ATTEST:

City Secretary

APPROVED AS TO FORM:

Senior Assistant City Attorney

THE BANK OF NEW YORK MELLON TRUST
COMPANY, NATIONAL ASSOCIATION

By: _____
Authorized Signatory

ADDRESS: 601 Travis, 16th Floor
Houston, Texas 77002
Attn: Corporate Trust - Public Finance

ATTEST:

By: _____
Title: _____

SCHEDULE A

FEE SCHEDULE OF PAYING AGENT/REGISTRAR

EXHIBIT D

CO-BOND COUNSEL ENGAGEMENT LETTER

(see attached)

April 5, 2013

Mayor and City Council
City of Houston
City Hall Annex
900 Bagby
Houston, Texas 77002

Re: *City of Houston, Texas, Combined Utility System First Lien Revenue and Refunding Bonds, Series 2013B (the "Bonds")*

Dear Mayor and Council Members:

We are pleased to submit to you a proposed agreement for Andrews Kurth LLP ("AK"), together with Bates & Coleman, P.C., a certified minority-owned business enterprise (together, "Co-Bond Counsel"), to serve as Co-Bond Counsel with respect to the captioned Bonds. When approved by you (the "City"), this letter will become effective and will evidence an agreement between the City and Co-Bond Counsel, subject to all applicable provisions of the Charter and Code of Ordinances of the City.

We understand that the City plans to refund all or a portion of the City's outstanding Combined Utility System Commercial Paper Notes, Series B, fund additional improvements for the Combined Utility System and may also make a cash deposit into the Reserve Fund in an amount not to exceed 10% of the proceeds of the Bonds (the "Financing"). Co-Bond Counsel will advise and assist the City's Legal Department, Department of Public Works and Engineering, Department of Finance and the Office of the City Controller, together with the City's Financial Advisors, in connection with the offering of the Bonds and the Financing. As Co-Bond Counsel, Basic Services hereunder shall include the following with respect to the Bonds as described in the preceding sentence: Review, analysis and advice to the City on state law and federal tax issues involved in issuance of the Bonds and the Financing, drafting and revision of bond ordinances authorizing such actions, opinions, and certificates for the issuance of the Bonds.

For the Basic Services performed as Co-Bond Counsel with respect to the Bonds, Co-Bond Counsel will be paid a fee determined on an hourly rate basis pursuant to the schedules of rates attached hereto. The invoice for such services will include an itemization of the hours worked by each attorney and legal assistant, the rate for each individual and a description of the work performed by the individual. The total fee for Co-Bond Counsel's Basic Services with respect to the Bonds shall not exceed \$200,000. Such fee may be paid from Bond proceeds or any funds of the City, as it deems appropriate. Payment of the fee shall be made upon delivery of the Bonds and receipt by the City of an invoice therefor.

April 5, 2013

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AK will be reimbursed for its reasonable and actual out-of-pocket expenses, such as the cost of reproduction of documents, long-distance telephone, telegraph, telex and similar expenses, deliveries, filing fees and all items paid for by AK on behalf of the City and incurred in connection with the performance of all services hereunder. All of the expenses of AK will be reasonable and subject to approval of the City Attorney; provided, however, that aggregate reimbursable expenses for AK related to the Basic Services shall not exceed \$10,000, plus a transcript filing fee of the Attorney General of Texas in the amount of \$9,500 per series or subseries, or such greater amount as shall be charged by the Attorney General's office, if paid by Co-Bond Counsel on behalf of the City.

Co-Bond Counsel understands further that the City's obligation to pay for our services is limited to the amount of the original allocation and any supplemental allocations that the City may make for payments for services performed under this agreement, all as set forth in the provisions of the "Limitation of City's Duties" attached hereto. Nothing herein shall be construed as creating any personal liability on the part of any officer of the City, and this agreement may be terminated by the City by giving 30 days' written notice.

Co-Bond Counsel agrees that conflicts affecting the City will be resolved in the City's favor, whenever possible. In the event a conflict cannot, in the judgment of such firms, be resolved in the City's favor, Co-Bond Counsel will immediately advise the City Attorney. Any such failure to resolve a conflict in the City's favor will constitute grounds for termination of this agreement by the City Attorney with 30 days' notice. Co-Bond Counsel agrees to comply with the requirements and terms of the City of Houston Pay or Play program, as set out in Executive Order 1-7, are incorporated into this Agreement for all purposes. Co-Bond Counsel has reviewed Executive Order No. 1-7 and shall comply with its terms and conditions as they are set out at the time of City Council approval of this agreement.

If this proposed agreement for services as Co-Bond Counsel is satisfactory, please evidence your acceptance and approval by executing three copies in the space provided below.

Very truly yours,

ANDREWS KURTH LLP

By: 
Gregg Jones

By: 
Adrian Patterson

cc: Bates & Coleman, P.C.

April 5, 2013

Page 3

APPROVED:

Mayor, City of Houston

ATTEST:

City Secretary

(Seal)

COUNTERSIGNED:

City Controller

Date: _____

APPROVED:

City Attorney

Attachment

EXHIBIT A
to
Agreement for Services

ANDREWS KURTH LLP

Schedule of Standard Rates (Texas)
January 1, 2013

Andrews Kurth LLP maintains a schedule of standard hourly rates, which is subject to periodic revision. The schedule in effect as of January 1, 2013 is summarized as follows:

	<u>Approximate Years of Practice</u>	<u>Hourly Rate</u>
Associate:	Entry to 1	\$265 to \$325
	2	\$290 to \$350
	3	\$310 to \$315
	4	\$325 to \$340
	5	\$340 to \$475
	6	\$365 to \$420
	7 and Over	\$395 to \$550
Partner:		\$470 to \$995
Counsel:		\$435 to \$615
Of Counsel:		\$395 to \$970
Senior Attorney:		\$165 to \$560
Patent Agent:		n/a
Paralegal:		\$215 to \$330
Briefing Clerk:		n/a
Legal Assistant:		\$40 to \$210

Limitation of City's Duties

(a) The City's duties to pay money to the Firm for any purpose under this Agreement are limited in their entirety by the provisions of this Section.

(b) In order to comply with Article II, Sections 19 and 19a of the City's Charter and Article XI, Section 5 of the Texas Constitution, the City has appropriated and allocated the sum of \$200,000 for fees, \$10,000 for expenses and \$9,500 per series for a transcript filing fee of the Attorney General of Texas, for a total of \$219,500, to be used to discharge its duties to pay money under this Agreement (the "Original Allocation"). The parties recognize that the executive and legislative officers of the City, in the exercise of their sound discretion, may allocate supplemental sums of money for the purpose of this Agreement. Because the City's officers are not obligated to make any such supplemental allocations, the parties have agreed to certain procedures and remedies to be followed with respect thereto.

(c) A supplemental allocation will only be deemed to be made when the City sends a notice to the Firm (which notice must be signed by the City Attorney and signed by the City Controller, and for which no Council action will be required) in substantially the following form:

"NOTICE OF SUPPLEMENTAL ALLOCATION OF FUNDS"

TO: Andrews Kurth LLP

FROM: City of Houston, Texas

DATE: [Date of Notice]

SUBJECT: Supplemental allocation of funds for the purpose of that certain "[title of this Agreement]" by and between the City and Andrews Kurth LLP countersigned by the City Controller on [date of countersignature] [the "Agreement"]

I, [name of City Controller], City Controller, do hereby certify that the supplemental sum of \$ _____ has been allocated for the purpose of this Agreement.

The aggregate of all sums allocated for the purpose of such Agreement, including the Original Allocation, other supplemental allocations (if any) and the supplemental sum specified herein, as of the date of this notice, is \$ _____.

Signed:

[Signature of the City Controller]
City Controller

REQUESTED:

[Signature of the City Attorney]
City Attorney

(d) City Council delegates to the City Attorney the authority to approve up to \$219,500 in supplemental allocations for this Agreement without returning to Council. The aggregate of the Original Allocation and all supplemental allocations, if any, effected by notice from the City Controller to the Firm in substantially the foregoing form shall be the Allocated Funds.

(e) The Original Allocation plus all supplemental allocations are the Allocated Funds. The City shall never be obligated to pay any money under this Agreement in excess of the Allocated Funds. The Firm must assure itself that sufficient allocations have been made to pay for services it provides. If Allocated Funds are exhausted, the Firm's only remedy is suspension or termination of its performance under this Agreement and it has no other remedy in law or in equity against the City and no right to damages of any kind.

BATES AND COLEMAN P.C.
FIRM BILLING PROCESS AND POLICIES

Generally, the firm's billing policies depend on the agreement with the client. There are three fee structures which have been acceptable to the firm are hourly billing, per bond billing and flat/negotiated fee billing.

Hourly billing rates for the Firm are rates charged to governmental entities which include the City of Houston, Texas. The following are the rates proposed to the State of Texas:

Randy Bates-Partner	\$475
Willie Coleman-Partner	\$475
Nikki Madison-Associate	\$375
Lillian Poole-Legal Assistant	\$200
Any other Legal Assistant will be capped at	\$200
Any other Associate Attorneys will be capped at	\$400
Any other Partners will capped at	\$500

In addition to our fees, there will be other expenses for items incident to the performance of our legal services, such as reprographics, couriers, travel expenses, some long distance telephone calls, facsimile transmissions, postage, overtime for secretaries and other non-legal staff, specialized computer applications such as computerized legal research, media services and practice support, records retrieval, and filing fees. The current basis for these is set forth below. The Firm will review this schedule of charges periodically and adjust them to take into account changes in the Firm's costs and other factors.

Reprographics and Production Services

The Firm charges \$.15 per page for non-color duplicating and scanning, including printing electronic and scanned images, and printing for duplication purposes. Additional charges apply for color and oversized (over 11x17 inches) documents. There are special charges for other production services, which are available on request.

Courier Services

Charges, which may vary based on the service provider used and the service provided, are billed at the Firm's actual cost.

Computer Aided Legal Research (CALR)

Charges for services are billed at the Firm's actual cost.

Telefax

The Firm charges \$0.25 per page for outgoing telefaxes, which includes all telephone costs. There is no charge for incoming faxes.

Telephone

The Firm does not charge for local or domestic long distance calls originating in the Firm's offices. Other long distance calls, including international long distance calls, audio conferencing services, and calling card calls are charged at the Firm's actual cost for the call or conference.

Travel-Related Expenses

Airfare, hotel, meals, ground transportation and other travel related costs are billed at the Firm's actual costs, including negotiated discounts. Airfare charges may include a \$35 charge per airline transaction (excluding cancellations) paid by the Firm to its travel agent.

All Other Costs

The Firm charges actual disbursements for third-party services such as court reporters, expert witnesses, etc., and may recoup expenses reasonably incurred in connection with services performed in-house, such as postage, non-legal staff overtime, file retrieval, media services and practice support, etc. A current schedule of these charges is available on request.

Unless special arrangements are otherwise made, fees and expenses of others (such as experts, investigators, consultants and court reporters) will be the responsibility of, and billed directly to, the client. Further, all invoices in excess of \$500 will be forwarded to the client for direct payment.

EXHIBIT E

SPECIAL DISCLOSURE CO-COUNSEL ENGAGEMENT LETTER

(see attached)

GREENBERG TRAUIG, LLP
1000 Louisiana Street, Suite 1700
Houston, Texas 77002

EDGARDO E. COLÓN, P.C.
3000 Wesleyan, Suite 365
Houston, Texas 77027

April 10, 2013

Mayor and City Council
City of Houston
City Hall Annex
900 Bagby
Houston, Texas 77002

Re: Special Disclosure Co-Counsel Services for City of Houston, Texas, Combined
Utility System First Lien Revenue Bonds, Series 2013B (the "Bonds")

Dear Mayor and Council Members:

We are pleased to submit to you this agreement for Greenberg Traurig, LLP and Edgardo E. Colón, P. C. (collectively, "Special Disclosure Co-Counsel") to serve as Special Disclosure Co-Counsel with respect to the captioned Bonds (the "Agreement" or the "Representation"). When approved by you (the "City"), this Agreement will become effective and will evidence an agreement between the City and Special Disclosure Co-Counsel, subject to all applicable provisions of the Charter and Code of Ordinances of the City.

As Special Disclosure Co-Counsel, we will assist the City's Legal, Finance, and City Controller's Departments, together with the City's Financial Advisor, in connection with the issuance, sale, and delivery of the Bonds. Basic Services hereunder shall include the following: Consultation with and advice to City officials and staff and its Financial Advisor regarding any disclosure issues, including assistance in evaluating the materiality of such issues; preparation of the preliminary and final offering documents for the Bonds; advice with respect to continuing disclosure undertakings described in SEC Rule 15c2-12 and advising the City as to whether any fact has come to our attention that would lead us to believe that the Official Statement for the Bonds contains a material misstatement of fact or omits a material fact necessary to be included therein to prevent the Official Statement from being misleading. In addition to the foregoing Basic Services, as Special Disclosure Co-Counsel, we are prepared to undertake Additional Services, as directed by the City Attorney.

Our Legal Fees and Costs

The fees ultimately charged for the matter will be based upon a number of factors, including the following: the ability, reputation and experience of our attorneys; the skill

necessary to perform the legal services required in the Representation; the time and labor involved; the customary range of billing rates for our attorneys and legal assistants; the novelty and difficulty of the questions involved; the results we achieve; and any other factors that may be considered in accordance with applicable rules of professional conduct.

For the services performed to date and for services which will be performed pursuant to this Agreement, and Special Disclosure Co-Counsel will be paid a fee which shall be calculated on an hourly rate basis pursuant to the schedule of rates attached hereto. The Special Disclosure Co-Counsel fee shall be paid from the proceeds of the sale of the Bonds or other legally available funds of the City. Each invoice will include an itemization of the hours worked by each attorney and legal assistant, the rate for each individual and description of the work performed by the individual. The aggregate maximum fees paid to Special Disclosure Co-Counsel for services rendered under the Agreement shall not exceed \$130,000.

Special Disclosure Co-Counsel will be reimbursed for their reasonable and actual out-of-pocket expenses, such as the cost of reproduction of documents, long distance telephone, telegraph, telex and similar expenses, deliveries, filing fees, and all items paid for by Special Disclosure Co-Counsel on behalf of the City, incurred in connection with the performance of all services hereunder. All of such expenses will be reasonable and subject to approval of the City Attorney, provided, however, that aggregate maximum reimbursable expenses shall not exceed \$5,000 for Special Disclosure Co-Counsel.

Special Disclosure Co-Counsel understand further that the City's obligation to pay for our services is limited to the amount of the original allocation and any supplemental allocations that the City may make for payments for services performed under this Agreement, all as set forth in the provisions of "Limitation of the City's Duties" attached hereto. Nothing herein shall be construed as creating personal liability on the part of any officer of the City, and this Agreement may be terminated by the City by giving 30 days' written notice.

Special Disclosure Co-Counsel agree to submit to the City Attorney at the beginning of each calendar year a schedule showing the ethnic and gender make-up of partners and associates of our respective firms.

Conflicts of Interest

Before accepting the Representation, we have undertaken reasonable and customary efforts to determine whether there are any potential conflicts of interest that would bar our firm from representing the City in the Representation. Based on the information available to us, we are not aware of any potential disqualification. We reviewed that issue in accordance with the rules of professional responsibility adopted in Texas. We believe that those rules, rather than the rules of any other jurisdiction, are applicable to the Representation; and the execution and return of the enclosed copy of this letter by you represents an express agreement to the applicability of those rules.

You understand that we represent many issuers, investment banking firms, commercial banks, and other parties to public finance transactions from time to time in connection with other

Mayor and City Council
April 10, 2013
Page 3

issues, including the financial advisor, and you do not object to our continued representation (in connection with other issues) of any such firm, since by doing so we are able to gain experience that is useful in representing you. If a controversy arises between you and any other client of our firm, we, after taking into account the rules of professional ethics applicable to us, may decline to represent either you or such other client or both you and such other client.

You also understand that we represent the City and that the interests of any individual officer, employee, or consultant in this matter may differ from the interests of the City. In representing the City, we may take direction from its Financial Advisor or Legal Department.

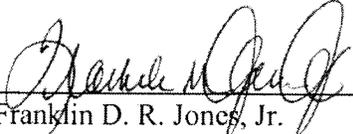
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Mayor and City Council
April __, 2013
Page 4

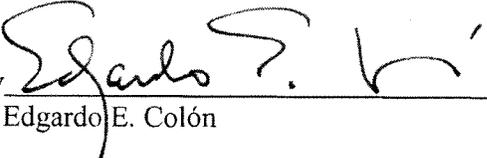
If this proposed Agreement for the services of Special Co-Disclosure Counsel is satisfactory, please evidence your acceptance and approval by signing in the space provided below.

Very truly yours,

GREENBERG TRAURIG, LLP

By  _____
Franklin D. R. Jones, Jr.

EDGARDO E. COLÓN, P. C.

By  _____
Edgardo E. Colón

APPROVED:

Mayor, City of Houston

COUNTERSIGNED:

ATTEST:

City Controller

City Secretary

(SEAL)

Date: _____

APPROVED:

City Attorney
Attachments

GREENBERG TRAUIG, LLP

**Schedule of Standard Hourly Rates
for Attorneys and Legal Assistants**

Greenberg Traurig, LLP maintains a schedule of standard hourly rates for its attorneys and legal assistants, which is subject to periodic revision. The schedule in effect as of January 1, 2013, is as follows:

	<u>Hourly Rate</u>
Associates	\$ 250 - 475
Partners	\$ 490 - 755
Legal Assistants	\$ 180 - 235

**EDGARDO E. COLÓN, P.C.
LEGAL FEES SCHEDULE
(Calendar Year 2013)**

**Schedule of Standard Hourly Rates
for Attorneys and Legal Assistants**

The Colón Law Firm maintains a schedule of standard hourly rates for its attorneys and legal assistants, which is subject to periodic revision. The schedule in effect as of January 1, 2013, is as follows:

	<u>Hourly Rate</u>
Edgardo E. Colón, Partner	\$400
Catarina Gonzales, Associate	\$300
Monica Cura, Paralegal	\$125

Limitation of City's Duties

(a) The City's duties to pay money to the Firms for any purpose under this Agreement are limited in their entirety by the provisions of this Section.

(b) In order to comply with Article II, Sections 19 and 19A of the City's Charter and Article XI, Section 5 of the Texas Constitution, the City has appropriated and allocated the maximum sum of \$135,000.00 for Special Disclosure Co-Counsel to be used to discharge its duties to pay money under this Agreement (the "Original Allocation"). The parties recognize that the executive and legislative officers of the City, in the exercise of their sound discretion, may allocate supplemental sums of money for the purpose of this Agreement. Because the City's officers are not obligated to make any such supplemental allocations, the parties have agreed to certain procedures and remedies to be followed with respect thereto.

(c) A supplemental allocation will only be deemed to be made when the City sends a notice to the firm (which notice must be signed by the City Attorney and signed by the City Controller, and for which no Council action will be required) in substantially the following form:

“NOTICE OF SUPPLEMENTAL FUNDS”

TO: Greenberg Traurig, LLP
Edgardo E. Colon, P. C.

FROM: City of Houston, Texas

DATE: April 10, 2013

SUBJECT: Supplemental allocation of funds for the purpose of that certain letter of representation by and between the City and Greenberg Traurig, LLP and Edgardo E. Colon, P. C., Special Co-Disclosure Counsel, countersigned by the City Controller on April 10, 2013 (the “Agreement”)

I, Ronald Green, do hereby certify that the supplemental sum of \$135,000.00 has been allocated for the purpose of this Agreement.

The aggregate of all sums for the purpose of such Agreement, including the Original Allocation, other supplemental allocations (if any) and the supplemental sum specified herein, as of the date of this notice, is \$135,000.00.

Signed:

Ronald Green
City Controller

REQUESTED:

City Attorney

(d) The aggregate of the Original Allocation and all supplemental allocations, if any, effective by notice from the City Controller to Firm in substantially the foregoing form shall be the Allocated Funds. The City shall never be obligated to pay any money by, through, or under this Agreement in an aggregate amount which exceeds the level of the Allocated Funds.

EXHIBIT F
PRELIMINARY OFFICIAL STATEMENT

(see attached)

CITY OF HOUSTON, TEXAS
Combined Utility System
First Lien Revenue and Refunding Bonds,
Series 2013B

CUSIP Prefix 442435⁽¹⁾

<u>Year</u> <u>(November 15)</u>	<u>Maturity</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP Suffix</u> ⁽¹⁾
-------------------------------------	----------------------------------	--------------------------------	--------------	------------------------------------

\$ _____ Term Bond⁽³⁾ Due November 15, 20___, _____%, Yield _____%, - CUSIP Suffix⁽¹⁾ ___

\$ _____ Term Bond⁽³⁾ Due November 15, 20___, _____%, Yield _____%⁽²⁾, - CUSIP Suffix⁽¹⁾ ___

\$ _____ Term Bond⁽³⁾ Due November 15, 20___, _____%, Yield _____%⁽²⁾, - CUSIP Suffix⁽¹⁾ ___

(Interest accrues from Date of Delivery)

The Bonds maturing on or after November 15, 20___ are subject to redemption prior to maturity, at the option of the City, on November 15, 20___ or any date thereafter.

³ Preliminary, subject to change.

⁽¹⁾ CUSIP numbers have been assigned to the Bonds by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. Neither the City, the Financial Advisor nor the Underwriters are responsible for the selection or the correctness of the CUSIP numbers set forth herein. CUSIP is a registered trademark 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 CUSIP Services.

⁽²⁾ The initial yield is calculated to the first optional redemption date.

⁽³⁾ Subject to mandatory sinking fund redemption as described in "THE BONDS -- Mandatory Redemption."

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date of this Preliminary Official Statement, this document constitutes an Official Statement of the City with respect to the Bonds that has been deemed "final" by the City as of its date, except for the omission of no more than the information permitted by Rule 15c2-12.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. ANY REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS MAY HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described herein since the date hereof.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from the Financial Advisor to the City. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion 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 the implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to Underwriters who may sell the Bonds into investment accounts.

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

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**City of Houston, Texas
ELECTED OFFICIALS**

Annise D. Parker, Mayor

Ronald C. Green, City Controller

CITY COUNCIL

Council Member, District A.....	Helena Brown	Council Member, District I.....	James G. Rodriguez
Council Member, District B.....	Jerry Davis	Council Member, District J.....	Mike Laster
Council Member, District C.....	Ellen Cohen	Council Member, District K.....	Larry Green
Council Member, District D.....	Wanda Adams	Council Member, At-Large Position 1.....	Stephen C. Costello
Council Member, District E.....	Dave Martin	Council Member, At-Large Position 2.....	Andrew C. Burks, Jr.
Council Member, District F.....	Al Hoang	Council Member, At-Large Position 3.....	Melissa Noriega
Council Member, District G.....	Oliver Pennington	Council Member, At-Large Position 4.....	C.O. "Brad" Bradford
Council Member, District H.....	Edward Gonzalez	Council Member, At-Large Position 5.....	Jack Christie, D.C.

APPOINTED OFFICIALS

City Attorney.....	David M. Feldman
Deputy City Controller.....	Charisse Page Mosely
Director, Department of Finance.....	Kelly Dowe
Director, Department of Public Works and Engineering.....	Daniel W. Krueger, P.E.
City Secretary.....	Anna Russell

CONSULTANTS AND ADVISORS

Co-Financial Advisors.....	First Southwest Company TKG & Associates LLC
Co-Bond Counsel.....	Andrews Kurth LLP Bates & Coleman, P.C.
Co-Disclosure Counsel.....	Greenberg Traurig, LLP Edgardo E. Colón, P.C.

FINANCING WORKING GROUP MEMBERS

Legal Department.....	Gary L. Wood Sameera K. Mahendru
Department of Finance.....	Jennifer Olenick Jaime Alvarez Veronica Lizama
Office of the City Controller.....	Charisse Page Mosely Asha Patnaik Vivien Nguyen Kedrick Winfield
Department of Public Works and Engineering.....	Susan Bandy Kate Bechtold

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OFFICIAL STATEMENT



[§ _____]*
CITY OF HOUSTON, TEXAS
Combined Utility System
First Lien Revenue and Refunding Bonds,
Series 2013B

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the City of Houston, Texas (the "City") of its Combined Utility System First Lien Revenue and Refunding Bonds, Series 2013B (the "Bonds"). The Bonds are authorized to be issued pursuant to (i) Chapters 1207, 1371 and 1502, Texas Government Code, as amended, (ii) a master ordinance (the "Master Ordinance") adopted by the City Council of the City on April 21, 2004, (iii) a supplemental ordinance adopted by the City Council of the City on April 10, 2013 (the "Supplemental Ordinance"), and (iv) an officers' pricing certificate authorized by the Supplemental Ordinance ("Officers' Pricing Certificate") dated as of the date of this Official Statement.

The Bonds are special obligations of the City payable as to principal, premium, if any, and interest solely from and secured by a lien on and pledge of Net Revenues (as defined herein), as collected and received, to be derived from the operation of the City's combined utility system ("CUS", the "System" or the "Combined Utility System"). The Combined Utility System currently consists of the City's water and sewer system (the "Water and Sewer System") and shall include such other utility systems that the City may from time to time elect to combine with the Combined Utility System, as permitted by the Master Ordinance, so long as the revenues of such other utility systems are included in Gross Revenues of the Master Ordinance.

Brief descriptions and summaries of the Bonds, the Combined Utility System, the Master Ordinance and Supplemental Ordinance are included in this Official Statement. References to the Bonds, the Master Ordinance and the Supplemental Ordinance are qualified in their entirety by reference to such documents and the form of the Bonds included in the Supplemental Ordinance. Copies may be obtained from the office of the City Controller or the City Secretary. The City's basic financial statements and the supplementary schedules for the City's Combined Utility System Fund for the fiscal year ended June 30, 2012 are included in APPENDIX A to this Official Statement. A brief description of certain selected economic and demographic data of the City is set forth in APPENDIX B. Capitalized terms used herein but not otherwise defined herein have the meanings given to such terms in APPENDIX C. Excerpts from the Master Ordinance are set forth in APPENDIX D. The proposed form of Co-Bond Counsel Opinion is set forth as APPENDIX E. A listing of continuing disclosure schedules is included in APPENDIX F. Disclosure information pertaining to The Depository Trust Company is included in APPENDIX G. A description of the Reserve Fund Surety Policies (as defined herein) is included in APPENDIX H.

PURPOSE AND PLAN OF FINANCE

General

The proceeds of the Bonds will be used, together with other available funds, for the following purposes: (i) paying the costs of the extension, construction, improvement or repair of the System; (ii) refunding all or a portion of the City's outstanding Combined Utility System Commercial Paper Notes, Series B (the "Refunded Notes"); (iii) making a cash deposit into the First Lien Bond Reserve Fund in an amount not to exceed 10% of the proceeds of the Bonds, which includes funding the Series 2013B Bond Reserve Fund Requirement (defined herein); and (iv) paying the costs of issuance of the Bonds.

The Refunded Notes

The principal and interest on the Refunded Notes are to be paid in accordance with their terms with the proceeds of the Bonds, together with other available funds of the City to be deposited with U.S. Bank National

* Preliminary, subject to change.

Association, the paying agent for the Refunded Notes (the "Refunded Notes Paying Agent"). Pursuant to the terms of an Escrow Agreement (the "Escrow Agreement"), between the City and the Refunded Notes Paying Agent, on the delivery date of the Bonds the City will deposit with the Refunded Notes Paying Agent a portion of the proceeds of the Bonds, together with other available funds of the City. Such amounts will be sufficient to pay the principal of and interest on the Refunded Notes as the same become due and payable through the maturity date of the Refunded Notes.

By making such deposits with the Refunded Notes Paying Agent pursuant to the Escrow Agreement, the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Notes pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. Thereafter, the Refunded Notes will be deemed to be fully paid and no longer outstanding and the lien on and pledge of net revenues of the Combined Utility System securing the Refunded Notes will be deemed to have been defeased pursuant to the terms of the ordinance authorizing the issuance of the Refunded Notes except for the purpose of being paid from the funds deposited with the Refunded Notes Paying Agent.

RECENT FINANCINGS

On April 4, 2013, in connection with the issuance of replacement letters of credit, the City remarketed its \$100,000,000 Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B-2, \$75,000,000 Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B-4, and \$100,000,000 Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B-5, which bonds are variable rate bonds, bearing interest at a weekly rate. On April 11, 2013, the City issued its \$48,750,000 Combined Utility System First Lien Revenue Bonds, Series 2013 in a private placement to the Texas Water Development Board, the proceeds of which will be primarily used by the City to pay for the costs of the extension, construction, improvement or repair of the System.

SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Bonds, together with other available funds of the City:

Sources

Principal Amount of Bonds	\$ _____
Net Original Issue Premium	_____
Other Available Funds	_____
Total Sources of Funds	\$ _____

Uses

Deposit to Escrow Fund for Payment of Refunded Notes ⁽¹⁾	\$ _____
Deposit to Project Fund	_____
Deposit to First Lien Bond Reserve Fund	_____
Issuance Expenses and Contingency ⁽²⁾	_____
Underwriters' Discount	_____
Total Uses of Funds	\$ _____

⁽¹⁾ The City will deposit with the Refunded Notes Paying Agent the interest portion of the Refunded Notes from other legally available funds.

⁽²⁾ Includes legal, Paying Agent and rating agency fees, along with other costs of issuance.

REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE

The Master Ordinance provides that before any payments may be made on System Obligations, including First Lien Bonds such as the Bonds, all "Required Payments" must be made. The term "Required Payments" is defined in the Master Ordinance to mean any payments required to be made under the Previous Ordinance, including without limitation (i) all payments required to be made by the City as Maintenance and Operation Expenses under the Previous Ordinance, including without limitation under existing contracts on the effective date of the Master Ordinance for the impoundment, conveyance, or treatment of water or otherwise which are treated as operating expenses under the laws of the State of Texas, and (ii) all payments required to be made by the City to pay debt service requirements on Previous Ordinance Bonds in accordance with the terms of the Previous Ordinance and to comply with the reserve fund requirements of the Previous Ordinance. As of February 28, 2013, approximately \$248.8 million in Previous Ordinance Bonds remains outstanding, which includes the accreted value of Previous Ordinance Bonds issued as capital appreciation bonds. See "SECURITY FOR THE BONDS - First Lien Bond Reserve Fund".

Existing contracts include the treated water supply contracts and a project contract with the Coastal Water Authority ("CWA"). CWA has issued bonds (the "Previously Issued Contract Revenue Bonds") secured by payments from the City under an amended and restated treated water supply contract. For further information see "SYSTEM DEBT AND CHARGES — Schedule 11 — Obligations Payable from System Revenues." See also "THE CITY AND THE SYSTEM — Water Facilities — Water Supply Contracts."

Other than debt currently outstanding under the Previous Ordinance, the City has covenanted and agreed in the Master Ordinance not to issue any additional bonds or other obligations under the Previous Ordinance. See "CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE."

THE BONDS

Source of Payment

The Bonds are special obligations of the City that are equally and ratably payable from and secured by a lien on Net Revenues collected and received by the City after Required Payments with respect to Previous Ordinance Bonds issued by the City and payment of all Maintenance and Operation Expenses of the Combined Utility System. Net Revenues are required to be set aside for and pledged to the payment of the City's System Obligations, including the Bonds, all Additional Bonds and Qualified Hedge Agreements and Credit Agreements, including the Interest and Sinking Funds and the Reserve Funds required to be maintained for the payment of all such System Bonds and agreements, all as more fully described and provided for in the Master Ordinance. **THE BONDS, TOGETHER WITH THE INTEREST THEREON, ARE PAYABLE SOLELY FROM SUCH NET REVENUES AND DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY AND ARE NOT PAYABLE FROM FUNDS RAISED OR TO BE RAISED BY TAXATION. OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF FROM THE LEVY OF AD VALOREM TAXES OR FROM ANY SOURCE NOT SPECIFICALLY PLEDGED TO PAYMENT OF THE BONDS.** See "SECURITY FOR THE BONDS."

The lien on Net Revenues securing the System Obligations, including the Bonds, is subordinate to the lien securing the Previous Ordinance Bonds.

Description of the Bonds

The Bonds mature in the aggregate principal amount and on the dates indicated on the inside cover page of this Official Statement. Interest on the Bonds accrues from May ____, 2013 (the "Date of Delivery") and is payable semiannually on May 15 and November 15 of each year, commencing November 15, 2013 (each an "Interest Payment Date"). The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Bank of New York Mellon Trust Company, N.A., Houston, Texas, is the initial paying agent/registrant (the "Paying Agent/Registrar"). Interest on the Bonds is payable by check, or in the case of payment to DTC, by wire transfer of immediately available funds, to be mailed by the Paying Agent/Registrar on or before the interest payment date to the registered owners of record as of the first day of the month of the interest payment date. Principal of the Bonds is payable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar.

Optional Redemption

The Bonds maturing on and after November 15, 20__ are subject to optional redemption by the City prior to maturity on November 15, 20__, or any date thereafter, in whole or in part (but if less than all the Bonds of a single maturity are called for redemption, those Bonds called shall be selected by lot or other customary random method by the Paying Agent/Registrar), at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

Mandatory Redemption

The Bonds maturing on November 15, 20__, 20__ and 20__ (herein the "Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemption, if any, and subject to the following conditions:

\$ _____ TERM BONDS MATURING IN 20__

**Mandatory Redemption
Dates (November 15)**

**Mandatory Redemption
Requirements**

\$

*

*Final Maturity

\$ _____ TERM BONDS MATURING IN 20__

**Mandatory Redemption
Dates (November 15)**

**Mandatory Redemption
Requirements**

\$

*

*Final Maturity

\$ _____ TERM BONDS MATURING IN 20__

**Mandatory Redemption
Dates (November 15)**

**Mandatory Redemption
Requirements**

\$

*

*Final Maturity

On or before November 1 of every year in which there are mandatory redemption requirements as set forth above for Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on November 15 of such year after taking

into account deliveries for cancellation and optional redemptions of Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select by lot or other customary random method the Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on November 15 of such year, and (iii) shall give notice thereof in the manner set forth below. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation by September 25 of such year. In addition, in the exercise of its right of optional redemption contained herein the City may elect to redeem less than all of the Term Bonds of a particular coupon rate and maturity then outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Term Bonds of such coupon rate and maturity by the principal amount of such Term Bonds optionally redeemed and which has not previously been made the basis for a credit against the mandatory redemption requirements for the Term Bonds.

The Bonds may be redeemed in part only in integral multiples of \$5,000 of principal amount or maturity amount, as applicable. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of the Bonds for redemption, the Paying Agent/Registrar shall treat each Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount (or maturity amount) of such Bond by \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefore a Bond or Bonds of like maturity and interest rate in an aggregate principal amount (or maturity amount) equal to the unredeemed portion of the Bond so surrendered.

Notice of Redemption

Notice of any such mandatory or optional redemption identifying the Bonds to be redeemed shall be sent by first-class mail, postage prepaid, to the Registered Owners thereof at their addresses as shown on the books of registration kept by the Paying Agent/Registrar not less than thirty (30) days before the date fixed for such redemption. Notice of redemption shall also be sent by certified mail, return receipt requested, to at least two national information services, and any securities depository institution registered under the Securities Exchange Act of 1934, as amended, acting as securities depository under the Ordinance. Each redemption notice shall contain the complete official name of the Bonds, CUSIP numbers, certificate numbers, the redemption date, the redemption price, the redemption agent's name and address with a contact person's name and telephone number, the date of issuance, the maturity date, and any other information appropriate to identify sufficiently the Bonds being redeemed. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Bonds called for redemption. If such notice of redemption is given, and if due provision for such payment is made, all as provided above, the Bonds which are to be so redeemed thereby automatically shall be redeemed prior to their scheduled maturities, they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the purpose of being paid by the Paying Agent/Registrar with the funds so provided for such payment.

Ownership

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered (the "Registered Owner") as the absolute owner of such Bond for the purpose of making and receiving payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notice to the Registered Owners thereof, and for all other purposes, whether or not such Bond is overdue. Neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the Registered Owner of any Bond in accordance with the Supplemental Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

Record Date

Interest on the Bonds is payable by check mailed by the Paying Agent/Registrar to the Registered Owner of record as of the first (1st) day of the month of the applicable Interest Payment Date as shown on the books of registration kept by the Paying Agent/Registrar.

Transfers and Exchanges

Beneficial ownership of Bonds registered in the name of The Depository Trust Company, New York, New York ("DTC") will be transferred initially as described under "APPENDIX G — THE DEPOSITORY TRUST COMPANY."

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Bonds in accordance with the terms of the Master Ordinance and the Supplemental Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof by Cede & Co., as DTC's nominee or any subsequent Registered Owner, at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by Cede & Co., as DTC's nominee, or any subsequent Registered Owner or the authorized representative thereof in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of a Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Bond or Bonds, registered in the name of Cede & Co., as DTC's nominee, or such other transferee, in authorized denominations, of the same type, maturity and interest rate, and in the same aggregate Principal Amount, as the Bond or Bonds so presented and surrendered.

In the event the Bonds are not held in a book-entry registration system, all Bonds shall be exchangeable upon the presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same type, maturity and interest rate, in any authorized denomination and in an aggregate principal amount, equal to the Bond or Bonds presented for exchange. Bonds issued in exchange for other Bonds shall be entitled to the benefits and security of the Master Ordinance and the Supplemental Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

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

SECURITY FOR THE BONDS

Set forth below is a description of the revenues pledged for the payment of the Bonds, the flow of funds and rate covenant contained in the Master Ordinance and a summary of certain security provisions of the Master Ordinance applicable to the Bonds. Capitalized terms used in this section but not otherwise defined in this section have the meanings assigned to such terms in "APPENDIX C — Definitions." For further information, see "APPENDIX D — Excerpts from Master Ordinance."

Pledge of Net Revenues

The Bonds are special obligations of the City payable from and secured by a lien on Net Revenues as collected and received by the City from the operation and ownership of the Combined Utility System. ***The lien on Net Revenues securing the Bonds is subordinate to the lien securing the Previous Ordinance Bonds.***

In the Master Ordinance, the City covenants and agrees that Gross Revenues of the System shall, as collected and received by the City, be deposited and paid into the special funds established by the Master Ordinance after satisfying any requirements of the Previous Ordinance, including the payment of all Required Payments. For so long as any Previous Ordinance Bonds remain Outstanding, the City covenants and agrees that gross revenues (as defined under the Previous Ordinance) shall be applied in the manner set forth in the Previous Ordinance to provide for the payment of all Required Payments, and then Gross Revenues shall be applied in the manner set forth in the Master Ordinance to provide for the payment of all remaining Maintenance and Operation Expenses that have not been paid as Required Payments. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE." The Master Ordinance provides that resulting Net Revenues are to be applied to the payment of principal of, interest on and any redemption premiums on the First Lien Bonds, any parity System Obligations under Qualified Hedge

Agreements and Credit Agreements and all expenses of paying same and then provides for the disposition of the remaining Net Revenues in accordance with the Master Ordinance.

First Lien Bonds, including the Bonds, are special obligations of the City that are payable solely from and (together with parity Qualified Hedge Agreement and Credit Agreement obligations) are equally and ratably secured by a first lien on the Net Revenues as collected and received by the City from the operation and ownership of the Combined Utility System. The Master Ordinance provides that Net Revenues are required to be set aside in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund for and pledged to the payment of the First Lien Bonds and parity System Obligations, and the First Lien Bonds are, in all respects, on a parity with and of equal dignity with one another, except that the City may elect that one or more series of Additional Bonds issued as First Lien Bonds will not share in the benefits of the First Lien Bond Reserve Fund.

THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE CITY AND ARE NOT PAYABLE FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION. OWNERS OF THE FIRST LIEN BONDS, INCLUDING THE BONDS, SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF FROM THE LEVY OF AD VALOREM TAXES OR FROM ANY OTHER SOURCE NOT PLEDGED TO THE PAYMENT OF THE FIRST LIEN BONDS.

The Master Ordinance provides that Chapter 1208, Texas Government Code, as amended, applies to the issuance and delivery of First Lien Bonds, including the Bonds and the pledge of the Net Revenues granted under the Master Ordinance, and such pledge is therefore valid, effective and perfected.

The Master Ordinance defines "Net Revenues" to mean (i) all Gross Revenues remaining after deducting Maintenance and Operation Expenses, plus (ii) any Restricted Receipts deposited to the Revenue Fund that may be used to pay Debt Service Requirements on System Obligations. The Master Ordinance defines "Restricted Receipts" to mean (i) revenues related to the Combined Utility System received by the City that, pursuant to law or contractual agreements, may not be used to pay Maintenance and Operation Expenses and (ii) any interest earnings on the revenues described in clause (i) above.

The Master Ordinance defines "Gross Revenues" to mean all revenues and income of every nature now and hereafter derived or received by the City from the operation and ownership of the components of the Combined Utility System; the interest income from the investment or deposit of money in the funds created pursuant to the Master Ordinance and the Previous Ordinance; and any other revenues pledged to the payment of System Obligations issued pursuant to the Master Ordinance and the Previous Ordinance. The term "Gross Revenues" also includes all payments received by the City, except for termination payments and receipts of collateral, pursuant to Qualified Hedge Agreements. "Gross Revenues" does not include Restricted Receipts. For the definition of "Maintenance and Operation Expenses," see APPENDIX C.

The Master Ordinance permits the City to issue certain subordinate lien obligations (secured by liens on Net Revenues subordinate and inferior to the First Lien Bonds); and to provide Reserve Fund Surety Policies (as defined below) in lieu of making cash deposits to the applicable reserve fund, all as more fully described below.

Special Funds

The Master Ordinance provides that the following special Funds are to be established and accounted for by the City while the Bonds and any other System Bonds remain Outstanding:

- (i) Revenue Fund;
- (ii) First Lien Bond Interest and Sinking Fund;
- (iii) First Lien Bond Reserve Fund;
- (iv) Second Lien Bond Interest and Sinking Fund;
- (v) Second Lien Bond Reserve Fund;
- (vi) Third Lien Obligation Interest and Sinking Fund;

- (vii) Third Lien Obligation Reserve Fund (if and when required);
- (viii) Fourth Lien Obligation Interest and Sinking Fund (if and when required);
- (ix) Fourth Lien Obligation Reserve Fund (if and when required);
- (x) Interest and Sinking Funds and Reserve Funds for any additional System Obligations that will be junior and subordinate to Fourth Lien Obligations (if and when required); and
- (xi) CUS General Purpose Fund.

The Master Ordinance provides that the Funds listed above are to be maintained as separate accounts on the books of the City. The First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund are required to be held in trust under the Master Ordinance for the Owners of the First Lien Bonds (and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) are pledged to the payment of the First Lien Bonds (and parity Qualified Hedge Agreements and Credit Agreements). In the Master Ordinance, the City reserves the right to establish additional funds and accounts necessary or desirable for the efficient administration of the System.

Flow of Funds

The Master Ordinance provides that after making any Required Payments in accordance with the terms of the Previous Ordinance, Gross Revenues of the Combined Utility System are to be deposited as collected into the Revenue Fund, and applied as follows: to (i) pay Maintenance and Operation Expenses, to the extent not already paid, and (ii) establish and maintain an operating reserve equal to two months' budgeted Maintenance and Operation Expenses. The remaining balance, together with Restricted Receipts, will be applied in the following manner and in the following order of priority:

(i) First, to make all deposits into the First Lien Bond Interest and Sinking Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of First Lien Bonds (in order to provide for the full and timely payment of all principal of, interest on and any redemption premiums on all First Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements);

(ii) Second, to make all deposits into the First Lien Bond Reserve Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of First Lien Bonds (in order to establish and maintain a debt service reserve for the timely payment of the Bonds and all other First Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements that the City elects to be secured by the First Lien Bond Reserve Fund (collectively, the "Reserve Fund Participants"), and to make any required payments on repayment obligations incurred pursuant to a Reserve Fund Surety Policy (as defined below));

(iii) Third, to make all deposits into the Second Lien Bond Interest and Sinking Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds (in order to provide for the full and timely payment of the principal of, interest on and any redemption premiums on all Second Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements);

(iv) Fourth, to make all deposits into the Second Lien Bond Reserve Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds (in order to establish and maintain a debt service reserve for the timely payment of all Second Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements and to make any required payments on repayment obligations incurred pursuant to a Reserve Fund Surety Policy);

(v) Fifth, to make all payments and deliveries required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of certain obligations secured by liens on and pledges of Net Revenues subordinate and inferior to the First Lien Bonds and Second Lien Bonds (the "Third Lien

Obligations”), including the City’s obligations to deliver collateral and make termination payments under Qualified Hedge Agreements that are not payable in installments over the remaining term of the relevant transaction (in order to provide for the payment of and security for such Third Lien Obligations);

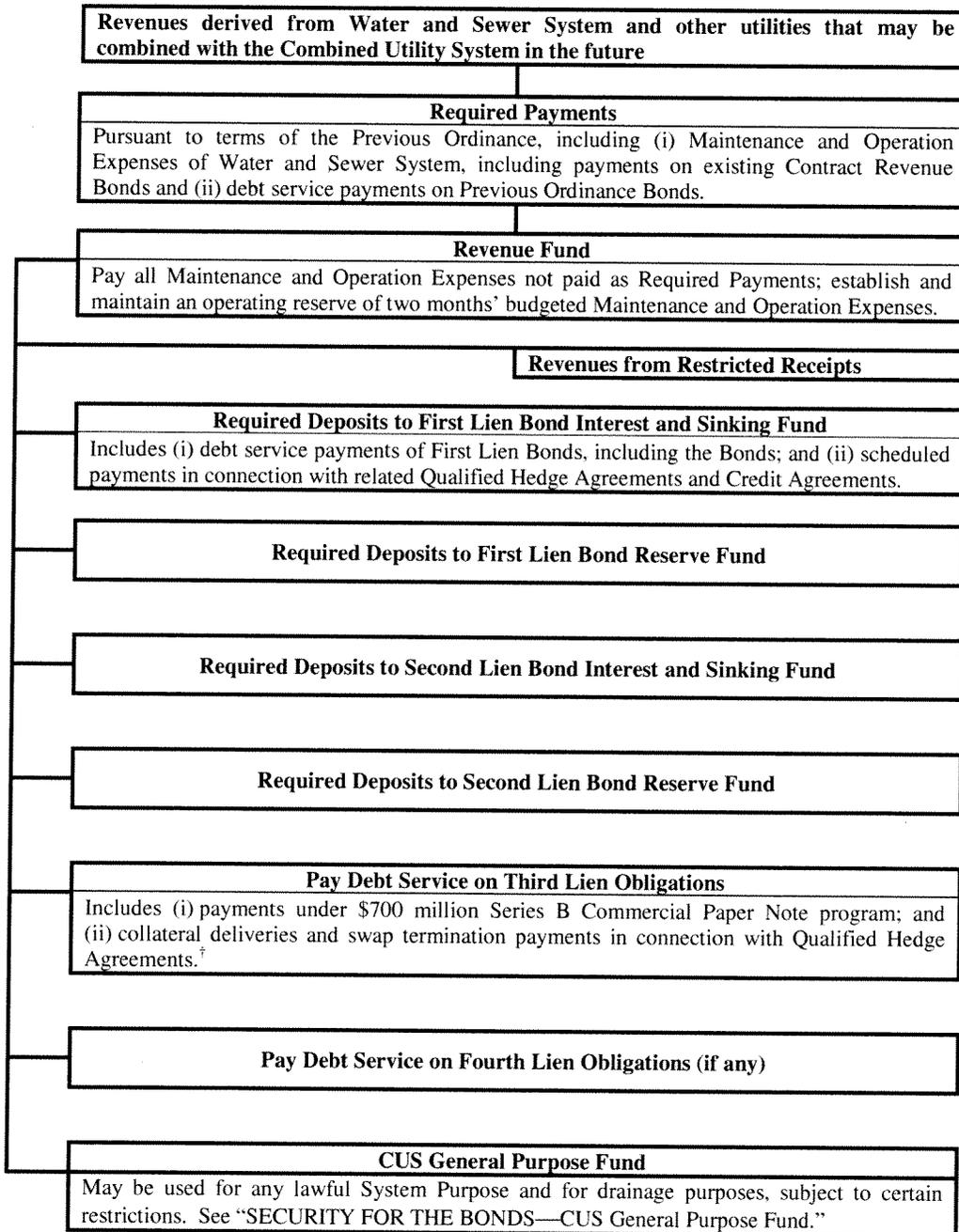
(vi) Sixth, to make all payments and deliveries required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of certain obligations secured by liens on and pledges of Net Revenues subordinate and inferior to the First Lien Bonds, Second Lien Bonds and Third Lien Obligations (the “Fourth Lien Obligations”) (in order to provide for the payment of and security for such Fourth Lien Obligations); and

(vii) Seventh, to make deposits of any remaining Net Revenues into the CUS General Purpose Fund. See “SECURITY FOR THE BONDS—CUS General Purpose Fund.”

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**FLOW OF FUNDS
(APPLICATION OF REVENUES)
Under Provisions of the Master Ordinance
HOUSTON COMBINED UTILITY SYSTEM**

Gross Revenues



[†] The City has authorized the Series B Commercial Paper Program in an aggregate amount not to exceed \$700 million. See "SYSTEM DEBT AND CHARGES—Commercial Paper Program" for a discussion of the Series B Commercial Paper Notes and the banks that issued the letters of credit securing the Series B Commercial Paper Notes.

First Lien Bond Interest and Sinking Fund

The Master Ordinance provides that on or before the last Business Day immediately preceding (i) an Interest Payment Date while any of the Bonds or other First Lien Bonds remain Outstanding, and (ii) any date when any payments are due and payable under a Qualified Hedge Agreement relating to First Lien Bonds, there shall be transferred into the First Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(a) Such amounts as will be sufficient to pay the amount of interest scheduled to become due on the First Lien Bonds on such Interest Payment Date; plus

(b) Such amounts, if any, as will be sufficient to pay the amount of principal of the First Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any First Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of First Lien Bonds; plus

(c) Such amounts, if any, as shall be necessary to pay fees, charges and other amounts payable to the Paying Agent/Registrar and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider or Qualified Hedge Agreement provider which, by terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund.

Moneys credited to the First Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase First Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the First Lien Bonds, plus all fees, charges and other amounts payable to the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund. On or before each date principal becomes due and/or each Interest Payment Date on the First Lien Bonds, the City is required to transfer from the First Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the First Lien Bonds on such date.

First Lien Bond Reserve Fund

The Supplemental Ordinance authorizing the Bonds provides that the Reserve Fund Requirement for the Reserve Fund Participants (the "First Lien Participant Reserve Requirement") shall be an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of the Supplemental Ordinance authorizing the Bonds and (ii) all subsequent issues of First Lien Bonds for which the City elects to fund a shared Bond Reserve Fund on a parity with the Bond Reserve Fund funded by such Supplemental Ordinance. All such issues electing the First Lien Participant Reserve Requirement will be entitled to a parity claim on the funds deposited in the shared Bond Reserve Fund.

The Master Ordinance provides that if the First Lien Participant Reserve Requirement increases due to the issuance of Additional First Lien Bonds that are Reserve Fund Participants, additional deposits into the First Lien Bond Reserve Fund sufficient to provide for the increased First Lien Participant Reserve Requirement will be made by not later than sixty (60) months from the date of issuance of such Additional First Lien Bonds. The Master Ordinance also provides that, except as a result of the issuance of Additional First Lien Bonds, if the First Lien Bond Participant Reserve Requirement is not fully funded, there will be transferred into the First Lien Bond Reserve Fund from the Revenue Fund amounts equal to one-sixtieth (1/60th) of the First Lien Participant Reserve Requirement unless or until there has been accumulated in the First Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the First Lien Participant Reserve Requirement. But if and whenever the balance in the First Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund will be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the First Lien Participant Reserve Requirement until the First Lien Bond Reserve Fund has been restored to such amount. The First Lien Bond Reserve Fund will be used to pay the principal of and interest on the First Lien Bonds that are Reserve Fund Participants (and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the First Lien Bond Interest and Sinking Fund for such purpose, and it may be used finally to pay and retire the last First Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The Master Ordinance provides that the requirements of the immediately preceding paragraph notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the First Lien Participant Reserve Requirement in lieu of depositing cash into the First Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the First Lien Bond Reserve Fund causes the amount then on deposit in the First Lien Bond Reserve Fund to exceed the First Lien Participant Reserve Requirement, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such Obligations preceding an Interest Payment Date pursuant to Chapter 1207, Texas Government Code, as amended), or to the CUS General Purpose Fund.

The Bonds will be issued as First Lien Bonds. For a discussion of amounts held in the Debt Service Reserve Fund, the requirements for a qualifying Reserve Fund Surety Policy and the existing Reserve Fund Surety Policies issued in connection with certain outstanding First Lien Bonds and Previous Ordinance Bonds, see the section captioned "RESERVE FUND." See also "APPENDIX H — Description of Reserve Fund Surety Policies."

CUS General Purpose Fund

The Master Ordinance provides that subject to the payment to the provider of a First Lien Participant's Reserve Fund Surety Policy of any interest on amounts advanced and any expenses incurred under the Reserve Fund Surety Policy required to be paid pursuant to an agreement between the City and the provider of such Reserve Fund Surety Policy, and subject to the provisions of the Master Ordinance, from any moneys remaining in the Revenue Fund, at least annually within ninety (90) days following the end of each Fiscal Year, there shall be set aside and credited to the CUS General Purpose Fund, the remaining revenues in the Revenue Fund. Moneys accounted for in the CUS General Purpose Fund, subject to any limitations in the Master Ordinance or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any combination of the following:

(i) Capital Costs. To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the System, or any part thereof, and any equipment therefor, authorized by law;

(ii) Major Maintenance Costs. To pay the costs of extraordinary and major repairs, renewals, replacements or maintenance items pertaining to any properties of the System of a type not recurring annually or at shorter intervals and not paid as Maintenance and Operation Expenses;

(iii) Debt Service Requirements. To pay any System Bonds or other System Obligations or securities pertaining to the System and payable from Net Revenues (regardless of whether such securities are secured by a lien thereon), as to Debt Service Requirements and any other appurtenant charge pertaining to such Debt Service Requirements on any Interest Payment Date, or any redemption date or redemption dates, or by purchase in the open market, or by creating an escrow to provide for the payment of or to defease such System Bonds, other System Obligations or securities or otherwise;

(iv) Legal Obligations. To pay any obligations pertaining to the System and arising from a judgment against the City or any officer, employee or other agent of the City acting within the scope of his official duties, rights or privileges, or the scope of his employment, as the case may be, in any suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, or a settlement by the City of any claim to avoid or to settle such a suit, action, or special proceeding, except to the extent revenues are otherwise available to defray such an obligation, including, without limitation, insurance proceeds, or to pay any penalties, fines, settlements or other amounts required to be paid by the City as a result of federal or state administrative proceedings relating to the System;

(v) Assumed and Other Obligations. To pay any bonds or other obligations assumed by the City that were issued or incurred by water districts annexed and dissolved by the City, which bonds or other obligations are by their own terms secured in whole or in part by a pledge of water or sewer revenues that did not terminate upon the annexation and dissolution of such water districts, and other bonds or obligations issued or assumed by the City for combined utility system purposes that are payable from ad valorem taxes or sources other than the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, or the Second Lien Bond Reserve Fund;

(vi) Lawful System Purposes. For any other lawful purpose of the System as the City may determine; and

(vii) Drainage Purposes. For planning, design, construction, regulation, improvement, repair, maintenance and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components, including, without limitation, the costs of developing, implementing and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing or maintaining any required permits related to the operation of the storm sewer system, and also including payment of debt service on bonds, notes or other obligations issued for the purposes listed in this paragraph; provided that the aggregate amount withdrawn from the CUS General Purpose Fund for such purposes in this sub-paragraph (vii) during any Fiscal Year will not exceed 8% of the Gross Revenues of the System for the immediately preceding Fiscal Year.

The Master Ordinance provides that moneys will be withdrawn from the CUS General Purpose Fund for any one, all or other combination of such purposes designated above in the same manner that other claims against the System are presented and paid. See "THE CITY AND THE SYSTEM - Water Facilities" for a description of the contract payments made by the City from the CUS General Purpose Fund for the construction of the Luce Bayou Project. See also "SYSTEM DEBT AND CHARGES - Schedule 13 - Indirect Charges Paid by the System and CUS General Purpose Fund Transfers". Amounts in the CUS General Purpose Fund at the beginning of a Fiscal Year that are deposited into the Revenue Fund in that Fiscal Year are Gross Revenues for the Fiscal Year in which such amounts are deposited into the Revenue Fund.

Rate Covenant

The Master Ordinance provides that while any First Lien Bonds, including the Bonds, and any other System Bonds remain Outstanding, the City is required to fix, charge and collect rates and charges for the use and services of the System that are calculated to be fully sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(i) 120% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds and First Lien Bonds then Outstanding, or

(ii) 110% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds, First Lien Bonds and Second Lien Bonds then Outstanding,

plus an amount equal to the sum of all deposits required to be made to the First Lien Bond Reserve Fund and to the Second Lien Bond Reserve Fund in such Fiscal Year; provided that, in calculating the Net Revenues required by paragraphs (i) and (ii) above, all or any portion of such Net Revenues that exceed 100% of the combined Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements (see "CUS General Purpose Fund — Debt Service Requirements"), and provided further that in no event will Net Revenues ever be less than the amount required to establish and maintain the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as provided in the Master Ordinance, to establish and maintain the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund as provided in the Master Ordinance and, to the extent that funds for such purpose are not otherwise available, to pay all other Outstanding System Obligations payable from the Net Revenues of the System, including all amounts owed as a repayment obligation by the City pursuant to a Reserve Fund Surety Policy or a Credit Agreement, as and when the same become due. The foregoing provision of the Master Ordinance is referred to as the "Rate Covenant." The Master Ordinance provides that the calculation required by this section will be made annually at the time the City's annual budget for the System is adopted and will be included in the annual budget for the System.

Automatic Annual Rate Adjustments

The Master Ordinance provides that on April 1 of each year (subject to the terms of existing contracts), the requirements of the Rate Covenant, applicable Texas law and the authority of the City Council of the City to adopt other rates and charges as limited by Proposition 1 (2004) (as described in "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations"), rates and charges for the use and services of the System shall be adjusted

based on the percentage change (if any) in the Designated Index or other appropriate index for the preceding calendar year. On April 21, 2010, the City Council adopted an ordinance (the "Rate Ordinance"), effective June 1, 2010, which provides for automatic annual adjustments to the City's water and sewer rates based on the percentage increase in the Designated Index (CPI-U) plus the percentage increase in population. However, if the City can demonstrate that the cost of service is greater than the revenues generated by rates increased in such manner, then rates may be increased based on the annual percentage increase in the Producer Price Index (PPI) for all commodities, which is a measure of inflation that has historically closely followed cost increases to the System. Previous automatic annual adjustments were tied to the CPI-U, which measures inflation based on costs of consumer goods. See "RATES." In addition, the Rate Ordinance provides for three phased increases to single family residential rates designed to generate customer class cost of service.

Additional Rate Adjustments

Effective June 1, 2010, the Rate Ordinance increased water and sewer rates by an average of 20.1% for retail customers. See "RATES." See also "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" for a discussion of Proposition 1 (2004), including the City's authority to raise rates as required by bond covenants and by contract, other propositions and the status of related litigation. The Fiscal Year 2013 rate adjustments that will become effective April 1, 2013 include the automatic rate adjustment pursuant to the Rate Ordinance and the third of three phased increases to residential single family rates to meet this customer class' cost of service rate pursuant to the Rate Ordinance. The April 1, 2013 rate adjustment average is estimated at 3.6%. See "RATES – Schedule 9 – Rate Adjustments."

ADDITIONAL BONDS

Set forth below is a description of the Additional Bonds Test contained in the Master Ordinance and certain provisions relating to the issuance of other System Obligations under the Master Ordinance. Capitalized terms used in this section but not otherwise defined in this section have the meanings assigned to such terms in "APPENDIX C — Definitions." For more complete information, see "APPENDIX D — Excerpts from Master Ordinance."

Additional First Lien and Second Lien Obligations

Bonds. In the Master Ordinance, the City reserves the right to issue, for any lawful System purpose, including the refunding of any previously issued First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds or any other bonds or obligations of the City issued in connection with the System or payable from Net Revenues, or to pay obligations incurred under or pursuant to any Credit Agreement or Qualified Hedge Agreement, one or more series of (i) Additional First Lien Bonds on a parity with the Outstanding First Lien Bonds payable from, and secured by a first lien on, the Net Revenues of the System senior and superior to the lien securing the Second Lien Bonds; and (ii) Additional Second Lien Bonds on a parity with the Outstanding Second Lien Bonds; provided, however, that no Additional First Lien Bonds or Additional Second Lien Bonds may be issued unless:

(a) The First Lien Bond Reserve Fund and, for the issuance of Additional Second Lien Bonds, the Second Lien Bond Reserve Fund contains the amount of money then required to be on deposit therein;

(b) For either the preceding Fiscal Year or any consecutive 12 month period out of the 18-month period immediately preceding the month in which the Supplemental Ordinance authorizing such Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, is adopted (the "Base Period") either:

(i) Net Revenues are certified by the City Controller to have been equal to not less than the greater of (A) 120% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds and any Previous Ordinance Bonds or (B) 110% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds, Second Lien Bonds and any Previous Ordinance Bonds, after giving effect to the issuance of the Additional First Lien Bonds or Additional Second Lien Bonds to be issued; or

(ii) Net Revenues, adjusted to give effect to any rate increase, new customers or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, to the same extent as if

such rate increase, new customers, or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least the greater of (A) or (B) in paragraph (i) above, as certified by an independent consulting engineer or independent firm of consulting engineers;

provided that (1) all or any portion of the Net Revenues required by clauses (i) and (ii) of paragraph (b) above that exceed 100% of the Maximum Annual Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to the Master Ordinance; (2) the provisions of this paragraph (b) will not apply to the issuance of any series of Additional Second Lien Bonds for the purpose of refunding Outstanding First Lien Bonds, or to the issuance of any series of Additional First Lien Bonds or Additional Second Lien Bonds for refunding purposes, that will not have the result of increasing the Average Annual Debt Service Requirements on the First Lien Bonds or the Second Lien Bonds; and (3) the provisions of this paragraph (b) will not apply to the issuance of Additional First Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or the issuance of Additional Second Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or Second Lien Bonds; and

(c) Provision is made in the Supplemental Ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds then proposed to be issued for (i) additional payments into the First Lien Bond Interest and Sinking Fund or Second Lien Bond Interest and Sinking Fund, as the case may be, sufficient to provide for the payment of the increased principal of and interest on the First Lien Bonds or Second Lien Bonds resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, and (ii) additional payments into the First Lien Bond Reserve Fund (if such Additional Bonds are Reserve Fund Participants) or Second Lien Bond Reserve Fund, as the case may be, sufficient to provide for the accumulation therein of the increased Reserve Fund Requirements, if any, resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, by not later than sixty (60) months from the date of issuance of such Additional First Lien Bonds or Additional Second Lien Bonds.

Credit Agreements. The Master Ordinance provides that the City may enter into Credit Agreements with respect to any System Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, will cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify in a written certificate delivered to the City that the inclusion of such payments within the Debt Service Requirements on the System Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such System Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence.

The issuer of any Credit Agreement is entitled to be subrogated to the rights of the Owners of the System Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement will be secured by Net Revenues as provided in the Master Ordinance.

Qualified Hedge Agreements. The Master Ordinance provides that the City may enter into Qualified Hedge Agreements in connection with any System Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto will, to the extent required by law, be submitted to and approved by the Attorney General of Texas; and

(ii) the City's financial advisor will certify in a written certificate delivered to the City that the System Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of Article Six of the Master Ordinance if the Debt Service

Requirements with respect to such System Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account the Qualified Hedge Agreement.

The Master Ordinance defines the term “Maximum Annual Debt Service Requirements” to mean the greatest combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any particular future Fiscal Year or in the then current Fiscal Year for the particular System Bonds (First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds or any combination of the foregoing) for which such calculation is made. See “QUALIFIED HEDGE AGREEMENTS” for a description of the Master Ordinance Requirements and existing Qualified Hedge Agreements.

Short Term Obligations

In the Master Ordinance, the City reserves the right to issue, from time to time, one or more series of Additional First Lien Bonds and/or Additional Second Lien Bonds as Short Term Obligations in accordance with the provisions described in “ADDITIONAL BONDS — Additional First Lien and Second Lien Obligations.”

Third Lien Obligations and Fourth Lien Obligations

In the Master Ordinance, the City also reserves the right to issue, for any lawful purpose, Third Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the First Lien Bonds and the Second Lien Bonds. The City also reserves the right to issue Fourth Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of First Lien Bonds, Second Lien Bonds, and Third Lien Obligations. Effective December 17, 2009, the City established a \$700 million Series B Commercial Paper Note program (the “Series B Commercial Paper Program”) that provides for the issuance of Commercial Paper Notes as Third Lien Obligations. See “SYSTEM DEBT AND CHARGES — Commercial Paper Program”.

Supplemental Ordinance

The Master Ordinance provides that System Bonds will be issued pursuant to a supplemental ordinance stating the purpose of the issuance, directing the application of proceeds and containing the terms of the issuance, including the date, principal amount, maturities, designation, interest rates, redemption privileges and other provisions. The Master Ordinance provides that Third Lien Obligations, Fourth Lien Obligations, Qualified Hedge Agreements and Credit Agreements will be issued pursuant to Supplemental Ordinances or pursuant to separate ordinances that provide for the timing of transfers of funds from the Revenue Fund to the debt service funds and reserve funds, if any, established for such System Obligations consistent with the order of priority set forth in the Master Ordinance.

Special Project Obligations

The City also reserves the right in the Master Ordinance to issue other obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects. The Master Ordinance defines Special Projects to mean, to the extent permitted by law, any existing or future utility system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or revenues of the System and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes or revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE

The following section describes certain covenants and other terms of the Master Ordinance. Capitalized terms used in this section but not otherwise defined have the meanings given to such terms in “APPENDIX C — Definitions.” For additional information, see “APPENDIX D — Excerpts from Master Ordinance.” See also the sections captioned “SECURITY FOR THE BONDS” and “ADDITIONAL BONDS.”

Restrictions on Free Service

The City has covenanted in the Master Ordinance not to grant or permit any free service from the System, except for public buildings and institutions operated by the City and properties permitted to be exempt by state law. Additionally, the City will not grant or permit any free service from the System that would violate any condition or covenant to which the City is bound in connection with any federal grant agreement or otherwise.

Bondholder Rights and Remedies

The Master Ordinance is a contract between the City and the Owners of the System Bonds, including the Bonds. The Master Ordinance remains irrevocable until the System Bonds and the interest thereon are fully paid, discharged or defeased as provided in the Master Ordinance. In the event of a default in the payment of the principal of or interest on any System Bonds or a default in the performance of any duty or covenant provided by law or in the Master Ordinance, the Owners of System Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further defaults. Any Owner of System Bonds may at law or in equity, by suit, mandamus or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Master Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use of the System and the deposit and application of revenues in the manner required in the Master Ordinance. A Supplemental Ordinance may provide that, so long as an issuer of a municipal bond insurance policy has not defaulted in its payment obligations under such policy with the City insuring a portion of the System Bonds, that issuer will at all times be deemed to be the exclusive owner of such System Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies.

Defeasance

The City may defease the provisions of the Master Ordinance and discharge its obligation to the Owners of System Bonds or other System Obligations in any manner permitted by law, including by depositing with the Paying Agent/Registrar, or if authorized by Texas law with any national or state bank having trust powers and having combined capital and surplus of at least \$50 million or with the Comptroller of Public Accounts of the State of Texas (or any successor office) either: (a) cash in an amount equal to the principal amount and redemption premium, if any, of such System Bonds or other System Obligations plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement, cash and/or securities authorized by Texas law at the time of issuance of such series of System Bonds or System Obligations, including currently (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States; (2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City adopts or approves the proceedings authorizing the issuance of refunding bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City adopts or approves the proceedings authorizing the issuance of refunding bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (4) any other securities or obligations which, at the time of such defeasance, are authorized by state law to be used to effectuate a defeasance of the System Bonds.

Such deposits may be invested only in obligations described above that are in principal amounts and maturities and bear interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such System Bonds or other System Obligations plus interest thereon to the date of maturity or redemption. Upon such deposit and upon receipt of an opinion of nationally recognized bond counsel to the effect that such System Bonds or System Obligations are deemed to be fully paid and are no longer Outstanding, such System Bonds or other System Obligations will no longer be regarded to be Outstanding or unpaid; provided, however, the City shall remain obligated for all payments with respect to the Bonds, including the contribution of additional money or securities if necessary to provide sufficient amounts to satisfy the payment obligations. Any surplus amounts not required to accomplish such defeasance will be returned to the System after the System Obligations are retired. Payments of principal of and interest on any System bonds or other System Obligations made by a provider of a Credit Agreement insuring a portion of the System Bonds or other System Obligations will

not be deemed to have been paid under the Master Ordinance, and such System Bonds or other System Obligations will continue to be Outstanding until paid by the City.

Amendments to Ordinance

The Master Ordinance provides that the City may, with the consent of Owners holding a majority in aggregate principal amount of the System Bonds then Outstanding and affected thereby, amend, add to, or rescind any of the provisions of the Master Ordinance; provided that, without the consent of all Owners of Outstanding System Bonds, no such amendment, addition or rescission will (1) extend the time or times of payment of the principal of, premium, if any, and interest on the System Bonds, or reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, (2) give any preference to any System Bond over any other System Bond, or (3) reduce the aggregate principal amount of System Bonds required to be held by Owners for consent to any such amendment, addition, or rescission. The Master Ordinance provides that for the purposes of this amendment provision, the Owners of the System Bonds will include the initial Owners, regardless of whether such System Bonds are being held for subsequent resale.

QUALIFIED HEDGE AGREEMENTS

Master Ordinance Requirements

The Master Ordinance permits the City to enter into Qualified Hedge Agreements such as interest rate swap agreements, currency swap agreements, forward payment conversion agreements and futures contracts, among others. A Qualified Hedge Agreement may only be entered into with an institution that has a long term credit rating, or the obligations of which are unconditionally guaranteed by a financial institution with a long term credit rating, in one of the two highest generic rating categories by at least one Rating Agency then rating the System Bonds. Each Qualified Hedge Agreement will be either (i) payable from and secured by a pledge of Net Revenues of the System on the same priority as the System Bonds of the series to which it relates, except that any obligation of the City to deliver collateral or make termination payments that are not payable in installments over the remaining life of the relevant transaction will be payable from and secured by a pledge of Net Revenues on a parity with Third Lien Obligations or (ii) an obligation inferior and subordinate to Third Lien Obligations. However, the Master Ordinance provides that issuers of and counterparties to Qualified Hedge Agreements will not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments under the Master Ordinance. See "THE CITY AND THE SYSTEM - Interest Rate Swap Policy."

Qualified Hedge Agreement for Series 2012C Bonds

The City entered into a Qualified Hedge Agreement (the "Series 2012C Qualified Hedge Agreement") with the Royal Bank of Canada ("RBC" or the "Series 2012C Counterparty"), with a notional amount of \$249,075,000, in an effort to mitigate and hedge interest rate exposure on the City's Combined Utility System First Lien Revenue Refunding Bonds, Series 2012C (the "Series 2012C Bonds"), which are currently outstanding as SIFMA Index Floating Rate Bonds. Under the Series 2012C Qualified Hedge Agreement, the City synthetically converts the adjustable rate on the Series 2012C Bonds to a net fixed rate liability. The City's scheduled swap payments under the Series 2012C Qualified Hedge Agreement with RBC are insured by Ambac Assurance Corporation ("Ambac Assurance"). Ambac Assurance is the principal operating subsidiary of Ambac Financial Group, Inc., which filed for a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in November 2010. In March 2012, the Bankruptcy Court entered an order confirming a plan for reorganization of Ambac Financial Group, Inc. Although Ambac Assurance has not filed a petition under the Bankruptcy Code, in the event the City fails to make scheduled payments under the Series 2012C Qualified Hedge Agreement, no assurance can be given that Ambac Assurance will make such payments.

Qualified Hedge Agreements for Series 2004B Bonds and Series 2012A&B Bonds

In an effort to mitigate and hedge interest rate exposure, the City entered into three separate Qualified Hedge Agreements (each a "Series 2004B/2012A&B Qualified Hedge Agreement"), with an aggregate notional amount of \$653,325,000, to substantially convert the adjustable rate on the \$428,325,000 City of Houston Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B (the "Series 2004B Bonds") and the \$225,000,000 City of Houston Combined Utility System First Lien Revenue Refunding Bonds, Series 2012A and

Series 2012B (the "Series 2012A&B Bonds") to a net fixed rate liability. The Series 2004B Bonds are currently outstanding in a weekly mode and the Series 2012A&B Bonds are currently outstanding as SIFMA Index Floating Rate Bonds. Each Series 2004B/2012A&B Qualified Hedge Agreement was separately entered into with the following counterparties (each a "Series 2004B/2012A&B Counterparty"): Goldman Sachs Bank USA (with a guaranty by The Goldman Sachs Group, Inc.), JPMorgan Chase and UBS AG. The scheduled obligations of the City under the Series 2004B/2012A&B Qualified Hedge Agreement with JPMorgan Chase are insured by Syncora Guarantee (formerly XL Capital Assurance Inc.).

General Provisions of the Qualified Hedge Agreements

The City and the respective Series 2004B/2012A&B or Series 2012C Counterparty may each terminate a Series 2004B/2012A&B or Series 2012C Qualified Hedge Agreement if the other party (or, in some cases, its credit support provider or specified affiliate) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or may not legally perform its obligations under the agreement, or the Counterparty's (or its credit support provider's) long-term ratings are downgraded below "A3" or "A-" (in the case of the Series 2004B/2012A&B or Series 2012C Counterparty) or "Baa2" or "BBB" (in the case of the System) by the rating agencies that rate such party. The City has no obligation to pledge collateral under any of these Qualified Hedge Agreements unless the respective counterparties have the right to terminate and the System's credit ratings are downgraded below "Baa2" or "BBB."

The counterparties have the right to terminate their respective Series 2004B/2012A&B or Series 2012C Qualified Hedge Agreement if the long term debt ratings of the System fall below specified ratings (based on the ratings of the City or the respective swap insurer), or the respective insurer fails to meet its payment obligations under either of the Qualified Hedge Agreements, or an insurer event coupled with another termination event or an event of default has occurred and, among other possible remedies, the City fails to deliver a letter establishing the long term rating of the System Obligations as "Baa2," "BBB," or the equivalent or better. The respective insurer generally must consent to the exercise of and, under certain circumstances, may exercise the parties' termination rights. If either party terminates a Series 2004B/2012A&B or Series 2012C Qualified Hedge Agreement, the terminating party generally must pay to or be paid by the defaulting or affected party the mean or median average of amounts quoted by leading dealers to be paid to or by the terminating party to enter into an economically equivalent agreement with it, regardless of which party was the defaulting or affected party. Under Texas law, any City obligation to make a termination payment may be financed by the issuance of additional System Bonds.

The City's obligations to make net payments under Series 2004B/2012A&B or Series 2012C Qualified Hedge Agreements are payable from and secured by a pledge of Net Revenues of the System on a parity with First Lien Bonds, except that the pledge securing the City's obligations to deliver collateral, if any, and make termination payments are subordinate and on a parity basis with Third Lien Obligations. Any amounts received by the City under a Series 2004B/2012A&B or Series 2012C Qualified Hedge Agreement will be revenues of the System. The City could be subject to additional payments under the Series 2004B/2012A&B Qualified Hedge Agreements or the Series 2012C Qualified Hedge Agreement if there is a shortfall in its LIBOR-based gross receivables compared to its tax-exempt variable rate interest obligations on the applicable Series 2004B Bonds, Series 2012A&B Bonds or the Series 2012C Bonds. Any substantial shortfall could result in the need to increase rates and charges. If the City is required to make substantial termination payments or to deliver substantial amounts of collateral, the liquidity of the System could be adversely affected, depending on market conditions. The City may also enter into other interest rate hedging transactions payable from System revenues in the future, with comparable risks.

For additional information, including the estimated market valuation of the termination payment due upon termination of the Series 2004B/2012A&B and Series 2012C Qualified Hedge Agreement, as February 28, 2013, assuming a termination were to occur, see the Monthly Report for the period ending February 28, 2013 of the City of Houston, Texas Office of the City Controller, at <http://www.houstontx.gov/controller/investment.html>, under the heading "Combined Utility System Swaps."

SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE

Net Revenues of the System and Debt Service Coverage

The following schedule sets forth the Net Revenues of the System for Fiscal Years ended June 30, 2010, 2011 and 2012, the extent to which such Net Revenues covered debt service on Junior Lien Bonds under the Previous Ordinance, First Lien Bonds under the Master Ordinance and other System debt then outstanding. The debt service amounts and coverage ratios set out in this schedule do not include Third Lien Obligations issued as Commercial Paper Notes under the Master Ordinance (see "SYSTEM DEBT AND CHARGES — Commercial Paper Program"). The amounts shown for Fiscal Year 2010, Fiscal Year 2011 and Fiscal Year 2012 are taken from the Comprehensive Annual Financial Report of the City of Houston, Texas, for each respective Fiscal Year.

Revenues and expenses of the System can be impacted by the effects of weather, with dry weather generally resulting in an increase of usage of the facilities of the System, which can increase both revenues and expenses, and higher than average rainfall amounts generally resulting in less demand for the usage of the System.

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Schedule 1 – Net Revenues of the System and Debt Service Coverage

	Fiscal Year (June 30)		
	2012 (in thousands)	2011 (in thousands)	2010 (in thousands)
OPERATING REVENUES			
Sales of Water, net	\$485,307	\$458,826	\$356,046
Sewer system user charges, net	421,370	410,941	320,722
Penalties, other services and charges	15,191	9,408	14,370
Total Operating Revenues	\$921,868	\$879,175	\$691,138
NON-OPERATING REVENUES			
Investment Earnings under Previous Ordinance	\$ 9,808	\$ 10,348	\$ 12,849
Investment Earnings under Master Ordinance	1,209	1,608	2,677
Non-Operating Revenues: Water Authority Contributions	4,703	4,702	34,724
Transfer from General Purpose Fund	--	--	45,000
Other non-operating revenues	12,548	16,137	18,860
Total non-operating revenues	\$ 28,268	\$ 32,795	\$114,110
TOTAL GROSS REVENUES:	\$950,136	\$911,970	\$805,248
EXPENSES			
Total Contract Revenue Bond Payments ⁽¹⁾	\$ 20,389	\$ 21,285	\$ 23,117
Maintenance and Operating Expenses	397,226	342,364	348,796
Total Expenses	\$417,615	\$363,649	\$371,913
RESTRICTED RECEIPTS UNDER MASTER ORDINANCE	\$ 18,891	\$ 9,248	\$ 9,731
NET REVENUES UNDER MASTER ORDINANCE	\$551,412	\$557,569	\$443,066
BOND DEBT SERVICE:			
Previously Issued Bonds	\$ 70,355	\$ 77,236	\$ 82,540
First Lien Bonds	302,214	271,754	264,973
Total Debt Service	\$372,569	\$348,990	\$347,513
BOND DEBT SERVICE COVERAGE:			
Junior Lien Bond Coverage under Previous Ordinance ⁽²⁾	7.55X	7.08X	5.22x
First Lien Bond Coverage under Master Ordinance ⁽³⁾	1.59X	1.77X	1.36x
TOTAL COVERAGE ⁽⁴⁾	1.48X	1.60X	1.27x

⁽¹⁾ See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

⁽²⁾ Coverage of debt service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues Restricted Receipts and investment earnings under the Master Ordinance.

⁽³⁾ Coverage of Debt Service on First Lien Bonds by Net Revenues (as defined in the Master Ordinance), less debt service on Junior Lien Bonds under Previous Ordinance.

⁽⁴⁾ Coverage of Total Debt Service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues.

Schedule 2 — Coverage of Maximum Annual Debt Service by Net Revenues

The following calculation shows coverage of Maximum Annual Debt Service as of January 31, 2013 on the Previous Ordinance and First Lien Bonds.

Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2013) ⁽¹⁾	\$ 70,200,884
Maximum Annual Debt Service Requirements on First Lien Bonds (2034) ⁽¹⁾⁽²⁾	417,403,904
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2025) ⁽¹⁾⁽²⁾	422,152,739
Net Revenues under Previous Ordinance for Fiscal Year ended June 30, 2012 ⁽³⁾	531,312,000
Net Revenues under Master Ordinance for Fiscal Year ended June 30, 2012 ⁽⁴⁾	551,412,000
Funds available from CUS General Purpose Fund at June 30, 2012	239,034,055
Total Funds available for Debt Service Coverage	\$790,446,055
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	7.57x
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	1.89x
Coverage of Combined Maximum Annual Debt Service Requirements ⁽⁵⁾	1.87x

⁽¹⁾ Does not include debt service on CWA Bonds payable from Gross Revenues as a Maintenance and Operating Expense of the System.

⁽²⁾ Debt service for the Series 2004B Bonds is calculated at the fixed rate of the Series 2004B Qualified Hedge Agreement, which is 3.7784%. Debt service for the Series 2012A Bonds is calculated at 4.3284% until December 2016, and 3.7784% thereafter. Debt Service for the Series 2012B Bonds is calculated at the rate of 4.5284% until December 2018, and 3.7784% thereafter. Debt Service for the Series 2012C Bonds is calculated at the rate of 4.3610% through August 2016, and 3.761% thereafter.

⁽³⁾ Excludes Investment Earnings under Master Ordinance and Restricted Receipts under Master Ordinance.

⁽⁴⁾ Net Revenues as calculated under the Master Ordinance, which includes as revenues Restricted Receipts and earnings under the Master Ordinance.

⁽⁵⁾ Coverage under Master Ordinance for combined debt service on Previous Ordinance Bonds and First Lien Bonds.

THE CITY AND THE SYSTEM

General

The Combined Utility System established under the Master Ordinance currently consists of the City's groundwater and surface water sources, conveyance, treatment, distribution and wastewater facilities (the "Water Facilities") and wastewater collection and treatment facilities (the "Sewer Facilities"). The Water Facilities and Sewer Facilities are sometimes collectively referred to as the "Water and Sewer Facilities." The Combined Utility System may include other utility systems provided for in Chapter 1502, Texas Government Code, as amended, which the City may, from time to time, elect to combine with the Combined Utility System so long as the revenues of such other utility systems are included in Gross Revenues under the Master Ordinance.

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for two-year terms. The present term of office for all elected officials expires in January 2014. The City Charter limits the terms of office for all elected City officials to three, two-year terms.

The Mayor is the City's chief executive officer. The Mayor exercises administrative control over the City's government; presides over City Council meetings; establishes the City Council agenda; and appoints the heads of the various departments of the City, subject to confirmation by the City Council. The Mayor also is responsible for preparing and submitting the City's annual budget proposals to the City Council for adoption.

The City Controller is the City's chief financial officer. The Office of the City Controller superintends, supervises, manages and conducts the fiscal affairs of the City; maintains the books of accounts; prepares financial statements; conducts the sales of City obligations; certifies the availability of funds before the City incurs any financial obligation; and, along with the Mayor, countersigns all warrants, contracts or orders for payment of any money by the City.

City Charter Tax and Revenue Limitations

Proposition 1 and Proposition 2 (2004). In 2004, voters approved Proposition 1 in order to limit increases in (i) the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding Fiscal Year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth; and (ii) water and sewer rates (i.e., the City's Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters. At the same election, the voters also approved Proposition 2, which proposed to limit increases in the City's "combined revenues," which would include revenues of the General Fund, Special Funds and Enterprise Funds. Based on the specific language of Proposition 1 and Proposition 2, and the language of the City Charter, the City declared that Proposition 2 was not effective. Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. On August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court without reference to the merits and dismissed the case for want of jurisdiction.

Propositions G and H. In response to Proposition 1 and Proposition 2, the City held an election on November 7, 2006, at which the voters approved Proposition G and Proposition H, which are currently effective. Proposition G amends the City Charter to exclude revenues of the City's enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect. Proposition H allows the City to collect and spend up to \$90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. The City has incorporated Propositions G and H into its financial policies, and it anticipates collecting revenues and making expenditures for public safety purposes in compliance with Proposition H.

Proposition G and H Litigation. A voter filed suit to invalidate Propositions G and H. That action was dismissed by a state district court; however, the plaintiff appealed the ruling to the First Court of Appeals, which on April 15, 2010 overturned the district court's dismissal of the case and gave the plaintiff an opportunity to amend his pleading to establish standing to bring suit. The Texas Supreme Court has denied the City's petition for review. The case was remanded to the trial court where it remains pending. The City intends to continue to defend this case vigorously.

Drainage and Street Proposition. In 2010, voters approved a proposition to amend the City Charter to provide for the improvement of the City's drainage and street system by imposing an assessment upon property owners that receive drainage services. In December 2010, a lawsuit was filed in State district court seeking to have the drainage proposition declared unlawful. On May 24, 2011, the district court granted a motion for summary judgment in favor of the City, thereby disposing of all plaintiffs' claims. The plaintiffs filed a motion for a new trial, which was denied. On August 22, 2011, the plaintiffs filed a Notice of Appeal, and the case was assigned to the Fourteenth Court of Appeals. On July 10, 2012, the Fourteenth Court of Appeals affirmed the district court's summary judgment decision. Plaintiffs filed a motion for rehearing with the court of appeals and the court of appeals has requested a response from the City. The decision of the court of appeals may be appealed to the Texas Supreme Court by either side.

In addition, in February 2012, the owners of three apartment complexes filed a lawsuit against the City and the Director of Public Works and Engineering in his official capacity challenging the validity of various aspects of Proposition 1 (2010). The City has filed a plea to the court's jurisdiction to consider the lawsuit. The Plea was granted in part and denied in part, and the City has appealed the denial. Three railroad companies had intervened in the lawsuit to challenge the ordinance but, on the City's motion, the court struck the railroad companies' intervention. The railroad companies then filed their own lawsuit challenging the validity of various aspects of Proposition 1 (2010), seeking injunctive relief as well as attorneys' fees. Recently, the City's Plea to the Jurisdiction on all of the railroads' ultra vires claims was granted, which order may be appealed on an interlocutory basis by the railroad companies. Their declaratory judgment claims and constitutional challenges to the ordinance remain pending in the trial court. The City intends to defend this case vigorously.

Administration of the System

The System is operated by the Department of Public Works and Engineering (the “Department”). The management of the Department is under the supervision of the following persons:

Daniel W. Krueger, P.E., Director – Public Works and Engineering, assumed duties in July 2010 and is responsible for overseeing the Department’s services to Houston citizens through the administration, planning, operation, maintenance, construction management and technical engineering of the City’s infrastructure. Mr. Krueger has over 37 years of experience in organizational management and engineering. Prior to assuming his present duties, Mr. Krueger consulted for Dallas Area Rapid Transit Authority (“DART”) as an associate of Lockwood, Andrews & Newman, Inc., and was responsible for design-build management of DART’s Orange Line from Dallas to DFW Airport. He previously served within Houston’s Public Works & Engineering Department as Deputy Director for Engineering and Construction, where he was responsible for the design and construction of infrastructure projects in the City’s capital improvement program. Mr. Krueger joined the City of Houston in 2002 after retiring from the United States Army, where his senior assignments included serving as Deputy Commander for the Northwestern Division, U.S. Army Corps of Engineers; and previously as District Engineer and Commander for Memphis District, U.S. Army Corps of Engineers. He holds a B.S. degree from the U.S. Military Academy at West Point, and a M.S.E. degree in Construction Engineering and Management from the University of Michigan, and is a registered professional engineer in Texas and Virginia.

Jun Chang, P.E., Deputy Director – Public Utilities, assumed his duties in September 2008. Mr. Chang is responsible for operating and maintaining the City’s regional water and wastewater utility systems. The City’s Utility is one of the top ten public water and wastewater utilities within the United States. As Deputy Director, he manages a staff of 1,723 with an annual capital and operations and maintenance budget of over \$500 million. Mr. Chang has 25 years of Civil Engineering experience with the City. Prior to assuming his present duties, Mr. Chang managed and directed a variety of engineering activities and personnel to identify, evaluate, manage and rehabilitate various facilities and systems. Mr. Chang received his B.S. and M.S. degree in Civil Engineering from the University of Houston. He is a Registered Professional Engineer in the State of Texas and is affiliated with the American Society of Civil Engineers, American Water Works Association, Houston Area Water Corporation, Coastal Water Authority, Region H Water Planning Group, American Public Works Association, Water Environmental Federation, Design-Build Institute of America, Texas Water Conservation Association and the Association of Metropolitan Water Agencies.

Susan Bandy, CPA, Deputy Director – Resource Management, assumed her position in May 2005 and has over 28 years of public and private sector experience in accounting, finance and management, 22 years of which have been with the City. Ms. Bandy is currently responsible for the management, monitoring and control of the Department’s finances, accounting, procurement and warehousing, and all utility customer services functions. Prior to joining the staff of the Department, Ms. Bandy served as Deputy City Controller over Financial Reporting, Assistant Director (and various other positions) in the City Department of Finance, and was on loan for four years as President of Houston’s 2012 Olympic bid effort. Prior to her employment with the City, Ms. Bandy assisted in developing and running the Houston Small Business Development Center, was an accounting lecturer at the University of Houston and worked for two big eight accounting firms. Ms. Bandy has both a Bachelor of Business Administration in Accounting and a Masters of Business Administration from the University of Houston and is a Certified Public Accountant.

Schedule 3 — Employees

The number of System full time-equivalent employees at the end of each of the last four Fiscal Years (2009-2012) and the current figure for Fiscal Year 2013 are as follows:

<u>Fiscal Year</u>	<u>Employees</u>
2009	2,351 ⁽¹⁾
2010	2,338 ⁽¹⁾
2011	2,213 ⁽¹⁾
2012	2,280 ⁽¹⁾
2013	2,125 ⁽²⁾

⁽¹⁾ As reported in the Statistical Section of the City of Houston Comprehensive Annual Financial Report.

⁽²⁾ As reported in the City's Monthly Financial and Operating Report as of February 28, 2013.

The Texas Legislature enacted Chapter 146 of the Local Government Code ("Chapter 146"), which extended to municipal employees of the City, other than department heads, firefighters and police officers, the right to appoint bargaining agents to "meet and confer" with representatives of the City of any agency, board, commission or political subdivision that is required to establish wages, salaries, rates of pay, hours, working conditions or other terms and conditions of employment regarding such issues. Chapter 146 prohibits municipal employees from engaging in strikes and specifically prohibits the bargaining agent and the City from entering into agreements regarding pension-related matters governed by Article 6243g, Vernon's Texas Civil Statutes, or a successor statute. See "EMPLOYEE PENSION FUNDS." However, any agreement affecting the salaries of municipal employees will likely have an effect on the City's pension liabilities.

In order to invoke the provisions of Chapter 146, a majority of the municipal employees must submit a petition requesting the recognition of a particular employee association as the sole and exclusive bargaining agent for all covered employees before the City may begin negotiations with the employee association. After receiving such a petition, the City may (i) grant recognition of the association as requested in the petition and meet and confer under Chapter 146 without an election by the voters of the City, (ii) order an election to determine whether the City may meet and confer under Chapter 146, or (iii) order a certification election to determine whether the employee association represents a majority of the covered employees. See also "-- Employee Health Benefits -- Health Care Benefits for Retired Employees."

The City has recognized the Houston Organization of Public Employees ("HOPE") as the exclusive bargaining agent for all covered employees. The City and HOPE entered into a meet and confer agreement that expired on June 30, 2011. A new meet and confer agreement was approved and ratified by City Council and went into effect on August 18, 2011. This agreement expires on June 30, 2015 and provides for a pay increase of 3% in 2013 and 3% in 2014. Following the expiration of such agreement, there no longer will be a contractual obligation of the City for pay increases. While pension benefits and contributions are not part of the meet and confer agreement, the increase in wages previously agreed to will affect the City's pension contributions. See also the section captioned "EMPLOYEE PENSION FUNDS" for a discussion of the "meet and confer" process for the Houston Municipal Employees Pension Board ("HMEPS").

Employee Health Benefits

The Health Benefits Fund (the "Health Benefits Fund") is an Internal Service Fund administered by the Human Resources department of the City. The Health Benefits Fund was established to centralize the financial transactions for the City's employee benefit plans, which include medical, dental and life insurance programs.

Health Insurance Plans. Effective May 1, 2011, the City awarded CIGNA a three-year contract with two one-year renewal options for four health plans and changed its funding method from fully insured to self-insured. Both individual and aggregate stop-loss coverage (with a monthly attachment/protection feature) has been purchased to limit the financial risk of catastrophic claims. The City's four health plans, all of which contain a wellness component, are: (i) a limited network HMO-type plan, (ii) an open-access PPO-type plan with no out-of-network coverage, (iii) a high deductible Health Plan (CDHP), partnered with a health reimbursement account and (iv) a specific plan for retirees not eligible for Medicare, mostly those under age 65, who live outside the limited network service area but who live in Texas. The retiree plan combines the co-payment benefits of the limited plan and the network and contributions of the open access plan.

Other Health Benefits for Active Employees. The Health Benefits Fund also includes two dental plans, funded entirely by participants, a dental health maintenance organization (DHMO) and dental indemnity plan. Basic Life Insurance is paid by the City and Voluntary Life Insurance is paid by the subscribers. Basic life insurance coverage is one times the base salary of the employee, which is 100% employer funded. Basic life insurance coverage premiums for retirees are paid by retiree contributions. Participants may purchase additional life insurance coverage at their own expense. A Healthcare Flexible Spending Account, in addition to the Dependent Care Account, is also included in the Health Benefits Fund.

Health Care Benefits for Retired Employees. The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City's employees who qualify for pension benefits while working for the City will become eligible for such benefits.

The City provides six Medicare plans with five different vendors and has made these plans mandatory for all retirees over age 65 who are eligible for Medicare. The medical plans are supported by contributions from the City and subscribers. In addition to the medical plan and in an effort to mitigate costs and maximize benefits to the City and Medicare-eligible retirees, the City offers Medicare Advantage plans from several insurance providers. On January 1, 2010, the City entered into separate three-year contracts, each with two one-year renewal options, with six insurance providers. The first of the one-year renewal options has been exercised. Effective January 1, 2011, the City awarded a three-year contract with two one-year renewal options to Texan Plus, Texas HealthSpring, Aetna ESA (PPO Plan), Kelsey (HMO & POS Plans) and United Health Care. These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans continue to be fully insured products and offer retirees several plans to choose from. Effective May 1, 2011, the City requires all Medicare eligible retirees to enroll in the Medicare Advantage Plans.

Funding of Other Postemployment Benefits. Similar to many issuers, the City's current practice has been to fund the cost of Other Postemployment Benefits ("OPEB") on an annual pay-as-you-go basis, with OPEB costs accounted for as a current operating expense in the City's financial statements in the Fiscal Year in which the OPEB cost is paid. The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities and continues to review the appropriate policies to address and manage any such liabilities.

Beginning in Fiscal Year 2007, the City became required by the Government Accounting Standards Board Statement No. 45 ("GASB 45"), Accounting by Employers for Other Postemployment Benefits, to report an actuarially determined cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45, the City must recognize such costs over the working lifetime of employees and, to the extent such costs are not prefunded, report such costs as a financial statement liability. GASB has begun a project to consider modifications to the existing standards of accounting and financial reporting for OPEB. As of the date hereof, no proposed changes to OPEB accounting rules have been released by GASB.

The City's most recent actuarial study indicates that, as of July 1, 2011, (i) the City's actuarial accrued liability ("AAL") for the portion of the total liability for projected benefits expected to be paid to the City's municipal employees and classified police officers and firefighters not funded by normal cost payments was approximately \$2.0 billion and (ii) the annually required contribution that would be required to pay the normal costs of the benefits and to effect a level amortization of the AAL over a 30-year period would have been approximately \$237.5 million. The AAL measured as of June 30, 2009, was approximately \$3.1 billion. The reduction in AAL from \$3.1 billion to \$2.0 billion results from changes in treatment of those eligible for Medicare, certain actuarial gain, assumption changes and the impact of certain plan changes made as of May 1, 2011. The City paid approximately \$39.6 million for retiree claim payments and health insurance premiums in Fiscal Year 2011 out of the General Fund and paid approximately \$24.2 million in Fiscal Year 2012. To date, the City has not accumulated assets to offset future benefit costs.

Options available to any issuer such as the City to offset or reduce the future OPEB liability that will be reported under GASB 45 include the following:

- Reduction of benefits for active employees and/or retirees;
- Increase of required contributions from active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

See also Note 11 of the City's audited financial statements for Fiscal Year 2012 presented in APPENDIX A, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2012, as well as information relating to health and long-term disability benefits.

Budget for the System

Each year, under the provisions of Texas law and the City Charter, the Mayor prepares and submits to City Council a City Budget for the System. City Council may amend the proposed budget prior to its approval and adoption. If a budget is not adopted prior to the beginning of a Fiscal Year, City Council is authorized by the City Charter to adopt a continuing appropriations ordinance in order to fund the operations of City government until City Council has approved and adopted a budget for the Fiscal Year. The Fiscal Year 2013 Budget was adopted by City Council on June 20, 2012, and reflects the automatic water and sewer rate increase that took effect as of April 2012. See "SECURITY FOR THE BONDS – Automatic Annual Rate Adjustments" and "RATES."

Schedule 4 —System Budget

The following is a summary of the adopted budget for Fiscal Year 2013 and the adopted budget for Fiscal Year 2012.

RESOURCES	Fiscal Year 2013 in thousands	Fiscal Year 2012 in thousands
Beginning Fund Balance, July 1 ⁽¹⁾	\$479,286	\$397,557
Current Revenues	<u>967,702</u>	<u>904,244</u>
TOTAL RESOURCES	<u>\$1,446,988</u>	<u>\$1,301,801</u>
EXPENDITURES		
Maintenance and Operation	\$403,630	\$400,797
CWA and TRA Debt Service ⁽²⁾	19,663	19,131
Debt Service - Bonds	432,374	420,495
Discretionary Debt Transfer	15,807	21,163
Equipment Replacement	21,468	20,583
Transfer to Capital Project	50,000	10,000
Transfers for Drainage	<u>43,799</u>	<u>50,116</u>
TOTAL EXPENDITURES	986,741	942,285
Planned Ending Balance	<u>460,247</u>	<u>359,515</u>
TOTAL EXPENDITURES & RESERVES	<u>\$1,446,988</u>	<u>\$1,301,801</u>

- (1) As reported in the City's Fiscal Year 2013 Adopted Operating Budget and Fiscal Year 2012 Adopted Operating Budget.
 (2) See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

City Investment Policy

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Policy"). The City does not invest in inverse floaters, or interest-only or principal-only mortgage-backed securities. The Policy provides, among other things, that (1) the Investment Manager (as defined in the Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. For a further discussion of the Investment Policy and a description of the status of the City's investments as of June 30, 2012, see Note 1.E.1 and Note 3.B of the Notes to the Financial Statements as set forth in APPENDIX A. On December 12, 2012, the City Council amended the Investment Policy to increase the maximum allowable investment in callable agency securities from 15% to 25% of the General Fund Investment Pool.

Fitch Ratings ("Fitch") has assigned a "AAA" credit quality rating to the City's General Investment Portfolio. The ratings reflect the view of Fitch, from whom an explanation of the significance of such ratings may be obtained.

Interest Rate Swap Policy

In 2003, the City adopted a master swap policy (the "Swap Policy") to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, "Swaps") in conjunction with the City's management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and who is responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

As a general rule, the City will enter into transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that City may choose counterparties for entering into Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City will track and regularly report on the financial implications of its Swaps. A quarterly report will be prepared for the City Council including: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturity and method of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of exposure that the City has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City will perform such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

For a discussion of the requirements to enter into Qualified Hedge Agreements under the Master Ordinance, the Series 2004B/2012A&B Qualified Hedge Agreement and the Series 2010B Qualified Hedge Agreement, See "QUALIFIED HEDGE AGREEMENTS."

Water Facilities

General. The Water Facilities provide treated and untreated water in a service area that includes the City and certain municipalities and unincorporated communities in the Houston metropolitan area. Some of the City's largest wholesale customers are other cities and water authorities that supply water to their own customers. See "SOURCES OF SYSTEM REVENUES – Schedule 6 – Ten Largest Treated Water Customers" and "– Schedule 7 – Ten Largest Untreated Water Customers." The System has acquired sources of surface water at Lake Houston and Lake Conroe in the San Jacinto River System and Lake Livingston, Wallisville Saltwater barrier and senior water rights in the Trinity River System which, when aggregated with present and anticipated groundwater supplies, are expected to be sufficient to meet the anticipated demands of the Water Facilities' customers through the year 2060. System surface water is transported into the Houston metropolitan area by the West Canal (San Jacinto System) and the CWA Conveyance System (Trinity River System), and is either treated and introduced into the System's treated water distribution system or sold as untreated or raw water. Except for amounts consumed by the City, all groundwater (after chlorination) and a portion of surface water (after treatment and disinfection) is distributed throughout the Houston metropolitan area for sale to domestic, commercial, industrial and agricultural customers.

The Water Facilities consist of treated and untreated water distribution and transmission lines, surface water treatment plants and pump stations, groundwater wells and pump facilities and ground and elevated storage

tanks. The Water Facilities are operated in compliance with requirements of Texas law related to public water supply systems.

Water Supply Contracts. Under a 1968 agreement (as amended and superseded in part) and a 1995 agreement (as supplemented from time to time) Coastal Water Authority (“CWA”) agreed to construct the CWA conveyance system and certain other projects, and the City agreed to pay, as a Maintenance and Operation expense of the Water and Sewer System, amounts calculated to be sufficient to cover Maintenance and Operation expenses of the CWA conveyance system, plus debt service on the bonds issued by CWA. CWA has reserved the right to issue an unlimited amount of additional bonds on a parity with those currently outstanding; however, such issuances are subject to the approval of the City. See “REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE.”

In addition, CWA and the City have entered into a contract for an interbasin surface water transfer project near Luce Bayou, and CWA has issued \$33.1 million in contract revenue bonds which, together with capital contributed, will fund the project design and right of way acquisition. Approximately 32% of project costs will be paid by the Central Harris County Regional Water Authority, North Harris County Regional Water Authority, West Harris County Regional Water Authority, and North Fort Bend Regional Water Authority. The remaining costs will be paid by the City and the City’s contribution to such project will come from the CUS General Purpose Fund. Additional borrowing will be required for actual construction of the project, which is currently estimated to cost \$293 million. See “SYSTEM CAPITAL IMPROVEMENT PLAN – CUS General Purpose Fund.”

For information relating to certain surface water conversion measures being undertaken by the City and other local entities to comply with requirements of the Subsidence District (defined below), see “EFFECTS OF SUBSIDENCE.”

Schedule 5 – Water Supply – Capacity, Production and Sales

The following schedule sets forth information concerning the Water Facilities’ capacity, production and sales for Fiscal Year 2012 (million gallons per day):

	Million Gallons Per Day (mgd)			
	Permitted Available Yield	System Capacity	Average Daily Production	Sales
Ground	82	219	71	N/A
Surface	1,090	1,202	614	N/A
TOTAL	1,172	1,421	685	631
Treated				408
Untreated				223
TOTAL				631

Regional Planning. Legislation enacted by the Texas Legislature in 1997 (the “1997 Act”) requires regional water planning for the State of Texas. The Texas Water Development Board (“TWDB”) has designated 16 regional water planning areas. The regional plans for all 16 areas, including the Houston Area referred to as Region H, have been submitted to the TWDB as required by the legislation. The TWDB has combined all of the regional plans into a State Water Plan.

The 1997 Act, as amended in 1999, not only required regional planning, but also revised the law related to inter-basin water transfers, water marketing, water-related data collection and dissemination and TWDB loan assistance funds. TWDB has adopted state and regional water planning rules. The rules provide broad guidance on how the regional water planning groups will develop a regional water plan for their area, how approved regional water plans will be incorporated into the State Water Plan and how to apply for funding for regional water plan development. Each area’s regional water planning group was required to submit a regional water plan to the TWDB by January 2001. TWDB adopted the 2002 State Water Plan in December 2001. Financial assistance may be provided only to projects that meet needs in a manner consistent with the approved regional water plans and are included in the State Water Plan. Further, it is expected that additional costs, which may be significant, will be

necessary to meet the changes in surface water rights permitting and regional water planning. The Drinking Water State Revolving Fund, which is directed at systems that are not in compliance with Safe Drinking Water Standards, may eventually provide some assistance for City projects but, because of limited funds, projects are currently being funded on a priority basis.

The City has also contracted to purchase Dayton Canal water rights in the Trinity River. The permitting relating to this project was obtained in 2005.

Condition of the Water Facilities. Many of the Water Facilities have been constructed or reconstructed during the last 30 years. The cost of repairs and expenditures for renewal, refurbishing and replacement of such Water Facilities increases as they wear out or become obsolete. Total System production capacity is currently adequate to meet projected near-term peak demands. See "SYSTEM CAPITAL IMPROVEMENT PLAN – Capital Improvement Plan."

Water Quality. Treated water provided by the Water Facilities is subject to extensive federal and state laws and regulations. The City currently meets or surpasses all federal and state established water quality standards, and its water system has been designated as a "Superior Water System" by the State of Texas. The 1996 amendments to the federal Safe Drinking Water Act redirected the approach of the U.S. Environmental Protection Agency (the "EPA") to regulation, and have resulted in the EPA's adoption of a series of rules relating to disinfectants/disinfection byproducts in drinking water and certain specific contaminants posing health risks, such as arsenic, with which the City must now comply. There is, however, one rule proposed by EPA and relating to radon in drinking water (the "Radon Rule"), which the City anticipates may result in the incurrence of significant capital costs to comply with, should the rule be adopted in its current form.

The Radon Rule was proposed on November 2, 1999. The EPA proposed a Maximum Contaminant Level ("MCL") for Radon at 300 picocuries/liter. An Alternative Maximum Contaminant Level ("AMCL") was proposed at 4000 picocuries/liter, which would be available if a state adopts a statewide Radon Multi-Media Mitigation Program ("MMMP"). Water systems have the option to develop their own regional MMMP, approvable by EPA, if the state in which the system is located does not implement a statewide program. This rule could affect up to 80 groundwater treatment plants. If the MCL of 300 picocuries/liter must be met, capital costs for System compliance would be approximately \$11,000,000. If an EPA approvable MMMP is in place, and the AMCL requirement must be met, capital costs for System compliance would be approximately \$300,000. A firm date for implementation of the Radon Rule has not yet been established by EPA.

In addition, pursuant to the 1996 amendments of the federal Safe Drinking Water Act, all community water systems are required to prepare and mail to each system customer a report, known as a "Consumer Confidence Report," that provides information about the system's source water and the level of contaminants in the drinking water supplied to the customer. The City is required to develop and mail these Consumer Confidence Reports to customers on an annual basis and has been doing so for several years. To date, the costs incurred by the City in connection with obtaining drinking water data and preparing and distributing the reports have not been significant.

Sewer Facilities

General. The Sewer Facilities receive and process wastewater generated in a service area that includes the City and certain municipalities and unincorporated communities in the Houston metropolitan area. The Sewer Facilities consist of sanitary sewer lines, permitted wastewater treatment plants, sludge treatment facilities, pumping stations and a centralized laboratory. The general condition of the collection lines of the Sewer Facilities varies depending on age, location and type of construction. The average daily wastewater flow through the Sewer Facilities for Fiscal Year 2011 was 240 mgd. The effective treatment capacity of the Sewer Facilities, as reflected by State permits, was 563 mgd as of June 30, 2012.

In general, the City addresses growth in demand for sewer services by evaluating the Sewer Facilities' ability to transport and treat the additional wastewater expected upon completion of any proposed new construction before granting a building permit for construction. Through this program, prospective users are granted or denied building permits on the basis of the Sewer Facilities' capacity to handle such additional demands.

In addition to addressing growth in demand for sewer services in the City, the Sewer Facilities' Capital Improvement Plan now includes the regional coordination of sewer facilities to be provided by utility districts in those unincorporated areas that are within the extraterritorial jurisdiction of the City and potentially subject to future annexations. See "ANNEXATION PROGRAM AND "IN-CITY" DISTRICTS." To implement this policy of regionalization, the City conditions its consent to the formation of utility districts upon such district's conformance with the City's overall System development plans. In those instances where an existing or proposed utility district is in close proximity to an existing or proposed Sewer Facilities treatment plant, the City encourages the utility district to contract with the City for wholesale treatment services under an arrangement where the utility district contributes to the capital cost of the treatment facility, as determined on a System-wide basis. See "RATES – Ratemaking" and "– Schedule 9 – Rate Adjustments." Through this approach, the City intends to (i) discourage further development of incompatible or inadequate facilities that must be modified or abandoned when the utility district is annexed and (ii) gain participation by certain districts in Sewer Facilities costs.

Federal and State Regulation of the Sewer Facilities. The operations of the Sewer Facilities are subject to regulation under the federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, monitoring and enforcing wastewater discharge permits. In 1998 the EPA delegated the NPDES program to the State of Texas, resulting in the establishment of the Texas Pollutant Discharge Permit Elimination System ("TPDES") program in lieu of the NPDES program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations (as defined in EPA regulations). The Clean Water Act also requires that municipal wastewater treatment plants meet any effluent limitations established by state or federal laws or regulations, which are more stringent than secondary treatment. Under the Clean Water Act, states must identify any body of water for which more stringent effluent standards are needed to achieve national water quality standards. For each body of water, the state is required to establish the maximum allowable daily load of certain pollutants identified by the EPA. The Texas Commission on Environmental Quality ("TCEQ") has been conducting evaluations of water quality of the streams and other waterbodies into which the City discharges wastewater, and TCEQ has established maximum allowable daily loads for certain pollutants in streams and waterbodies that do not meet applicable water quality standards. In certain instances the City is required to perform additional treatment of wastewater in order to comply with the load limit established by TCEQ. The Clean Water Act allows municipalities to apply for extensions of applicable deadlines for additional treatment in certain circumstances.

Potential Penalties for the System's Violations. The failure by the City to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to \$37,500 per day per violation. In addition, the EPA has the power to issue administrative orders, and impose administrative penalties (of up to \$16,000 per day per violations), to compel compliance with its regulations and the applicable permits. The EPA can also bring criminal actions seeking to impose fines of up to \$25,000 per day per violation for negligent violations and up to \$50,000 per day per violation for knowing violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the inability of a municipality to obtain federal assistance pursuant to the Clean Water Act in financing its capital improvements.

Under State law, civil penalties for violation of State wastewater discharge permits or orders are a maximum of \$25,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to \$10,000 per day per violation for noncompliance with the rules, orders or permits issued by the TCEQ. Such administrative penalties are subject to judicial review. An injunctive order resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional bonds to finance the improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit. The City has been the subject of such administrative penalties in the past. In addition to administrative and civil penalties, TCEQ may also impose criminal penalties for violations of State wastewater discharge permits or orders.

The City has been operating under an agreed order with the TCEQ since 2004, which requires the City to make certain repairs and replacements to the City's sanitary sewer facilities over a 10 year period. The repairs and replacements are included in the CUS Capital Improvement Program. As of the date of this Official Statement, the City is in compliance with the agreed order. If the City were to fail to comply with the agreed order, both the TCEQ and the EPA could impose fines and penalties, which could be significant.

EFFECTS OF SUBSIDENCE

General

Harris County, the county in which the City is principally located, and Galveston County have experienced substantial subsidence of the ground. This subsidence is largely the result of extensive withdrawals of groundwater by industries, municipalities and other entities that own and operate water wells. The Harris-Galveston Coastal Subsidence District (the "Subsidence District"), established by the Texas Legislature in 1977, provides regulatory control over the withdrawal of groundwater in Harris County and Galveston County in an effort to limit land surface subsidence in these counties.

Subsidence District Plans

On April 14, 1999, the Subsidence District adopted a comprehensive plan (the "1999 District Plan") for the reduction of groundwater use for subsidence abatement. This plan divides the Subsidence District into three (3) regulatory areas. The boundaries of Area 1 remain the same as the boundaries of Area 1 in the City plan adopted in 1992 (the "1992 District Plan"). Area 1 covers most of Galveston County and an area in southeast Harris County that includes a small part of the City. The restrictions on groundwater use in Area 1 remain at 10% of the total annual groundwater and surface water use of each well permit holder. Area 2 in the 1999 District Plan combines former Areas 2 and 3 in the 1992 District Plan. Area 2 includes a small part of west Galveston County, about one third of Harris County and nearly one half of the City. The restrictions on groundwater use in Area 2 remain at 20% of the well permittees' total annual groundwater and surface water use. The new Area 3 includes the remainder of Harris County (Areas 4, 5, 6, and 7 in the 1992 District Plan). Beginning in January 2003, all well permit holders that had not reduced their groundwater use to the ultimate goals for their area (10% in Area 1 and 20% in Areas 2 and 3) were required to submit a Groundwater Reduction Plan ("GRP") to the Subsidence District for certification. The 1999 District Plan required a GRP for each well permit holder in Area 3 in 2003 and required conversion to 30% surface water by 2010, 60% surface water by 2025 and 80% surface water by 2035. Two or more well permit holders may join together by contract in an effort to jointly meet the Subsidence District's requirements by using the pumping credits of one permit holder to offset the conversion deficiencies of another permit holder.

The City is currently in compliance with the 1999 District Plan. In October 2002, the Subsidence District approved the City's GRP that included provisions to meet required reduction in groundwater use in Area 3. Since the City holds the majority of the surface rights available to the Houston Region, it was anticipated that many of the well permit holders outside the City (municipal utility districts, commercial and industrial users, etc.) would join the City in developing a GRP that includes their respective areas. To that end, the City has over 90 executed GRP contracts.

The long-term objective of the City, in compliance with the 1992 and 1999 District Plans, is to change the Houston area's water supply sources from predominantly groundwater to predominantly surface water. In addition to the cost of constructing additional surface water facilities, the City anticipates that the cost of operating such facilities will be greater than that of groundwater facilities. Accordingly, as the System utilizes more surface water, the operating costs of the System will increase. The increased costs reflect the additional costs of electrical power for the System's water treatment plants and chemicals used for treatment. In addition to these costs, the operating costs of the System may also increase as the result of more stringent treatment requirements for drinking water and water supply systems imposed by federal and State regulatory authorities. Such is the case with respect to the recent review of the federal standard for arsenic content in drinking water. For further information, see "THE CITY AND THE SYSTEM – Water Facilities – Water Quality."

Subsidence District regulations that require conversion to surface water can be costly to industries, municipalities and other groundwater well operators since the process of converting from a groundwater supply to a surface water supply can result in substantial capital expenditures. Additionally, the per unit cost of supplying

surface water is substantially higher due to the cost of treatment. As the major holder of surface water rights in the area, the City has been cooperating with industries, municipalities and others to provide surface water through several different financial arrangements. In this regard, the City has entered into capital cost sharing agreements with certain other cities, water authorities, water districts and a federal government joint venture and has entered into or is in the process of negotiating various water supply contracts to provide treated surface water to municipalities, water authorities and water districts in the region. As part of this effort, the City has made or caused to be made various improvements to its water purification plants in order to add additional surface water capacity to the region. Set forth below is a more detailed description of certain surface water conversion measures being undertaken by the City and other local entities to comply with the Subsidence District requirements.

Southeast Water Purification Plant

The City has entered into a capital cost sharing agreement with ten participants in connection with the City's Southeast Water Purification Plant ("SEWPP"). Pursuant to this agreement, the participants have made payments toward the construction of the SEWPP and have agreed to pay proportional shares of operation and maintenance costs of the plant, based on quantity of water used. The City and the participants have developed the SEWPP with a total capacity of 120 mgd. In addition, a design and construction contract has been approved by City Council that increased the capacity by another 80 mgd in 2010. Approximately 50% of such increased capacity will be for City use. The construction, which has begun, has been financed from CUS revenue bonds issued by the City. Future payments by the participants for such increased capacity will be made to the City pursuant to the cost sharing agreement.

Luce Bayou Interbasin Transfer Project and Northeast Water Participant Plant

The City and CWA have entered into a contract for an interbasin surface water transfer project near Luce Bayou, which will transfer water from the Trinity River Basin to the San Jacinto River Basin to facilitate the conversion to surface water. See "-- Water Facilities." In connection with the Luce Bayou Project, the City will undertake the expansion of the Northeast Water Purification Plant ("NEWPP"), initial costs of which will be the responsibility of the North Harris County Regional Water Authority, the West Harris County Regional Water Authority and the North Fort Bend Water Authority. Additional surface water transmission lines will also be necessary, and the costs to the City of such lines will be included in the CUS Capital Improvement Plan.

North Harris County Regional Water Authority

The North Harris County Regional Water Authority (the "NHCRWA") was approved by voters as a separate governmental subdivision at an election held in January 2000 in an effort to meet the requirements of the Subsidence District. In December 2002, the City entered into a water supply contract with the NHCRWA to provide 31 mgd to service approximately 400,000 residents in the unincorporated areas of Harris County. To date, the NHCRWA has contributed capital in the amount of \$97,549,624 for treated surface water capacity to be provided by the City.

West Harris County Regional Water Authority

The West Harris County Regional Water Authority (the "WHCRWA") was authorized as a separate governmental subdivision by the Texas Legislature in 2001 to help coordinate efforts by municipalities and water districts in west Harris County to comply with Subsidence District requirements. In April 2003, WHCRWA entered into a water supply contract with the City for the purchase of 28.25 mgd of treated surface water from the City to meet the requirements of the Subsidence District. A number of water districts that petitioned to opt out of the WHCRWA have negotiated a separate contract to purchase treated water from the City. To date, the WHCRWA has contributed capital in the amount of \$95,850,529 for treated surface water capacity to be provided by the City.

North Fort Bend Water Authority

The North Fort Bend Water Authority (the "NFBWA") was authorized as a separate governmental subdivision by the Texas Legislature in 2005 to help coordinate efforts by municipalities and water districts in northern Fort Bend County to comply with Fort Bend Subsidence District requirements. In July 2008, the NFBWA entered into a water supply contract with the City for the purchase of 19.5 mgd of treated surface water from the

City to meet the requirements of the Fort Bend Subsidence District Area A. In January 2009, the NFBWA entered into a first supplement to the water supply contract with the City that provides for the construction, financing, and cost sharing of an interbasin water transfer project known as "Luce Bayou." To date, the NFBWA has contributed capital in the amount of \$57,651,471 for treated surface water capacity to be provided by the City.

Central Harris County Water Users Consortium

The Central Harris County Water Users Consortium (the "Consortium") is an association of municipal utility districts that was created pursuant to an Agreement dated December 13, 2002, for the purpose of satisfying the requirements of the 1999 Plan, as amended. In 2002, the Consortium entered into a water supply contract with the City for the purchase of treated surface water from the City for distribution and use by members of the Consortium for domestic, commercial and other purposes. The Consortium may, but is not obligated to, purchase water from the City in order to satisfy the Consortium's year 2020 and year 2030 Harris-Galveston Coastal Subsidence District conversion requirements. To date, the Consortium has contributed capital in the amount of \$4,675,806 for treated surface water capacity to be provided by the City.

Lone Star Groundwater Conservation District

The Lone Star Groundwater Conservation District (the "LSGCD") is in the process of adopting a reduction plan limiting groundwater usage in Montgomery County by all permit holders pumping more than 10 million gallons of groundwater per year ("Large Volume Groundwater Users") to a level of 70% or less of their total water demand. Beginning in 2016, under the reduction plan, Large Volume Groundwater Users are prohibited from pumping groundwater in an amount greater than 70% of total 2009 permitted production. The balance of their needs, either individually or in aggregated groups, would have to be met either by conservation or alternative supplies other than local groundwater.

ANNEXATION PROGRAM AND "IN-CITY" DISTRICTS

Annexation Program

General. Chapter 42, Texas Local Government Code, as amended, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city constitutes that city's extraterritorial jurisdiction. For the City, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city, within five (5) miles of the corporate limits of the City. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. Under Chapter 43, Texas Local Government Code, as amended, when a city annexes additional territory, the city's extraterritorial jurisdiction expands in conformity with such annexation; however, since 1999, there are significant additional procedures and requirements governing annexation, including the requirement that the City adopt a three-year annexation plan, discussed below, as well a service plan for each area to be annexed. Each service plan must include certain municipal services as well as the construction or acquisition of any needed capital improvements by certain dates. A failure by the City to provide the required services or improvements for a particular area on a timely basis may result in a petition for disannexation of the area and its subsequent disannexation. Accordingly, full purpose annexations are infrequent. Since 1999, the City has completed four full purpose annexations.

The City is required to adopt a three-year annexation plan and, with certain exceptions, only those areas identified in such plan are eligible for annexation. The City has adopted three-year plans every year since 1999. The City has identified certain territory along the Ship Channel and Jacintoport area for annexation. Areas subject to industrial district agreements will not be annexed.

Limited Purpose Annexations and Strategic Partnership Agreements. Strategic partnership agreements may provide for limited-purpose annexation for a period of time, during which the City may impose a sales and use tax within the boundaries of the part of the district that is annexed for limited purposes. Strategic partnership agreements may provide that at the completion of the agreed duration of the limited purpose annexation, full-purpose annexation may occur either on an agreed full-purpose annexation date without the need for further action by the City, or by City action at that time. The qualified voters of an area annexed for limited purposes are entitled to vote in municipal elections for members of the governing body or for amendments to the municipal charter. Such voters may not vote in a bond election.

The City has completed limited-purpose annexations by mutual consent with approximately one-third of the water districts in the City's extraterritorial jurisdiction. The City expects to enter into similar agreements with other districts in the future. Generally, the limited-purpose annexations have applied only to non-residential property, and the City is authorized to, and does impose, its sales tax in each of the areas annexed for limited purposes. In most cases the City and a district each receive an amount equal to one-half the sales tax received in that area. The City is not authorized to levy an ad valorem tax on property annexed for limited purposes, and the district continues to levy and collect ad valorem taxes. The strategic partnership agreements entered into so far by the City defer the time for full-purpose annexation by City action for periods of up to 30 years or, in some cases, until the district utility system is developed or some other event occurs. As of the end of Fiscal Year 2011, the City's strategic partnership agreements have generated \$204 million, and the revenues from those agreements constitute approximately 7% of the sales tax revenue of the City.

The City does not assume the debts of a district until such time as the district is annexed for full purposes, at which time all of the sales taxes collected within the district will be retained by the City, the annexed area will become subject to City's ad valorem tax levy and collection, the district will be dissolved and the debt will be assumed by the City. In some cases, the City agrees to provide police or fire services to the district, if the cost of providing such services is marginal to the City.

Regional Participation Agreements. Under Texas law, the City and certain large unincorporated areas within the City's extraterritorial jurisdiction are authorized to enter into regional participation agreements. The City and The Woodlands Township entered into a Regional Participation Agreement (the "RPA") in 2007, pursuant to which the City agreed (i) not to annex the land in The Woodlands Township for a term of 50 years and (ii) if during that time, The Woodlands Township incorporates as a municipality or any other form of local government under Texas law, the City will release it from the City's extraterritorial jurisdiction. In exchange for such provisions, The Woodlands Township agreed to provide one-sixteenth of one percent of sales and use taxes for mutually beneficial projects in the City, including improvements at the City's parks, the Texas Medical Center and various road improvements. On May 19, 2010, the City's City Council voted to approve an amendment to the RPA, which allows for the addition of land into The Woodlands Township, but requires consent of the City's mayor for future annexation by The Woodlands Township. The City may further amend the RPA from time to time.

In-City Districts

Texas law authorizes the creation of certain types of "in-city" districts with independent taxing authority. The City has authorized by ordinance the creation of water districts within its corporate limits, six of which have been created (two of which, Harris County Municipal Utility District No. 361 and Harris County Municipal Utility District No. 412, were disannexed and then re-annexed for limited purposes pursuant to a strategic partnership agreement) and three additional water districts which have been consented to by the City but not yet created.

In order to encourage development within the City, the City has entered into agreements with "in-city" districts whereby the district will provide the water, wastewater and stormwater drainage infrastructure in the district and convey such facilities to the City, although in some instances, the district has retained ownership and operation of its facilities. In exchange, the City agrees to maintain the facilities and rebate to the district the portion of City ad valorem taxes collected within the district and attributable to drainage. In some agreements, the City agrees to collect water and wastewater charges at standard City retail rates and remit to the district for deposit in the debt service fund of the district the difference between City retail rates and wholesale rates. The City's obligations under these agreements are payable only from revenues from within the district, can never exceed annually the annual debt service of the district and expire upon maturity of the district's bonds.

There are numerous municipal management districts within the corporate limits of the City. Such districts have independent authority to impose assessments on certain property owners to support and enhance specific residential or business corridors within the City. Municipal management districts may issue bonds secured by assessments or taxes levied on property within the district pursuant to a vote in such district approving the bonds.

The City has also created certain entities to enhance and encourage redevelopment activities within the City and to provide a mechanism to fund certain public improvements and related redevelopment costs, in addition to providing administrative support for these projects. In many cases, in order to more effectively and efficiently manage its tax increment reinvestment zones, the City has created local government corporations, which are not for

profit local government corporations created under Chapter 431 of the Texas Transportation Code, as amended. Such redevelopment authorities are created to aid, assist and act on behalf of the City in the performance of certain of the City's governmental and proprietary functions, including acting as a financing vehicle for the reinvestment zones. Tax increment revenues for each such reinvestment zone are initially deposited in separate tax increment funds maintained by the City and then a local government corporation if a local government corporation has been created to manage such reinvestment zone. Projects financed on behalf of tax increment reinvestment zones are typically accomplished through the issuance of bonds by local government corporations that pledge tax increment revenues received from the City by virtue of a contract between the respective local government corporation, the tax increment reinvestment zone, and the City. The City has also created certain public improvement districts but their existence does not materially impact the operations of the City.

SOURCES OF SYSTEM REVENUES

General—Fiscal Year 2012

As of June 30, 2012 the Water Facilities and the Sewer Facilities served approximately 450,315 and 433,771 active service connections, respectively. During Fiscal Year 2012, approximately 51.1% of System Gross Revenues were derived from the sale of water, 90.5% from treated water and 9.5% from untreated water; approximately 44.2% from providing wastewater treatment services, 0.9% from interest income and the remaining 3.8% from various other sources. Of the treated water sales, 92.2% of revenues were from retail customers and 7.8% from bulk sales to other governmental entities.

Water and Sewer Facilities

Schedule 6 – Ten Largest Treated Water Customers

The following schedule presents information concerning the ten largest treated water customers of the System for the twelve month period ended June 30, 2012. The total charges to such customers during such period represent approximately 4.74% of the System Gross Revenues and 9.29% of total water sales revenues for such period.

<u>Customers</u>	<u>Gross Charges</u>
1. North Harris Co. Regional Water Authority	\$10,419,468
2. City of Pasadena	6,016,536
3. North Channel Water Authority	5,691,594
4. West Harris Co. Regional Water Authority	5,447,110
5. Harris County	3,572,932
6. Anheuser Busch	3,183,388
7. City of Pearland	3,111,184
8. Clear Lake City	2,818,383
9. HISD	2,808,140
10. Texas Medical Center	<u>2,235,709</u>
TOTAL	<u>\$45,304,444</u>

Schedule 7 – Ten Largest Untreated Water Customers

The following schedule presents information concerning the ten largest untreated water customers of the System for a twelve month period ended June 2012. The total of the contract payments by these ten customers during such period represents approximately 3.42% of the System Gross Revenues and 6.70% of total water sales revenues for such period.

<u>Customers</u>	<u>Gross Charges</u>
1. Equistar Chemicals	\$ 7,145,331
2. Shell Oil	4,528,087

<u>Customers</u>	<u>Gross Charges</u>
3. Battleground Water Company	3,582,813
4. Air Liquide America Corp.	3,342,935
5. Baytown Area	3,235,800
6. Chevron Phillips Chemical Company	2,909,074
7. Houston Refining, LP (Lyondell-Citgo)	2,866,800
8. Hoescht Celanese	1,834,623
9. Occidental Chemical Corporation	1,611,851
10 E.I. Dupont De Nemours & Company	<u>1,611,226</u>
TOTAL	<u>\$32,668,540</u>

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Schedule 8 – Ten Largest Sewer Customers

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve month period ended June 30, 2012. The total charges to such customers represent approximately 2.54% of the System Gross Revenue and 5.74% of Sewer Facilities' gross charges during such period.

	<u>Customers</u>	<u>Gross Charges</u>
1.	Anheuser Busch Companies, Inc.	\$ 4,512,284
2.	City of Houston	3,783,160
3.	Harris County	3,494,909
4.	Houston Independent School District	2,981,912
5.	University of Houston	2,261,315
6.	Maximus Coffee Group	1,628,577
7.	Hermann Hospital	1,606,256
8.	Methodist Hospital	1,453,775
9.	Oaks Farms Dairies	1,362,327
10.	Dr. Pepper Bottling Company	<u>1,174,897</u>
	TOTAL	<u>\$24,259,412</u>

RATES

Ratemaking

City Council has the authority to establish and increase rates for services provided by the System, subject to certain contractual limitations and subject to the limited regulatory jurisdiction discussed below. In setting water and sewer rates, the City is bound by the legal requirements that such rates must be reasonable, equal and uniform and that no free service may be allowed, except at the discretion of City Council for certain public buildings and facilities. In the event that any such free service would violate the terms of a governmental grant, then the City may not permit any free service. By law, the City must charge and collect rates sufficient to pay all operating, maintenance, depreciation, replacement, betterment and interest charges of the System and to maintain a debt service interest and sinking fund sufficient to pay any bonds or notes issued to purchase, construct or improve the System or any outstanding indebtedness of the System. See "SECURITY FOR THE BONDS – Rate Covenant." Rates for wholesale wastewater services and for sales of water to other political subdivisions on a wholesale basis are subject to the jurisdiction of TCEQ. Pursuant to Texas law, however, the TCEQ may not set a rate that is less than the amount required to meet the debt service and bond coverage requirements of the Water Facilities. Certain disputes as to sales of surface water may also be subject to the jurisdiction of the TCEQ. In setting rates, City Council considers, among other things, the current federal guidelines regarding user charges and certain charges imposed on federal construction grant recipients under the Clean Water Act.

The Master Ordinance provides for automatic annual rate adjustments for the Combined Utility System. See "SECURITY FOR THE BONDS – Automatic Annual Rate Adjustments." See "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" for a discussion of the limitations on increases in water and sewer rates as well as the City's authority to raise rates required by certain bond covenants and by contract, included in the Proposition 1 amendment to the City Charter approved by voters in November 2004.

In addition to the Master Ordinance and the Previous Ordinance authorizing the issuance of the Previous Ordinance Bonds, which requires an annual review of System rates and annual adjustment of rates to assure that revenues are sufficient to provide for debt service on such bonds, City Council has adopted a resolution requiring a similar annual review and adjustment of rates in connection with the payment of Maintenance and Operation expenses of the System, payment of debt service on the System, annexed utility district bonds and payment of certain contract tax obligations related to the construction of water supply and distribution and wastewater collection and treatment facilities. The resolution is a declaration of City policy, but specifically states that it may be amended by City Council at any time and will not be deemed to be an enforceable obligation of the City. See "SYSTEM DEBT AND CHARGES – Discretionary Debt Service."

The magnitude and frequency of rate increases will depend upon factors such as the rate at which operating expenses increase in the future, the interest rate on System Obligations and other revenue bonds sold to meet the System's future capital requirements, the extent to which System Obligations are used to meet those capital requirements, and the volume of water sold and future changes in environmental requirements. See "SECURITY FOR THE BONDS – Automatic Annual Rate Adjustments." See also "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" and "SOURCES OF SYSTEM REVENUES." See also the section captioned "QUALIFIED HEDGE AGREEMENTS" for a discussion of the possible impact on rates in connection with the risks associated with Qualified Hedge Agreements.

Water and Sewer Rate Study

Periodically, the City commissions water and sewer rate studies to assess the adequacy and equitability of its rates. In 2010, the City engaged Red Oak Consulting, a division of Malcolm Pirnie, the City's utility rate consultant, to review the System's rates for each customer class for water and wastewater. This study was completed in April 2010. On April 21, 2010, the City Council adopted new increased rates for water and wastewater services. See "RATES – Current Rates" for a discussion of the current rates for water and wastewater services.

Current Rates

Water and Sewer Rates. Since 2005, the City has implemented an automatic annual rate adjustment based upon the change in the Designated Index, the Consumer Price Index for all Urban Consumers ("CPI-U"), effective on April 1st of each year. In addition to the automatic annual rate adjustments, the City Council has approved two other one-time increases. On March 11, 2009, the City Council approved a one-time increase to the water and sewer rates based upon increases in the Designated Index plus the 1.79% growth in the City's population for one year (based on the published estimates of the U.S. Census Bureau for the most recently available twelve month period), which conforms to Proposition 1 (2004). On April 21, 2010, the City Council approved a one-time increase of 20.1% in water and sewer rates. The new retail rates and some wholesale customers' new rates became effective in June 2010 and contract treated water customers' new rates became effective in January 2011. For the year starting on April 1, 2012 the average rate adjustment is estimated at 5.0%. See "RATES." See also "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" for a discussion of Proposition 1 (2004), including the City's authority to raise rates required by bond covenants and by contract, other propositions, and the status of related litigation. See "RATES – Schedule 9 – Rate Adjustments."

In the Rate Ordinance (as defined in "SECURITY FOR THE BONDS -- Automatic Annual Rate Adjustments"), the City revised the automatic annual rate adjustment calculation on April 21, 2010. The revised automatic annual rate adjustment formula is based upon the annual percentage increase in the Designated Index plus the annual Houston population percentage increase. Alternatively, if the City demonstrates that a customer segment's cost of service exceeds the then current rate, the City may increase that rate using the annual percentage increase in the Producer Price Index (PPI). (In calculating rates under the Rate Ordinance, the City uses CPI-U plus Houston population increase or the PPI. The CPI-U and PPI are published by the U.S. Department of Labor, Bureau of Labor Statistics and the Houston Population Index is published by the US Census Bureau.) The Rate Ordinance also approved additional rate adjustments for residential customers in order to match the residential cost of service: 6.0% on April 1, 2011, 5.6% on April 1, 2012 and 5.3% on April 1, 2013.

On April 1, 2013, residential rates increased by 8.9%, which includes an automatic rate increase of 3.6% and the final rate adjustment, which was approved in 2010, to match the residential cost of service of 5.3%. Effective April 1, 2013, the bill of a typical single family residential customer who uses, on average, 6,000 gallons of water per month will be \$30.26 for water and \$37.20 for sewer, for a total monthly bill of \$67.46. Effective April 1, 2013, the City's combined monthly water and sewer bill for users of 1,000 gallons will be \$15.07, for users of 3,000 gallons will be \$22.26, for users of 5,000 gallons will be \$55.81 and for users of 14,000 gallons will be \$169.66. These rates are structured to encourage water conservation. See "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" for a discussion of certain initiatives that could impact System rates, including the City's authority to raise rates required by bond covenants and by contract.

Schedule 9 – Rate Adjustments

In recent years, the water and sewer rates have been adjusted on the average as follows:

Date of Change	Average Percent Rate Increase	
	Water	Sewer
March 1993	2.5%	4.0%
June 2004	9.7%	9.7%
April 2005 ⁽¹⁾	3.5%	3.5%
April 2006 ⁽¹⁾	3.6%	3.6%
April 2007 ⁽¹⁾	2.8%	2.8%
April 2008 ⁽¹⁾	1.8%	1.8%
April 2009 ⁽²⁾	5.1%	5.1%
April 2010 ⁽¹⁾	0.3%	0.3%
June 2010	19.1%	22.9%
April 2011 ⁽³⁾	3.6%	3.6%
April 2012 ⁽³⁾	3.3%	3.3%
April 2013 ⁽³⁾	3.6%	3.6%

⁽¹⁾ The April 2005-2008 and 2010 rate increases resulted from the automatic annual rate adjustment provisions of the Master Ordinance.

⁽²⁾ The April 2009 rate increase resulted from the automatic rate increase and includes a 1.79% increase to reflect the growth in the City's population for the then most recently available twelve month period. See "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations."

⁽³⁾ Single family residential rates include annual rate adjustments, plus cost of service ratio adjustments of 6.0% on April 1, 2011, 5.6% on April 1, 2012 and 5.3% on April 1, 2013.

See "RATES – Water and Sewer Rate Study" for a discussion of a study of the water and sewer rates. See "SECURITY FOR THE BONDS - Automatic Annual Rate Adjustments" for a description of the automatic rate adjustment terms of the Master Ordinance. Together with the automatic annual rate adjustments, additional rate increases may be required in order to implement the System's Capital Improvement Plan as currently contemplated.

Billing and Collection

The Department performs billing and collection services for the System. Customers are billed monthly based on metered water consumption, except for certain sewer customers who are billed based on their metered discharge. A bill is due twenty (20) days after the date on which the statement of account was mailed, and late payments incur a ten percent penalty if paid after the next billing. If a customer fails to make payment on or before the 23rd day from the date the bill was mailed, the City sends a second written notice to the customer restating the amount owed and setting forth the procedure by which the customer can discuss any dispute over the propriety of the charge with a customer service representative. Approximately three weeks after the second written notice is mailed, a City field representative is dispatched to the customer's address to collect the past-due billing or to cut off water service.

The City has instituted a number of programs in an effort to improve collections. One program is the passage of a lien ordinance, which authorizes the City to file liens against certain properties with delinquent bills totaling \$3,000 or more. In addition, any customer with a delinquent final bill over ninety (90) days past due will be reported to the local credit bureaus.

SYSTEM CAPITAL IMPROVEMENT PLAN

Capital Improvement Plan

In order to meet the future water and wastewater needs of the Houston metropolitan area and to comply with applicable governmental and environmental regulations, the City continually evaluates System capabilities and makes plans and forecasts to accommodate future requirements in a timely manner. Each year City Council approves a rolling five-year capital improvement plan ("CIP"), which is revised annually to include new projects to

reflect changes in priorities established through input from City Council, administration, other departments and citizens through public hearings. City Council has previously approved \$195 million in capital improvements for Fiscal Year 2011; however, the City did not spend this amount in Fiscal Year 2011. The City has spent a portion of the \$195 million for capital improvements in Fiscal Year 2012 and intends to spend the remaining portion during Fiscal Year 2013.

The System's Fiscal Year 2013-2017 CIP reflects appropriations or capital improvements to the System totaling approximately \$2.081 billion.

The major goals of the Department's Fiscal Year 2013-2017 CIP are as follows:

Water Facilities Capital Improvements — enhancement of the level of water service, including maintenance of Water Facilities pressures at adequate levels under varying demand conditions; replacement of inadequate Water Facilities components and other improvements to increase the efficiency and reliability of the Water Facilities; development of surface water supplies to permit increased reliance on surface water and to mitigate against subsidence; and surface water treatment facility modifications and Water Facilities expansions.

Sewer Facilities Capital Improvements — repairing and replacing wastewater collection lines to eliminate infiltration; increasing the wastewater transportation capacity; increasing the wet weather treatment capacity of the Sewer Facilities; improvements to increase the efficiency and reliability of the Sewer Facilities; and upgrading the Sewer Facilities to comply with governmental and environmental regulations.

Schedule 10 – Funding of Proposed System Improvements

It is anticipated that the System improvements contemplated in the System's Fiscal Year 2013-2017 CIP will be financed approximately as follows:

	2013-2017 (in millions)
System Bonds ⁽¹⁾	\$1,720
Capital Contributions	111
System Revenues ⁽²⁾	250
Total	<u>\$2,081</u>

⁽¹⁾ The City estimates that the System's Fiscal Year 2013-2017 CIP will require the periodic issuance of Additional First Lien Bonds and Commercial Paper Notes issued as Third Lien Obligations. City Council must approve each issuance of First Lien Bonds, but not each issuance of Commercial Paper Notes. See "SYSTEM DEBT AND CHARGES – Commercial Paper Program." The amounts above include net bond proceeds and interest earnings.

⁽²⁾ The City anticipates using a portion of System revenues to pay a portion of the System Fiscal Year 2013-2017 CIP.

Federal and State Funds

General. The Texas Water Development Board (the "TWDB") administers loan programs to eligible municipalities and agencies. Under the programs, described in more detail below, each state is to receive from the EPA a series of grants to establish Clean Water and Safe Drinking Water State Revolving Funds (each an "SRF") from which such state will make loans to eligible recipients. TWDB has adopted a policy to implement the SRF loan programs through the purchase of bonds issued by the loan recipients. Since 1988, the SRF loan programs have provided the City with a means to finance EPA-eligible projects at interest costs below those available in the market through the sale of bonds placed with TWDB. See "SYSTEM DEBT AND CHARGES – Schedule 11 – Obligations Payable from System Revenues." The City intends to continue to utilize such loan programs in future years.

State Clean Water Revolving Fund. One of the loan programs administered by TWDB is the Clean Water SRF. The State Revolving Fund Act, Title VI of the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987, as amended (the "Federal Act"), established the Water Pollution Control SRF program (described below) as a joint federal and state program. Under the Water Pollution Control SRF program,

the EPA is authorized to make grants (the "SRF Capitalization Grants") to states to aid in providing financial assistance to municipalities; intermunicipal, interstate or state agencies; or other public entities eligible for assistance under the Federal Act (the "Eligible Cities") for publicly-owned wastewater treatment works including storm water and non-point source pollution control projects and other authorized purposes pursuant to the Federal Act. As a condition to receipt of an SRF Capitalization Grant, a state is required to establish a perpetual state revolving fund into which the SRF Capitalization Grant must be deposited, and to provide state matching funds at least equal to 20% of the SRF Capitalization Grant. Funds in a state revolving fund are permitted to be applied to provide financial assistance to Eligible Cities for publicly-owned wastewater treatment works in a number of ways, including making direct loans, retiring existing debt through refinancing, and loan guarantees.

Pursuant to Chapter 15, Subchapter J of the Texas Water Code, which became effective June 17, 1987, the State of Texas created a Water Pollution Control SRF under the federal program for the purpose of providing loans to political subdivisions for wastewater treatment works including storm water and non-point source pollution control projects and other authorized purposes. TWDB currently provides financial assistance by purchasing political subdivision bonds from Eligible Cities, including the City.

State Safe Drinking Water Revolving Fund. Another loan program administered by TWDB is the Safe Drinking Water SRF. The Safe Drinking Water Act, 42 U.S.C. § 300 et seq., as reauthorized in 1986 and amended in 1996 (the "SDWA"), established national primary drinking water regulations to protect the safety of the public's drinking water. Under the SDWA, the EPA is authorized to make grants ("DWSRF Capitalization Grants") to states to assist communities in meeting established drinking water standards. As a condition to receipt of a DWSRF Capitalization Grant, a state is required to establish a Safe Drinking Water SRF into which the DWSRF Capitalization Grant must be deposited, provide state matching funds at least equal to 20% of the DWSRF Capitalization Grant for deposit in the DWSRF and comply with certain other requirements of the SDWA. DWSRF funds are permitted to be applied to provide financial assistance to community water systems and non-profit community water systems in a number of ways, including making direct loans, retiring existing debt through refinancing, and providing loan guarantees for expenditures that facilitate compliance with the primary national drinking water regulations.

Pursuant to Chapter 15, Subchapter J of the Texas Water Code, the State of Texas created a Safe Drinking Water SRF under the federal program for the purpose of providing loans to political subdivisions and water supply corporations. TWDB currently provides financial assistance by purchasing political subdivision bonds from Eligible Cities, including the City. The Texas Legislature expanded the program, effective September 1, 1997, to allow funding for privately owned corporations for loan subsidies, provided that only appropriated funds and federal grants are utilized for such purpose.

CUS General Purpose Fund

The City from time to time may use amounts on deposit in the CUS General Purpose Fund to finance capital improvements to the System. Amounts in the CUS General Purpose Fund are generated primarily from Net Revenues of the System after payment of all System Obligations. The availability of such amounts for capital improvement purposes will be dependent upon the System's ability to generate sufficient Net Revenues.

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SYSTEM DEBT AND CHARGES

Schedule 11 — Obligations Payable from System Revenues

The following schedule sets forth the total outstanding principal amount of System Obligations payable from revenues of the System, adjusted to account for the issuance of the Bonds:

	As of <u>April 11, 2013</u>
Contract Revenue Bonds Payable from System Gross Revenues CWA Bonds ⁽¹⁾	<u>\$ 112,320,000</u>
TOTAL	<u><u>\$ 112,320,000</u></u>
System Bonds Payable from System Net Revenues ⁽²⁾	
Previous Ordinance Bonds ⁽³⁾	\$ 280,971,000
First Lien Bonds ⁽⁴⁾	5,605,790,000
Third Lien Obligations ⁽⁵⁾	<u>0</u>
TOTAL	<u>\$5,886,761,000</u>
TOTAL – All Obligations Payable from System Revenues	<u>\$5,999,081,000</u>

(1) See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE" and "THE CITY AND THE SYSTEM – Water Facilities – Water Supply Contracts." This amount does not include \$61.85 million in bonds issued by CWA for the Luce Bayou Project, which are payable from the CUS General Purpose Fund. See "THE CITY AND THE SYSTEM – Water Facilities – Water Supply Contracts."

(2) Excludes the principal amount of bonds payable from Discretionary Debt Service transfers of the System. See "SYSTEM DEBT AND CHARGES – Discretionary Debt Service."

(3) Previous Ordinance Bonds include Outstanding Junior Lien Bonds (including bonds placed with TWDB). Includes \$108.1 million in accrued interest on Previous Ordinance Bonds issued as capital appreciation bonds as of September 30, 2012. See "SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE – Schedule 1 – Net Revenues of the System and Debt Service Coverage."

(4) This amount does not include approximately \$48.8 million in bonds expected to be purchased by the Texas Water Development Board on or about April 11, 2013.

(5) Represents the aggregate amount of Commercial Paper Notes, Series B, which are issued as Third Lien Obligations under the Master Ordinance.

Commercial Paper Program

The City currently issues Combined Utility System Commercial Paper Notes, Series B (the "Series B Notes" or the "Commercial Paper Notes") periodically pursuant to the Master Ordinance and a Supplemental Ordinance authorizing the issuance of the Series B Notes in an aggregate amount not to exceed \$700,000,000. The program is structured as a revolving Commercial Paper Note program. Each series of the Series B Notes are secured by individual letters of credit from JPMorgan Chase Bank, National Association (Series B-1), Wells Fargo Bank National Association (Series B-2), The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Series B-3), Barclays Bank PLC (Series B-4), Banco Bilbao Vizcaya Argentaria, S.A. (Series B-5) and Citibank N.A. (Series B-6).

Series B Notes may be issued for a period not to exceed 270 days and bear interest at a rate not to exceed 10%. Series B Notes are offered and remarketed by Commercial Paper Note dealers. Series B Notes are issued as Third Lien Obligations and are payable from and secured by a lien on Net Revenues of the System, which is subordinate to the lien securing payment of First Lien Bonds. Proceeds of Series B Notes are used to finance various capital projects of the System.

Discretionary Debt Service

Under the budgeting policy of the City, the debt service on public improvement bonds issued for sanitary sewer purposes prior to 1976, contract tax obligations relating to the construction of water treatment and sanitary sewer facilities and debt service on assumed water district bonds attributable to water treatment and sanitary sewer

facilities (“Discretionary Debt Service”) were paid from the Net Revenues of the System out of the Renewal and Replacement Fund, although there was no legal requirement to do so and although such Discretionary Debt Service is secured by a pledge of ad valorem taxes. The City has also paid Discretionary Debt Service out of the CUS General Purpose Fund. See “SYSTEM CAPITAL IMPROVEMENT PLAN – CUS General Purpose Fund” and “SECURITY FOR THE BONDS – Flow of Funds.”

Schedule 12 – Discretionary Debt Service Paid by the System

The following schedule shows the total amount of Discretionary Debt Service paid from Net Revenues of the System for the Fiscal Years shown below:

<u>Fiscal Year</u>	<u>Discretionary Debt Service</u> (in millions)
2009	\$28.4 ⁽¹⁾
2010	26.9 ⁽¹⁾
2011	21.7 ⁽¹⁾
2012	21.2 ⁽¹⁾
2013 (estimated)	15.8 ⁽²⁾

⁽¹⁾ As reported in the Statistical Section of the City of Houston Comprehensive Annual Financial Report.

⁽²⁾ As reported in the City’s Monthly Financial and Operating Report as of February 28, 2013.

Contract Tax Obligations

Texas law authorizes the City to incur or, through annexation, to assume, “Contract Tax Obligations,” which are substantially equivalent to ad valorem tax bonds, through the pledge of ad valorem tax receipts for the payment of contracts for water and sewer services with other political subdivisions or non-profit corporations. The City currently has no outstanding Contract Tax Obligations, but may incur such obligations in the future.

Indirect Charges Paid by the System and CUS General Purpose Fund Transfers

Indirect Charges Paid by the System. Charges have been made on a cost allocation basis by the City’s General Fund to the Water and Sewer System’s revenue fund under the Previous Ordinance and will continue to be made to the Revenue Fund for the Combined Utility System for certain indirect charges incurred by the General Fund on behalf of the System. These indirect charges are payable out of the Revenue Fund as Maintenance and Operation Expenses of the System.

Schedule 13 – Indirect Charges Paid by the System and CUS General Purpose Fund Transfers

Schedule 13A – Indirect Charges Paid by the System

The following schedule shows the total amount of such indirect charges for the Fiscal Years shown below:

<u>Fiscal Year</u>	<u>Indirect Charges</u> (in millions)
2009	2.324 ⁽¹⁾
2010	3.148 ⁽¹⁾
2011	3.034 ⁽¹⁾
2012	3.869 ⁽¹⁾
2013 (estimated)	3.479 ⁽²⁾

⁽¹⁾ As reported in the Statistical Section of the City of Houston Comprehensive Annual Financial Report.

⁽²⁾ As reported in the City’s 2013 Budget.

CUS General Purpose Fund Transfers to Storm Water Fund. Under the Previous Ordinance, the City utilized different means for funding costs associated with its storm water management system, including transferring available water and sewer revenues into a Drainage Utility Fund created by an ordinance originally adopted by City Council in 1992 and amended a number of times thereafter (as amended, the "Drainage Utility Fund Ordinance"). Under the Master Ordinance, the City intends to fund costs associated with its storm water management system from permitted transfers from the CUS General Purpose Fund (as described in the section captioned "SECURITY FOR THE BONDS – CUS General Purpose Fund") to the Storm Water Fund, described below.

In April 2004, the City adopted an ordinance further amending the ordinance that established the Drainage Utility Fund. The April 2004 amending ordinance renamed the Drainage Utility Fund as the Storm Water Fund and provided that all funds transferred from time to time from the CUS General Purpose Fund of the Master Ordinance are required to be deposited to the Storm Water Fund. The amending ordinance also provided that monies deposited in the Storm Water Fund may be used only for the planning, design, construction, regulation, improvement, repair, maintenance, and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components. The amending ordinance provides that this includes (i) the costs of developing, implementing, and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing, or maintaining any required permits related to the operation of the storm sewer system, and (ii) payment of debt service on bonds, notes, or other obligations issued for the purposes listed in this paragraph. The following schedule shows the total amount of transfers from the CUS General Purpose Fund to the Storm Water Fund for the Fiscal Years shown below:

Schedule 13B – CUS General Purpose Fund Transfers - Storm Water Fund

<u>Fiscal Year</u>	<u>CUS General Purpose Fund Transfers</u> (in millions)
2009.....	\$39.4 ⁽¹⁾
2010	40.6 ⁽¹⁾
2011	54.8 ⁽¹⁾
2012	44.4 ⁽¹⁾
2013 (estimated)....	41.1 ⁽²⁾

(1) As reported in the Statistical Section of the City of Houston Comprehensive Annual Financial Report.

(2) As reported in the City's Monthly Financial and Operating Report as of February 28, 2013.

In 2010, voters approved Proposition 1 (2010), which amends the City Charter to provide for the improvement of the City's drainage system by imposing rates upon property in the drainage service area, unless such property is exempted. Proposition 1 (2010) allows City Council to approve such rates, which occurred in April 2011. Exempted properties include, but are not limited to, Texas State government agency facilities, public and private institutions of higher education, and existing churches. In December 2010, a lawsuit under the Texas Election Code was filed in State district court seeking to have Proposition 1 (2010) declared unlawful. On May 24, 2011, the district court granted summary judgment in favor of the City, thereby disposing of all plaintiffs' claims. The plaintiffs filed a motion for a new trial, which was denied. On August 22, 2011, the plaintiffs filed a Notice of Appeal, and the case was assigned to the Fourteenth Court of Appeals. On July 10, 2012, the Fourteenth Court of Appeals affirmed the district court's summary judgment decision. Plaintiffs filed a motion for rehearing with the court of appeals and the court of appeals has requested a response from the City. The decision of the court of appeals may be appealed to the Texas Supreme Court.

In addition, in February 2012, the owners of three apartment complexes filed a lawsuit against the City and the Director of Public Works and Engineering in his official capacity challenging the validity of various aspects of Proposition 1 (2010). The City has filed a plea to the court's jurisdiction to consider the lawsuit. The Plea was granted in part and denied in part, and the City has appealed the denial. Three railroad companies had intervened in the lawsuit to challenge the ordinance but, on the City's motion, the court struck the railroad companies'

intervention. The railroad companies then filed their own lawsuit challenging the validity of various aspects of Proposition 1 (2010), seeking injunctive relief as well as attorneys' fees. Recently, the City's Plea to the Jurisdiction on all of the railroads' ultra vires claims was granted, which order may be appealed on an interlocutory basis by the railroad companies. Their declaratory judgment claims and constitutional challenges to the ordinance remain pending in the trial court. The City intends to defend this case vigorously.

The System will continue to fund, all or in part, the City's drainage program's annual operating and maintenance expenses for several years until the Proposition 1 (2010) program generates sufficient funds. For the foreseeable future, the System will be obligated to pay annual drainage debt service payments associated with previous years' drainage CIP projects.

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Schedule 14 —System Debt Service Schedule

The following schedule sets forth the principal and interest requirements on all outstanding bonds payable from revenues of the System for each of the City’s fiscal years ending June 30 as shown below, based on footnoted assumptions. The following schedule: (i) does not include the principal and interest requirements on the Bonds; and (ii) does not include Discretionary Debt Service payments or Commercial Paper Notes issued as Third Lien Obligations under the Master Ordinance.

Fiscal Year Ending June 30	Total Bonds Payable From System Gross Revenues ⁽¹⁾	Bonds Payable From System Net Revenues			Total Debt Service ^{(1) (2)(3)}
		Previous Ordinance Bonds	First Lien Bonds ⁽²⁾	Total Bonds ⁽³⁾	
2013	\$19,662,905	\$70,200,884	\$316,124,175	\$386,325,059	\$405,987,964
2014	18,875,214	15,278,888	386,190,430	401,469,317	420,344,531
2015	18,063,946	15,343,435	388,399,446	403,742,881	421,806,827
2016	17,851,148	15,385,120	391,129,636	406,514,756	424,365,904
2017	7,372,240	15,430,576	399,442,134	414,872,710	422,244,950
2018	6,571,513	15,463,558	400,563,951	416,027,509	422,599,021
2019	6,554,975	15,478,113	402,896,733	418,374,845	424,929,820
2020	6,552,700	39,011,315	379,401,363	418,412,678	424,965,378
2021	6,567,025	37,892,053	383,763,312	421,655,364	428,222,389
2022	6,547,850	30,954,474	390,591,154	421,545,628	428,093,478
2023	6,525,300	32,797,360	389,325,439	422,122,799	428,648,099
2024	6,518,050	34,425,914	387,592,101	422,018,015	428,536,065
2025	6,510,050	33,357,575	388,795,164	422,152,739	428,662,789
2026	10,951,675	18,155,000	403,723,292	421,878,292	432,829,967
2027	3,551,050	30,815,000	389,935,768	420,750,768	424,301,818
2028	3,550,050	30,810,000	388,312,009	419,122,009	422,672,059
2029	3,547,925	44,095,000	372,107,419	416,202,419	419,750,344
2030	3,547,844	--	416,015,528	416,015,528	419,563,372
2031	3,544,844	--	416,048,578	416,048,578	419,593,422
2032	3,540,550	--	417,168,154	417,168,154	420,708,704
2033	3,534,725	--	416,741,158	416,741,158	420,275,883
2034	3,532,013	--	417,403,904	417,403,904	420,935,916
2035	3,531,938	--	232,165,926	232,165,926	235,697,863
2036	--	--	232,174,591	232,174,591	232,174,591
2037	--	--	209,410,366	209,410,366	209,410,366
2038	--	--	123,536,611	123,536,611	123,536,611
2039	--	--	117,826,223	117,826,223	117,826,223
2040	--	--	48,566,766	48,566,766	48,566,766
2041	--	--	47,847,352	47,847,352	47,847,352
2042	--	--	13,035,051	13,035,051	13,035,051
2043	--	--	13,037,218	13,037,218	13,037,218
TOTAL	\$177,005,528	\$494,894,263	\$9,679,270,951	\$10,174,165,213	\$10,351,170,741

(1) Includes certain CWA Bonds.

(2) Debt service for the Series 2004B Bonds is calculated at the fixed rate of the Series 2004B Qualified Hedge Agreement, which is 3.7784%. Debt service for the unhedged Series 2008D Bonds is calculated using a market rate for taxable debt (3%) until conversion, and a market rate for tax-exempt debt (5%) until the December 19, 2012 refunding. Debt service for the Series 2012A Bonds is calculated at 4.3284% until December 2016, and 3.7784% thereafter. Debt Service for the Series 2012B Bonds is calculated at the rate of 4.5284% until December 2018, and 3.7784% thereafter. Debt Service for the Series 2012C Bonds is calculated at the rate of 4.3610% through August 2016, and 3.761% thereafter.

(3) Totals may have slight discrepancies due to rounding.

EMPLOYEE PENSION FUNDS

General Overview

Pension Systems. The City has three pension programs that cover all full time City employees: the Houston Municipal Employees Pension System (“HMEPS” or the “Municipal System”) for municipal employees, including virtually all Combined Utility System employees; the Houston Police Officers’ Pension System (“HPOPS” or the “Police System”) for classified police officers; and the Houston Firefighters’ Relief and Retirement Fund (“HFRRF” or the “Firefighter Fund”) for classified firefighters (collectively, the “Pension Systems”). The Pension Systems were established in accordance with State law, with the Municipal System established pursuant to Article 6243h of the Vernon’s Texas Civil Statutes, as amended (the “HMEPS Statute”), the Police System established pursuant to Article 6243g-4, as amended (the “HPOPS Statute”), and the Firefighter Fund established pursuant to Article 6243e.2(1), as amended (the “HFRRF Statute,” collectively with the HMEPS Statute and the HPOPS Statute, the “Pension Statutes”).

The Pension Statutes establish the governance structures of the Pension Funds, City and employee contribution levels, and the method for the determination of benefits payable to retirees under the Pension Systems; provided, however, that the HMEPS Statute and HPOPS Statute allow for modification of the City and employee contribution levels and the determination of benefits payable to retirees pursuant to a local “meet and confer” process through which the City and the boards of trustees of those Systems reach binding agreements. In contrast, the HFRRF Statute solely governs both benefits and contributions. The majority of the trustees of each Pension System have a personal interest in the pension plan administered by each board of trustees. All trustees of each Pension System take an oath to “diligently and honestly administer” such Pension System, and each trustee is counseled on his/her fiduciary responsibilities. Trustees appointed by the City are counseled that their fiduciary duties to the Pension System take precedence over the interests of the agency or official that appointed them to the board. No legal challenges have arisen as a result of potential conflicts of interest.

Substantially all of the Combined Utility System’s employees are members of the Municipal System. Thus, while anticipated increases in City contributions to the Police System and Firefighter Fund will have an effect on the Combined Utility System due to increases in the cost of reimbursing the City’s General Fund for security and fire protection services, the Combined Utility System is directly responsible for only the costs of funding the portion of the Municipal System associated with the employees of the Combined Utility System. See “– General Overview – Combined Utility System’s Contributions to the Municipal Pension System.”

Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets. The City has received completed actuarial valuation reports as of July 1, 2011 for the Municipal System and the Police System, and an actuarial report as of July 1, 2012 for the Firefighter Fund. The actuarial valuation report as of July 1, 2011 for the Municipal System reported an Unfunded Actuarial Accrued Liability (“UAAL”) of approximately \$1.46 billion with a funded ratio (ratio of assets to accrued liability) of 61%. The actuarial valuation report as of July 1, 2012 for the Firefighter Fund contains a UAAL of approximately \$490 million with a funded ratio of 87%. The actuarial valuation report as of July 1, 2011 for the Police System reports a UAAL of \$770 million with a funded ratio of 83%.

The current actuarially determined contributions and their component UAALs for the Municipal System and the Police System do not fully take into consideration either the reductions in benefits for future participants in those systems or the scheduled increases in future City contributions provided for in their respective “meet and confer” agreements. Accordingly, for the near term, the actual City contributions for the Municipal System and the Police System required by the “meet and confer” agreements are expected to be less than the actuarially determined contributions. However, over the long term, it is expected that as the reduced benefit structures take effect coupled with the scheduled increases in future contributions, the projected assets of the Municipal System and the Police System will continue to be sufficient to pay benefits to all participants when they become due.

Funding of Pension Systems. The City has historically funded the Pension Systems in amounts (1) agreed upon by the City and the respective boards of the Pension Systems as part of jointly sponsored changes in State law or (2) agreed upon in negotiations with the Municipal System’s and Police System’s respective boards through the “meet and confer” process. The City budgets for its contributions by allocating the cost between its General Fund and Enterprise Funds based upon the nature of the employment of the covered employees. In Fiscal Year 2012, the

General Fund was responsible for approximately 47% of the City's \$98.5 million contribution to the Municipal System while CUS was responsible for approximately 19%. The General Fund covers substantially all of the City's contributions to the Police System and the Firefighter Fund. The City's Fiscal Year 2013 contribution to the Municipal System will be approximately \$109 million through "meet and confer" negotiations, which is approximately 21% of payroll.

Recently, the Mayor announced a 2013 legislative goal of establishing a "meet and confer" process for the Firefighter Fund similar to the process that exists for the Municipal System and Police System. Such a change will require the Texas Legislature to amend existing law. The deadline for filing bills to be considered for this legislative session is March 8, 2012, and the majority of bills, if adopted, would not become effective until August, 2013. The City cannot predict whether such a bill will be filed and, if filed, whether it will be adopted by the Texas Legislature.

Combined Utility System's Contributions to the Municipal Pension System. The City budgets for its contributions to the Municipal System by allocating the cost among its General Fund and various Enterprise Funds based upon the percentage of total payroll paid by the funds. For Fiscal Year 2012, municipal employees of the Combined Utility System comprised approximately 19% of the total civilian workforce payroll of the City, and accordingly, the Combined Utility System was responsible for approximately this percentage of the pension contributions for the Municipal System. To the extent the share of budgeted payroll for municipal employees of the Combined Utility System changes in the future, the allocable percentage of the budgeted contributions by the Combined Utility System to the Municipal System will also change.

As a result of the HMEPS Agreements, the Combined Utility System made payments to the Municipal System of \$11.8 million in Fiscal Year 2006, \$12.3 million in Fiscal Year 2007, \$13 million in Fiscal Year 2008, \$12 million in Fiscal Year 2009, \$13.9 million in Fiscal Year 2010, \$14.1 million in Fiscal Year 2011 and \$16.6 million in Fiscal Year 2012. The System has budgeted \$21 million in Fiscal Year 2013. For a discussion of the HMEPS Agreements, see "HMEPS Agreements" below. The City and HMEPS have approved an agreement with respect to the City's funding commitment to the Municipal System for Fiscal Years 2008 through 2011, which required the City to make a contribution of \$78.5 million in Fiscal Year 2009, \$83.5 million in Fiscal Year 2010 and \$88.5 million in Fiscal Year 2011, which matched the contribution contained in the respective budgets for those Fiscal Years. The 2011 HMEPS Agreement (hereinafter defined) requires the City to make a contribution of \$109 million in Fiscal Year 2013. Without this agreement, the City's contribution level would be established pursuant to the HMEPS statute and would have resulted in a contribution of approximately \$128 million for Fiscal Year 2013.

In addition, the City issued its Taxable General Obligation Pension Bonds, Series 2005 (the "Series 2005 Pension Bonds"), Series 2006 (the "Series 2006 Pension Bonds") and Series 2007A (the "Series 2007A Pension Bonds") to meet its obligations under its "meet and confer" agreements. The City paid \$33 million of the proceeds of each series of bonds to the Municipal System. Although these bonds are secured by a pledge of ad valorem tax revenues, the Combined Utility System is responsible for repaying its pro-rata share of debt service of \$179,000 annually of the Series 2005 Pension Bonds issued for its benefit. This debt service payment is in addition to the Combined Utility System's annual contribution to HMEPS based on the current payroll of active employees. The Combined Utility System has no responsibility for debt service on the Series 2006 Pension Bonds or the Series 2007A Pension Bonds because it is fully paying its share of pension contributions as determined by "meet and confer" agreements from operating revenues. The Combined Utility System is also currently responsible for 17.2% of the debt service on the City's Taxable Pension Obligation Refunding Bonds Series 2008A, which refunded a \$300 million collateralized pension obligation note delivered by the City to the Municipal System.

HMEPS Agreements. The 2007 HMEPS Agreement (the "2007 HMEPS Agreement"), which amended a previous agreement entered into in 2004 (the "2004 HMEPS Agreement, together with the 2007 HMEPS Agreement, the "HMEPS Agreements"), effectively reduced the City's actuarially determined contribution amount to its current level of approximately 22.4% of payroll. The 2004 HMEPS Agreement has three elements, (1) a funding commitment by the City for Fiscal Years 2005, 2006 and 2007, including a commitment to contribute cash, issue Pension Obligations, and contribute certain City assets; (2) a required increase in the employees' contribution; and (3) benefit level reductions for employees hired prior to January 1, 2008. The 2007 HMEPS Agreement has three elements, (1) a funding commitment by the City for Fiscal Years 2008, 2009, 2010, and 2011, (2) a new noncontributory defined benefit plan with further reduced benefit levels for employees hired after January 1, 2008, and (3) an agreement to reset the actuarial value of the Municipal System Assets to the market value of such assets

as of July 1, 2006. A new agreement in 2011 establishes a funding commitment by the City for Fiscal Years beginning in 2012 and thereafter (the “2011 HMEPS Agreement”).

Under the terms of the 2007 HMEPS Agreement, the City made contributions to the Municipal System of \$75 million in Fiscal Year 2008, \$78.5 million in Fiscal Year 2009, \$83.5 million in Fiscal Year 2010, and \$88.5 million in Fiscal Year 2011. Under the terms of the 2011 HMEPS Agreement, the City’s funding commitment for Fiscal Year 2012 was \$98.5 million. Beginning in Fiscal Year 2013, the City’s funding commitment will be equal to an actuarially determined amount applicable to the year, provided however, that the increase in contribution from one year to the next cannot exceed 2% of payroll. Based on the 2011 actuarial valuation reports, the City’s contribution rate is projected to increase gradually to be equal to the actuarially determined rate of 25.5% of payroll effective for Fiscal Year 2015. The Combined Utility System will be responsible for approximately 18% of the City’s scheduled contributions based upon the current percentage of the City’s total municipal employee payroll paid by the Combined Utility System.

BONDHOLDERS’ REMEDIES

The Master Ordinance makes no provision for the appointment of a trustee to protect the rights of owners of any such obligations, and no provision for acceleration of maturity of any such bonds or foreclosure on revenues or possession of revenues by a trustee or agent for owners of any such obligations, or operation of the System by an independent third party in the event of default.

No lien has been created on the physical properties comprising the System to secure payment of principal of or interest on any revenue bonds of the System. Moreover, in the event of default, the owners of such obligations have no right or claim under the laws of the State of Texas against the System or any property of the City other than their right to payment from revenues collected and certain funds maintained pursuant to the Master Ordinance. Texas courts have held that unless expressly waived by the Texas Legislature, a municipality is immune from suit for monetary damages, and that the statutory authorization for municipalities to plead or be impleaded is insufficient to constitute a waiver of sovereign immunity. Accordingly, the only practical remedy in the event of default may be a mandamus or other equitable remedy proceeding to compel the City to increase rates and charges or to perform its other obligations under the Master Ordinance and any Amended Supplemental Ordinance authorizing the issuance of System Obligations. Such remedy may need to be enforced on a periodic basis because maturity of such bonds is not subject to acceleration. In addition, even if rates and charges are increased, the amount of revenues generated would depend upon usage of the System by third parties, which is beyond the control of the City.

The enforcement of a claim for payment of principal of or interest on any revenue bonds of the System and the City’s other obligations with respect to such bonds is subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally. See also “CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE — Bondholder Rights and Remedies.”

LITIGATION AND REGULATION

Claims and Litigation Affecting the City

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving property tax assessments; suits over the validity of City ordinances and over their enforcement; suits alleging non-compliance with certain federal and state environmental statutes; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits.

The City is also aware that various claims for inverse condemnation may be asserted against the City in connection with operations of the System, the aggregate amounts of which are unknown. In one such case, a Texas Court of Appeals awarded a group of plaintiffs an amount which, with interest, exceeded \$26 million, for the alleged inverse condemnation of their mineral rights under and in the vicinity of Lake Houston. However, the Texas Supreme Court reversed and remanded the case to the trial court resulting in a judgment for the plaintiffs for the original amount. On appeal, the Court of Appeals rendered a take nothing judgment in favor of the City; however, the plaintiffs are expected to ask for a rehearing and if unsuccessful, appeal the case to the Texas Supreme Court. The City intends to defend itself vigorously against such litigation and all other inverse condemnation claims; however, the City's liability with respect to these claims cannot be predicted. See also the section captioned "THE CITY AND THE SYSTEM—City Charter Tax and Revenue Limitations" and Note 13 to the Financial Statements for Fiscal Year 2012 as set forth in APPENDIX A.

Environmental Regulation

The City is subject to the environmental regulations of the State of Texas and the United States applicable to the operation of its water supply, collection and disposition of storm water, wastewater treatment and solid waste disposal systems. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination on properties owned or operated by the City or on properties owned by others, but as a result of City operations. See "THE CITY AND THE SYSTEM — Water Facilities — Water Quality," "THE CITY AND THE SYSTEM — Sewer Facilities — Federal and State Regulation of the Sewer Facilities," and "— Potential Penalties for the System's Violations." See also "EFFECTS OF SUBSIDENCE."

Other Environmental Measures

Air quality control measures required by the EPA and the TCEQ may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls may be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvement in the HGB area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose even more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

RATINGS

Moody's ("Moody's") and [Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business] ("Standard & Poor's") have assigned ratings of "[]" and "[]" to the Bonds, respectively. The ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. The City is not obligated to maintain the current ratings on the Bonds or other outstanding First Lien Bonds, and there is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Bonds or other outstanding First Lien Bonds. The City and the Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings. A rating is not a recommendation to buy, sell or hold the Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default, other financial crisis or budgetary reductions should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

RESERVE FUND

First Lien Bonds

In order to satisfy its reserve fund requirement for previously issued First Lien Bonds, the City previously acquired a Reserve Fund Surety Policy from MBIA Insurance Corporation ("MBIA"), two Reserve Fund Surety Policies from Financial Security Assurance ("FSA"), and an additional First Lien Bond Reserve Fund Surety Policy from Assured Guaranty Corp. ("Assured Guaranty," MBIA, FSA, and Assured Guaranty are jointly referred to herein as the "Reserve Fund Surety Providers"). The Reserve Fund Surety Policy issued by MBIA is now re-insured by National Public Finance Guarantee Corporation, MBIA's successor and the Reserve Fund Surety Policies issued by FSA are now insured by Assured Guaranty Municipal Corp., FSA's successor. See "APPENDIX H - Description of Reserve Fund Surety Policies". The Reserve Fund Surety Policy from MBIA guarantees the payment of principal and interest to be paid from the Debt Service Reserve Fund in relation to the obligations under the Master Ordinance and Supplemental Ordinance adopted authorizing the Series 2004 Bonds.

The City has satisfied the Bond Reserve Fund Requirement as follows:

Policy	Amount	Year of Termination
Reserve Fund Policy-MBIA (2004)	\$143,396,956.25	2034
Reserve Fund Policy-FSA (2005)	5,000,000.00	2035
Reserve Fund Policy-FSA (2007)	16,475,000.00	2036
Reserve Fund Policy-Assured Guaranty (2008)	3,537,643.00	2037
Cash and Investments (Prior to issuance of Bonds) ⁽¹⁾	45,980,300.29	
Additional cash deposit at closing of Bonds	[_____]	
TOTAL	<u>\$214,389,899.54</u>	

⁽¹⁾ Balance as of April 13, 2013.

The reserve fund requirements for such First Lien Bonds may be reduced by any reduction in the principal amount of such outstanding First Lien Bonds. The Reserve Fund Surety Policies terminate in the years indicated above. In the event the City does not obtain a replacement Reserve Fund Surety Policy or Policies in a sufficient amount by such termination dates, the City will be required to provide for any resulting deficiency in the shared Bond Reserve Fund established for the First Lien Bonds electing to participate in the shared Bond Reserve Fund by making monthly transfers over a 60-month period. See "SECURITY FOR THE BONDS—First Lien Bond Reserve Fund."

If amounts in the Debt Service Reserve Fund must be transferred to pay amounts coming due on any Outstanding First Lien Bonds, any cash and/or investments must be drawn first and applied pro-rata before drawing on the Reserve Fund Surety Policies. Draws on the Reserve Fund Surety Policies must also be applied pro-rata after applying cash and/or investments. If amounts then on deposit in the Debt Service Reserve Fund (including the amount of any Reserve Fund Surety Policy) exceed the Reserve Fund Requirements on the First Lien Bonds, the City may transfer such excess to the Revenue Fund. See APPENDIX D - Excerpts From Master Ordinance. Money deposited in the Debt Service Reserve Fund may, at the option of the City, be deposited in investments permitted by state law and consistent with the City's investment policy.

Pursuant to the Master Ordinance, any provider of a Reserve Fund Surety Policy must be rated, at the time of deposit of such Reserve Fund Surety Policy, in the highest rating category by each Rating Agency rating the Outstanding Bonds to which the Reserve Fund Surety Policy relates at the time of deposit of such Reserve Fund Surety Policy. Any subsequent downgrade of any such provider will not affect the sufficiency of the Reserve Fund. For additional information on each Reserve Fund Surety Provider, see: www.mbia.com and www.assuredguaranty.com, respectively. The Reserve Fund Surety Providers have not reviewed or approved this Official Statement. No assurance can be given by the System or the City with respect to the Reserve Fund Surety Policies.

Fitch Ratings ("Fitch"), Moody's and Standard & Poor's (collectively, the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk as an area of stress for the financial guaranty industry. In various releases, the Rating Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations has been or could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors. See "APPENDIX H - Description of Reserve Fund Surety Policies".

Previous Ordinance Bonds

The City has seven Previous Ordinance Bond Reserve Fund Surety Policies outstanding in the aggregate amount of \$178,949,077, as follows: (A) two policies with MBIA totaling \$105,884,358; (B) four policies with Financial Guaranty Insurance Corporation ("FGIC") totaling \$72,596,746; and (C) one policy with Ambac Assurance for \$467,973. Since the policies were issued, Ambac Assurance, FGIC and MBIA have been downgraded by one or more of the Rating Agencies. The downgrading of a provider of a Previous Ordinance Bond Reserve Fund Surety Policy does not affect the sufficiency of such policy for purposes of the Previous Ordinance Bond Reserve Fund Requirement. Additional information on such policies is available from the City upon request.

2013 LEGISLATIVE SESSION

On January 8, 2013, the Texas Legislature convened in general session until May 27, 2013. Thereafter, the Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that affect the City or the Combined Utility System. The City can make no representation regarding any actions the Texas Legislature may take.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under Texas law, the Bonds are legal and authorized investments for insurance companies, fiduciaries or trustees, and for the sinking fund of cities, towns, villages, school districts and other political subdivisions or public agencies of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State of Texas, its agencies and political subdivisions and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national Rating Agency before such obligations are eligible investments for sinking funds and other public funds. The City has not reviewed 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 any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Co-Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described below, corporations. A form of Co-Bond Counsel's anticipated opinion is reproduced as Appendix E. The statute, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest on the Bonds owned by a corporation, other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

In rendering the foregoing opinions, Co-Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Supplemental Ordinance subsequent to the issuance of the Bonds. The Supplemental Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities or equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of any "arbitrage profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the beneficial owners ("Owners") of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest of the Bonds, the City may have different or conflicting interests from the Owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Proposed Tax Legislation and “Fiscal Cliff”

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Co-Bond Counsel express no opinion.

Tax Accounting Treatment of Discount and Premium on Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity on such Discount Bonds constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bonds by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during its tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable

disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approving opinions of the Attorney General of the State and of Andrews Kurth LLP, Houston, Texas and Bates & Coleman, P.C., Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. The opinions of Co-Bond Counsel will be based upon an examination of the transcripts of certain proceedings taken by the City incident to the issuance and authorization of the Bonds.

In their capacity as Co-Bond Counsel, Andrews Kurth LLP, Houston, Texas and Bates & Coleman, P.C., Houston, Texas, have reviewed the statements and information contained in the Official Statement under the captions and sub-captions "THE BONDS", "SECURITY FOR THE BONDS," "ADDITIONAL BONDS," "CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE," "QUALIFIED HEDGE AGREEMENTS—Master Ordinance Requirements," "RESERVE FUND", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings" as to which no opinion is expressed), and "APPENDIX C" and "APPENDIX D" and Co-Bond Counsel are each of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Master Ordinance and the Supplemental Ordinance; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "TAX MATTERS" (except for the information under the sub-caption "Impact of President's 2013 Budget Proposal", as to which no opinion is expressed) and Co-Bond Counsel are each of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms may not have, 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 or the Combined Utility System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein. The fees of Co-Bond Counsel for their services with respect to the Bonds are contingent upon the sale and delivery of the Bonds.

In connection with the issuance of the Bonds, certain legal matters will be passed upon for the City by its Special Co-Disclosure Counsel, Greenberg Traurig, LLP, Houston, Texas, and Edgardo E. Colón, P.C., Houston, Texas and for the Underwriters by their counsel, Bracewell & Giuliani LLP, Houston, Texas.

Andrews Kurth LLP, Bates & Coleman, P. C., Greenberg Traurig, LLP, and Edgardo E. Colón, P.C. represent the Underwriters from time to time in matters unrelated to the issuance 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 that expression of professional judgment, of the transaction opined upon, or 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.

INDEPENDENT AUDITORS

The financial statements of the City of Houston, Texas, as of and for the year ended June 30, 2012, included in this Official Statement as APPENDIX A, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which includes a reference to other auditors) appearing herein.

FINANCIAL ADVISORS

First Southwest Company and TKG & Associates LLC (the "Financial Advisors") have been retained by the City as its independent financial advisors in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of documents. The Financial Advisors' fees for services rendered with respect to the Bonds are not contingent upon the sale and delivery of the Bonds.

Although the Financial Advisors have read and participated in the drafting of this Official Statement, such firms have not independently verified any of the information set forth in this Official Statement. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City and other entities, and which may be subject to interpretation. No guarantee is made by the Financial Advisors as to the accuracy or completeness of any information herein. No person, therefore, is permitted to rely upon the participation of the Financial Advisors as an implicit or explicit expression of opinion as to such completeness and accuracy.

REGISTRATION, SALE AND DISTRIBUTION

The Bonds have not been registered under the federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Master Ordinance and the Supplemental Ordinance have not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

UNDERWRITING

Loop Capital Markets, as representative and on behalf of all of the Underwriters set forth on the front cover page hereof (the "Representative"), has agreed to purchase the Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$_____ (reflecting the par amount of the Bonds, plus a net original issue premium of \$_____ and less the Underwriters' discount of \$_____). The Representative will be obligated to purchase all of the Bonds, if any of the Bonds are purchased.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds to retail investors at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the amounts deposited under the Escrow Agreement to provide for the payment of the Refunded Notes will be verified by Grant Thornton, LLP, a firm of independent certificated public accountants.

These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the City. Grant Thornton, LLP, has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

CONTINUING DISCLOSURE OF INFORMATION

In the Supplemental Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Municipal Securities Rulemaking Board (the "MSRB") is the sole information repository and all continuing disclosure documents are required to be provided solely to the MSRB. Access to such information will be made available to the public without charge by the MSRB on its Electronic Municipal Market Access ("EMMA") website.

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement as follows: (1) the average daily wastewater flow through and the effective treatment capacity of the Sewer Facilities presented under "THE CITY AND THE SYSTEM — Sewer Facilities — General," (2) the number of "in-City" districts that the City has permitted to be created and the number of "in-City" districts that have been created as presented under "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS — In-City Districts," (3) the number of active service connections of the System and the sources of System revenues presented under "SOURCES OF SYSTEM REVENUES — General," (4) the rates charged to various types of customers of the System presented under "RATES — Current Rates," and (5) the financial statements presented in APPENDIX A and (6) the schedules listed in APPENDIX F. The City will update and provide this information within six (6) 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 in such other form consistent with the agreement, or may incorporate by reference certain other publicly available documents, as permitted by 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 provided by that time, the City will provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles currently in effect as described in APPENDIX A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

Material Event Notices

The City also will provide to the MSRB timely notice, not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bonds calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership, or similar event of the City; (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) the appointment of a successor or additional trustee or the change in the name of the trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "CONTINUING DISCLOSURE OF INFORMATION - Annual Reports". Neither the Bonds, nor the Ordinance provide for credit or liquidity enhancement, the pledge of property other than Net Revenues to secure repayment of the Bonds or the appointment of a trustee. The City will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in the immediately preceding paragraph (12) 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 United States 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.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through EMMA at 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 holders 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 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 the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or nationally recognized bond counsel determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The City may also amend or repeal the agreement if the Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriter from purchasing the Bonds in the offering described herein in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

The City has complied in the last five years in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

FORWARD-LOOKING STATEMENTS

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 expectations of the City, 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 thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the City and the System could differ materially from those in such forward-looking statements.

The forward-looking statements in this Official Statement 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

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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 would prove to be accurate.

GENERAL INFORMATION

The descriptions in this Official Statement do not purport to be complete and all such descriptions or references are qualified in their entirety by reference to the complete form of the Master Ordinance, the Supplemental Ordinance or other documents or source they summarize. Statements made in this Official Statement involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances or other documents do not purport to be complete statements of same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects. The Bonds are payable solely from the Net Revenues as described herein, and such information is not intended to imply that any other revenues or monies of the City are pledged to pay the principal of and interest on the Bonds.

For additional information with respect to the financial condition of the City, a copy of the June 30, 2012, City Controller's Comprehensive Annual Financial Report of the City of Houston, Texas is available upon written request addressed to the City Controller, P.O. Box 1562, Houston, Texas 77251-1562. A copy of the most recent Quarterly Investment Report is also available upon request from the City Controller. Copies of the Master Ordinance and the Supplemental Ordinance may be obtained from Anna Russell, City Secretary, City Hall Annex, 900 Bagby, Level P, Room P-101, Houston, Texas, or by mail P.O. Box 1562, Houston, Texas 77251-1562.

This document was approved by the City Council.

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APPENDIX A
CITY OF HOUSTON BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES FOR THE CITY'S COMBINED UTILITY SYSTEM FUND

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APPENDIX B
ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

APPENDIX B

ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

This Appendix contains a brief discussion of certain selected economic and demographic data on the City of Houston, Texas (the "City") and surrounding areas. Information in this Appendix has been obtained from sources that are believed to be reliable; however, such information is subject to revision and adjustment, and no representation is made with respect to the accuracy or completeness of such information.

The following data focuses primarily on four geographic areas, the Houston Primary Metropolitan Statistical Area (the "Houston PMSA"), the Consolidated Metropolitan Statistical Area (the "Houston CMSA"), the Greater Houston Area and Harris County, the county in which the City primarily lies. The Greater Houston Area includes all of Harris County and parts of six surrounding counties. The Houston PMSA consists of six counties: Chambers, Fort Bend, Harris, Liberty, Montgomery and Waller. The Houston CMSA consists of eight counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller.

IT SHOULD BE NOTED THAT THE FOUR GEOGRAPHIC AREAS DESCRIBED ABOVE ENCOMPASS POPULATIONS AND AREAS WHICH FAR EXCEED THE POPULATION AND AREA OF THE CITY, SO THAT THE FOLLOWING DATA MAY SET FORTH STATISTICS AND TRENDS WHICH DO NOT NECESSARILY REFLECT STATISTICS AND TRENDS APPLICABLE SOLELY TO THE CITY ITSELF. IN ADDITION, INVESTORS SHOULD NOTE THE DATA CONTAINED IN THIS APPENDIX MAY FLUCTUATE MORE OR LESS IN SUBSEQUENT YEARS THAN IN PRIOR YEARS AND SUCH FLUCTUATIONS MAY BE COUNTER TO THE TRENDS AND STATISTICS EXHIBITED IN THE FOLLOWING TABLES.

HOUSTON-SUGAR LAND-BAYTOWN MSA POPULATION ESTIMATES^(a) 2002-2011

Calendar Year	Population Estimates (In Thousands)	Annual % Change
2011	5,976.47	1.81
2010	5,946.80	1.82
2009	5,867.49	2.46
2008	5,726.71	2.31
2007	5,597.67	2.06
2006	5,484.88	3.50
2005	5,299.57	2.10
2004	5,190.44	2.09
2003	5,084.02	2.12
2002	4,978.64	2.63

- (a) The City previously provided population numbers for the City's PMSA. The City believes that the MSA population numbers better reflect the economic relationship of the region.
Source: Population Division, U.S. Census Bureau.

**HOUSTON POPULATION ESTIMATES (WITHIN THE CITY LIMITS)^(a)
2002-2011**

Year^(a)	Population Estimates (In Thousands)	Annual % Change
2011*	2,145.1	2.17%
2010	2,099.5	(7.02)%
2009	2,257.9	0.88
2008	2,238.2	1.43
2007	2,206.6	1.72
2006	2,169.2	4.48
2005	2,076.2	0.85
2004	2,058.6	1.26
2003	2,033.0	1.03
2002	2,012.3	0.90

* Based on 2010 U.S. Census data, which is as of July 1, 2011.

(a) Figures are as of July of each year.

Source: Population Division, U.S. Census Bureau.

**HOUSTON CONSUMER PRICE INDEX
ALL URBAN CONSUMERS 2002-2011**

Calendar Year	Average Index	Annual % Change
2011	200.5	3.2%
2010	194.2	2.0
2009	190.5	0.3
2008	189.9	3.3
2007	183.8	1.8
2006	180.6	2.8
2005	175.7	3.7
2004	169.5	3.5
2003	163.7	2.8
2002	159.2	0.3

Source: Federal Reserve Bank of Dallas

HOUSTON PMSA

**NON-AGRICULTURAL WAGE AND SALARY EMPLOYMENT (SEASONALLY ADJUSTED)
AND AVERAGE NUMBER OF JOBS
2002-2011**

Calendar Year	Annual Average (in thousands)	Percent Change
2011	2,636.0	2.9%
2010	2,561.4	-1.6
2009	2,520.0	-2.8
2008	2,592.8	1.9
2007	2,543.7	4.5
2006	2,434.3	4.2
2005	2,337.2	2.6
2004	2,278.7	0.7
2003	2,262.9	-0.6
2002	2,277.4	-0.2

Source: Texas Workforce Commission, December 2011.

HOUSTON PMSA

**UNEMPLOYMENT RATE
(NOT SEASONALLY ADJUSTED)
% UNEMPLOYED
2002-2011**

Calendar Year	Annual Average %
2011	8.30%
2010	8.50
2009	7.60
2008	4.80
2007	4.30
2006	5.00
2005	5.60
2004	6.20
2003	6.80
2002	6.10

Source: Texas Workforce Commission, December 2011.

**PORT OF HOUSTON TONNAGE
TOTAL CARGO
2002-2011**

Calendar Year	Short Tons
2011	236,000,000
2010	228,900,000
2009	220,000,000
2008	225,500,000
2007	225,000,000
2006	219,100,000
2005	212,400,000
2004	202,000,000
2003	190,923,145
2002	177,560,718

Source: Estimates; Port of Houston Authority.

**HOUSTON-GALVESTON-BRAZORIA CMSA
ANNUAL HOUSING STARTS
2001-2010**

<u>Calendar Year</u>	<u>Units</u>		
	<u>Single Family</u>	<u>Multi-Family</u>	<u>Total</u>
2010	22,113	5,166	27,279
2009	22,324	4,953	27,277
2008	28,154	14,553	42,707
2007	42,072	21,158	63,230
2006	55,080	16,570	71,650
2005	51,085	11,080	62,165
2004	45,039	10,858	55,897
2003	41,995	16,761	58,756
2002	34,640	12,401	47,041
2001	34,311	7,183	41,494

Source: CDS Market Research, February 2011.

**GREATER HOUSTON AREA
APARTMENT OCCUPANCY RATES^(a)
2002-2011**

Calendar Year	Occupancy Rate
2011	87.70%
2010	86.30
2009	84.30
2008	86.30
2007	87.40
2006	88.10
2005	90.60
2004	85.80
2003	87.10
2002	89.70

(a) Physical occupancy based on calendar year.
Source: CB Richard Ellis, January 2011.

**HOUSTON HOTEL OCCUPANCY RATES
2002-2011**

Calendar Year	Average Occupancy Rate
2011	57.7%
2010	55.8%
2009	56.1
2008	67.7
2007	66.3
2006	66.2
2005	67.2
2004	61.9
2003	60.4
2002	63.2

Source: The PKF Consulting, May 2011.

**CITY OF HOUSTON BUILDING PERMITS
2002-2011**

New Non-Residential^(a)

<u>Calendar Year</u>	<u>Number of Permits Issued</u>	<u>Dollar Value (In Thousands)</u>
2011	2,031	\$ 858,370
2010	2,005	614,458
2009	2,063	1,052,147
2008	2,778	2,186,599
2007	2,991	1,777,311
2006	2,944	1,342,131
2005	3,231	1,150,103
2004	1,218	673,381
2003	3,217	731,725
2002	2,976	864,773

^(a) Privately Owned.

Source: City of Houston, Public Works and Engineering.

**CITY OF HOUSTON BUILDING PERMITS
2002-2011**

New Residential^(a)

<u>Calendar Year</u>	<u>Single Family</u>		<u>Multi-Family</u>	
	<u>Number of Permits Issued</u>	<u>Dollar Value (In Thousands)</u>	<u>Number of Permits Issued</u>	<u>Dollar Value (In Thousands)</u>
2011	2,714	\$701,546	157	\$313,580
2010	2,741	610,208	125	127,868
2009	2,850	542,991	74	113,154
2008	3,749	847,394	237	439,346
2007	6,480	1,307,714	444	712,494
2006	7,628	1,330,846	538	588,083
2005	7,296	1,152,592	274	359,663
2004	5,958	943,913	440	344,397
2003	5,140	819,294	472	510,474
2002	4,152	666,003	696	524,060

^(a) Privately Owned.

Source: City of Houston, Public Works and Engineering.

**HOUSTON PMSA
GENERAL PURPOSE OFFICE SPACE ACTIVITY^(a)
2002-2011**

Calendar Year	Net Rentable Area (msf)	Net Absorption^(b) (msf)	Annual Vacancy Rate	Average Rents (Per Square Foot)^(c)
2011	190.72	1.7	14.99%	\$22.84
2010	190.02	-0.5	16.30	22.82
2009	190.63	-2.7	15.89	24.00
2008	185.14	2.7	11.90	23.57
2007	180.76	3.3	10.98	21.61
2006	178.21	0.3	14.48	18.09
2005	177.88	1.2	14.46	17.78
2004	178.14	0.2	16.35	17.81
2003	147.31	0.8	16.44	21.01
2002	147.23	1.1	16.55	20.66

(a) Based on buildings greater than 29,999 square feet. (Excludes single tenant government-owned and medical office buildings).

(b) Net absorption is the difference between the total number of square feet that are leased (excluding renewals of leases) and the total number of square feet that have become vacant in the year.

(c) Average asking rental rates are quoted on a gross basis.

Source: CB Richard Ellis, January 2012.

**CITY OF HOUSTON
 AVIATION PASSENGER AND AIR FREIGHT TRENDS
 2002-2011**

The following table presents total passenger arrivals and departures and air freight (in pounds) for George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport for the years indicated.

Calendar Year	Passenger Domestic	Passenger International	Passenger Domestic and International	Air Freight Total Domestic and International ^(a)
2011	41,393,412	8,637,332	50,030,744	934,268,782
2010	41,025,643	8,507,878	49,533,571	882,569,658
2009	40,695,852	7,809,943	48,505,795	766,313,947
2008	42,525,054	7,960,133	50,485,187	836,613,923
2007	44,094,573	7,722,990	51,817,563	864,395,702
2006	43,688,377	7,411,010	51,099,387	810,143,748
2005	41,065,006	6,909,083	47,974,089	768,561,131
2004	38,472,465	6,385,139	44,857,604	784,125,513
2003	36,471,462	5,620,391	42,091,853	740,645,402
2002	36,357,296	5,668,225	42,025,521	731,476,709

^(a) Air Freight in pounds and excludes airmail.
 Source: Houston Airport System

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APPENDIX C
DEFINITIONS

APPENDIX C

DEFINITIONS

As used in this Official Statement, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

“Additional Bonds Test” means the terms of the Master Ordinance relating to the issuance of Additional First Lien Bonds and Additional Second Lien Bonds as described in the section captioned “ADDITIONAL BONDS — Additional First and Second Lien Obligations.”

“Additional First Lien Bonds” means the additional first lien revenue bonds permitted to be issued by the City pursuant the Master Ordinance. See “ADDITIONAL BONDS.”

“Additional Second Lien Bonds” means the additional second lien revenue bonds permitted to be issued by the City pursuant to the Master Ordinance. See “ADDITIONAL BONDS.”

“Average Annual Debt Service Requirements” means the average of the annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in then current Fiscal Year and future Fiscal Years for the particular System Obligations (First Lien Bonds, Second Lien Bonds, or otherwise) for which such calculation is made.

“Board Bonds” means the Water and Sewer System Junior Lien Revenue Bonds purchased or to be purchased by the Texas Water Development Board on a parity with the Previous Ordinance Bonds outstanding under the terms of the Previous Ordinance. The Master Ordinance provided that the City could issue a specified amount of Board Bonds included in a then current commitment from the Texas Water Development Board to the City to purchase bonds in such specified amount. The City has issued the full amount of Board Bonds permitted under the Master Ordinance. For further information, see “REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE.”

“Bond of a Series” means any subseries of Bonds when used in reference to such Bonds.

“Bond Purchase Fund” means the fund established pursuant to the Supplemental Ordinance.

“Bond Reserve Fund Requirement” means an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of the supplemental ordinance authorizing the Bonds, and (ii) all subsequent issues of First Lien Bonds that elect to fund a shared Bond Reserve Fund on a parity with the Bond Reserve Fund funded by such supplemental ordinance. All such issues electing such Bond Reserve Fund Requirement shall be entitled to a parity claim on the funds deposited in such shared Bond Reserve Fund.

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

“Closing Date” means when used with respect to the Bonds of a Series, means the date on which such Bonds are first issued, sold and delivered.

“Combined Utility System” means all properties, facilities, improvements, equipment, interests, rights and powers constituting the combined water and sewer system of the City, and all future extensions, replacements, betterments, additions, improvements, enlargements, acquisitions, purchases and repairs to the Combined Utility System, including without limitation, all those heretofore or hereafter acquired as a result of the annexation and dissolution of water districts or the acquisition of the properties or assets of any other public, private or non-profit entities. The Combined Utility System shall not include any Special Project. The Combined Utility System shall include other utility systems provided for in Chapter 1502 of the Texas Government Code which the City may from time to time elect to combine with the Combined Utility System so long as the revenues of such other utility systems are included in Gross Revenues under the Master Ordinance.

“Credit Agreement” means any agreement between the City and a third party institution pursuant to which such third party institution issues a letter of credit, municipal bond insurance policy, line of credit, standby

purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any System Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of System Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any System Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such System Bonds. Each Credit Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in the Master Ordinance. Unless specifically provided for in a Supplemental Ordinance, issuers of Credit Agreements shall not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Master Ordinance; provided that a Supplemental Ordinance may provide that, so long as an institution that issues a municipal bond insurance policy insuring a series of System Bonds is not in default of its payment obligations under such policy, such institution may, under the terms of the Supplemental Ordinance, at all times be deemed to be the exclusive owner of such series of System Bonds for the purpose of all approvals, consents, waivers, or exercise of any action and the direction of all remedies. For purposes of the Master Ordinance, Credit Agreements shall not include a Reserve Fund Surety Policy.

"CWA" means the Coastal Water Authority. See **"REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."**

"Debt Service Requirements" means, as of any period of time for which such calculation applies, an amount equal to the sum of the following for any such period and with respect to all or any portion of the System Bonds:

A. Current interest scheduled to be paid during such period on such System Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of System Bonds, from interest earned or to be earned thereon, from other System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the First Lien Bond Interest and Sinking Fund or the Second Lien Bond Interest and Sinking Fund, as the case may be, plus

B. That portion of the principal of, or compounded interest on, such System Bonds scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions);

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on any series of System Bonds that are Short Term Obligations, Adjustable Rate Obligations and Refundable Obligations:

(i) For any series of System Bonds issued as Short Term Obligations under the Master Ordinance pursuant to a program designated by the City as a commercial paper or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of System Bonds of the same lien which shall be assumed to be amortized over a remaining period not to exceed 30 years from the original issue date of such Short Term Obligations and shall be assumed to be amortized in such a manner that the Debt Service Requirements in any 12-month period are substantially equal to the Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the interest rate such series of System Bonds would bear if issued on such terms on the date of such estimate;

(ii) For any series of System Bonds issued as Adjustable Rate Bonds, it shall be assumed that such System Bonds will bear interest at a rate calculated as follows: (a) with respect to compliance with the Rate Covenant, for any such series of System Bonds then Outstanding, at the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of System Bonds, on the date of such calculation, and (b) with respect to compliance with the Reserve Fund Requirements and compliance with the Additional Bonds Test, for any such System Bonds then Outstanding or proposed to be issued, at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such System Bonds would bear if issued as long-term bonds, in the same principal amount and with the same priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations;

(iii) For the purpose of calculating the Debt Service Requirements on any series of System Bonds issued as Refundable Obligations, such System Bonds shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period not to exceed 30 years from the original issue date of such series of System Bonds at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such series of System Bonds would bear if issued as long-term bonds in the same principal amount with the same priority of lien, bearing interest at fixed rates to be amortized over 30 years;

(iv) With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded; and

(v) With respect to System Bonds to be redeemed with the proceeds of Crossover Refunding Bonds, Debt Service Requirements thereon after the Crossover Refunding Bonds Break Date shall be disregarded.

Debt Service Requirements shall be calculated on the assumption that no System Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such System Bonds, except as provided above for Short Term Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Debt Service Requirements shall include debt service requirements on Previous Ordinance Bonds, including without limitation, Outstanding Junior Lien Bonds placed with TWDB at the time of such calculation.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies in a written certificate delivered to the City to be modified pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that the Debt Service Requirements for any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be calculated in accordance with the provisions contained in paragraph (ii) above of the definition of Debt Service Requirements, as certified by the City's financial advisor in a written certificate delivered to the City; and provided further, that any obligation of the City to make termination payments or deliver collateral under a Qualified Hedge Agreement shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations.

"Designated Index" means the United States Consumer Price Index for all Urban Consumers (also known as the CPI-U) for the Houston-Galveston-Brazoria, Texas Metropolitan Area (1982-1984=100), as published by the Bureau of Labor Statistics, U.S. Department of Labor (but if such is subject to adjustment later, then the later adjusted index, together with any correlation factor necessary to relate the later adjusted index to the earlier index, as published by the entity publishing the index, shall be used), or if such publication is discontinued, the Designated Index shall then refer to comparable statistics on changes in the cost of living for urban consumers as the same may be computed and published (on the most frequent basis available) by an agency of the United States or by a responsible financial periodical of recognized authority, which agency or periodical shall be selected by the City.

“Discretionary Debt Service” shall have the meaning given to such term in the section captioned “SYSTEM DEBT AND CHARGES — Discretionary Debt Service.”

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

“First Lien Bonds” means each series of First Lien Bonds from time to time hereafter issued, but only to the extent such First Lien Bonds remain Outstanding within the meaning of the Master Ordinance.

“Fiscal Year” means the City’s fiscal year, which currently runs from July 1 to June 30, but which may be changed from time to time by the City.

“Fitch” means Fitch Ratings, Inc.

“Fourth Lien Obligations” means System Obligations authorized by the Master Ordinance that are payable after First Lien Bonds, Second Lien Bonds and Third Lien Obligations.

“Gross Revenues” means all revenues and income of every nature now or hereafter derived or received by the City from the operation and ownership of the components of the System; the interest income from the investment or deposit of money in the funds created pursuant to the Master Ordinance and the Previous Ordinance; and any other revenues hereafter pledged to the payment of System Obligations issued pursuant to the Master Ordinance. Gross Revenues shall not include Restricted Receipts. The term “Gross Revenues” shall also include all payments received by the City, except for termination payments and receipts of collateral, pursuant to Qualified Hedge Agreements.

“Junior Lien Bonds” means City of Houston, Texas Junior Lien Revenue Bonds issued under the Previous Ordinance. See also the definition for “PREVIOUS ORDINANCE BONDS.”

“Maintenance and Operation Expenses” means the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, wages, pension fund contributions, interest, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the System Bonds or other System Obligations), and all payments (including payments of amounts equal to all or a part of the debt service on bonds issued by other political subdivisions and authorities of the State of Texas) under contracts which are now or hereafter defined for a system such as the System as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense. Maintenance and Operation Expenses shall include, without limitation, all payments under contracts for the impoundment, conveyance or treatment of water or otherwise which are now or hereafter treated as operating expenses under the laws of the State of Texas and the treatment of such payments as Maintenance and Operation Expenses shall not be affected in any way if, subsequent to the entering into such contracts, the City acquires as a part of the System title to any properties or facilities used to impound, convey or treat water under such contracts, or if the City contracts to acquire title to such properties or facilities as a part of the System upon the final payment of debt service on the bonds issued to finance such properties or facilities.

“Maintenance and Operation Expenses under the Previous Ordinance” means Maintenance and Operation Expenses of the Water and Sewer System required to be paid under the Previous Ordinance.

“Master Ordinance” means the Master Bond Ordinance adopted by City Council on April 21, 2004, and all amendments thereof and supplements thereto.

“Maximum Annual Debt Service Requirements” means the greatest combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any particular future Fiscal Year or in the then current Fiscal Year for the particular System Bonds (First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any combination of the foregoing) for which such calculation is made.

“mgd” means million gallons per day.

“Moody’s” means Moody’s Investors Service, Inc.

“Net Revenues” means (i) all Gross Revenues remaining after deducting Maintenance and Operation Expenses, plus (ii) any Restricted Receipts deposited to the Revenue Fund that may be used to pay Debt Service Requirements on System Obligations.

“NHCRWA” means the North Harris County Regional Water Authority. See “EFFECTS OF SUBSIDENCE.”

“Ordinance” means, collectively, the Master Ordinance, Supplemental Ordinance No. 2004-299, and all amendments thereof and supplements thereto, including specifically the Supplemental Ordinance.

“Outstanding,” when used with reference to the Previous Ordinance Bonds, First Lien Bonds, Second Lien Bonds, Third Lien Obligations or Fourth Lien Obligations, as the case may be, means, as of a particular date, all such System Obligations theretofore delivered except: (a) any such obligation canceled by or on behalf of the City at or before said date; (b) any such obligation defeased pursuant to the defeasance provisions of the Previous Ordinance or a supplemental ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

“Owner” or **“Registered Owner,”** when used with respect to any System Obligation, means the person or entity (including any entity acting as an underwriter of System Bonds) in whose name such System Obligation is registered in the Register. Any reference to a particular percentage or proportion of the Owners of the System Obligations of a particular class or series of System Bonds means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all System Bonds or the System Obligations of such class or series then Outstanding.

“Paying Agent/Registrar” or **“Paying Agent”** for the Bonds means The Bank of New York Mellon Trust Company, N.A., and its successors in that capacity.

“Previous Ordinance” means, collectively, the City’s ordinances, as amended, heretofore or hereafter adopted, that authorized or shall authorize the issuance of the Previous Ordinance Bonds.

“Previous Ordinance Bonds” means on any date all of the City’s Water and Sewer System Junior Lien Revenue Bonds, if any, that remain Outstanding under the Previous Ordinance, including Outstanding Junior Lien Bonds placed with the Texas Water Development Board.

“Previously Issued Contract Revenue Bonds” has the meaning given to such term in the section captioned “REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE.”

“Qualified Hedge Agreement” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the City determines is to be used, or is intended to be used, to manage or reduce the cost of any System Bonds, to convert any element of any System Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty (in the case of clauses (i) through (v), whether from or initiated at the option of the City or the counterparty). A Qualified Hedge Agreement may only be entered into with an institution that has long term credit ratings, or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings, in one of the two highest generic rating categories by at least one Rating Agency then rating the System Bonds. Any obligations of the City to make scheduled payments under a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of System Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Bonds to which the Qualified Hedge Agreement relates, and each Qualified Hedge Agreement shall

be deemed to be a part of the System Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in the Master Ordinance, except that any obligation of the City to make termination payments that are not payable in installments over the remaining term of the relevant transaction or to deliver collateral shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments under the Master Ordinance.

“Rate Covenant” has the meaning given to such term in the section captioned “SECURITY FOR THE BONDS — Rate Covenant.”

“Rating Agency” means Fitch Ratings, Moody’s Investors Service, Standard & Poor’s, or any other nationally recognized rating agency.

“Refundable Obligations” means any series of System Obligations 25% or more of the original principal amount of which is due on any date; provided that, in calculating the principal amount of such System Obligations due or required to be redeemed, prepaid or otherwise paid on any date, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized on any date.

“Register” means the registration books maintained by a Paying Agent/Registrar for System Obligations issued under a supplemental ordinance.

“Required Payments” means any payments required to be made under the Previous Ordinance, including without limitation (i) all payments required to be made by the City as Maintenance and Operation Expenses under the Previous Ordinance, including without limitation under outstanding contracts on the effective date of this Master Ordinance for the impoundment, conveyance, or treatment of water or otherwise which are treated as operating expenses under the laws of the State of Texas, and (ii) all payments required to be made by the City to pay debt service requirements on Previous Ordinance Bonds in accordance with the terms of the Previous Ordinance and to comply with the reserve fund requirements of the Previous Ordinance.

“Reserve Fund Participants” means any series of System Bonds for which the City elects to fund a shared First Lien Bond Reserve Fund or Second Lien Bond Reserve Fund, as appropriate.

“Reserve Fund Requirements” means the amount required by a supplemental ordinance to be deposited, accumulated and reaccumulated and maintained in the First Lien Bond Reserve Fund, the Second Lien Bond Reserve Fund and any reserve funds created for Third Lien Obligations or Fourth Lien Obligations.

“Reserve Fund Surety Policy” means any surety bond or any insurance policy which has liquidity features equivalent to an irrevocable and unconditional letter of credit, or any irrevocable and unconditional letter of credit, deposited in a reserve fund created pursuant to the Master Ordinance in lieu of or in partial substitution for monies on deposit therein, which is rated at the time of deposit of such Reserve Fund Surety Policy in the highest rating category by each Rating Agency rating the Outstanding System Bonds to which such Reserve Fund Surety Policy relates at the time of deposit of such Reserve Fund Surety Policy.

“Restricted Receipts” means (i) revenues related to the System received by the City that pursuant to law or contractual agreements that may not be used to pay Maintenance and Operation Expenses and (ii) any interest earnings on the revenues described in clause (i) above.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies.

“Second Lien Bonds” means each series of Second Lien Bonds from time to time hereafter issued, but only to the extent such Second Lien Bonds remain Outstanding within the meaning of the Master Ordinance.

“Series 2013B Bond Reserve Fund Requirement” means an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of the Supplemental Ordinance, and (ii) all subsequent issues of First Lien Bonds for which the City elects to fund a shared First Lien Bond Reserve Fund on a parity with the First Lien Bond Reserve Fund funded by the Supplemental Ordinance.

“Short Term Obligations” means each series of bonds, notes and other obligations issued pursuant to a commercial paper or other similar financing program under the Master Ordinance, the payment of principal of which

is scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced through the issuance of additional System Obligations.

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

“Supplemental Ordinance” means the ordinance supplementing the Master Ordinance adopted by the City Council of the City on April 10, 2013 which provides for the issuance of the Bonds.

“Surety” means a third party financial institution that provides a Reserve Fund Surety Policy.

“System” See definition for the term “Combined Utility System.”

“System Bonds” means any or all of the System Obligations issued as First Lien Bonds or Second Lien Bonds, or both, as the context may indicate.

“System Obligations” means Previous Ordinance Bonds and obligations authorized pursuant to the Master Ordinance, including, without limitation, First Lien Bonds, Second Lien Bonds, Third Lien Obligations, Fourth Lien Obligations, Credit Agreements and Qualified Hedge Agreements.

“System Ordinance” means the Master Ordinance and all supplemental ordinances.

“TCEQ” means the Texas Commission on Environmental Quality and any successor thereto.

“Third Lien Obligations” means System Obligations authorized by the Master Ordinance that are payable after First Lien Bonds and Second Lien Bonds.

“TRA” means the Trinity River Authority. See “REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE.”

“Water and Sewer System” means all properties, facilities, improvements, equipment, interests, rights and powers constituting the water and sewer system of the City. See also the section captioned “THE CITY AND THE SYSTEM — General and the definition for “Combined Utility System.”

“WHCRWA” means the West Harris County Regional Water Authority. See “EFFECTS OF SUBSIDENCE.”

**APPENDIX D
EXCERPTS FROM MASTER ORDINANCE**

APPENDIX D

EXCERPTS FROM MASTER ORDINANCE

The following are selected provisions of the Master Ordinance. These excerpts should be qualified by reference to other portions of the Master Ordinance referred to elsewhere in this Official Statement, and all amended and restated references and summaries pertaining to the Master Ordinance in this Official Statement are separately and in whole, qualified by reference to the exact terms of the Master Ordinance, a copy of which may be obtained from the City of Houston. Unless otherwise indicated, any references to sections listed below are to sections contained in the Master Ordinance, and Section and Article headings contained in the following excerpts are to Sections and Articles contained in the Master Ordinance. As used in this APPENDIX D, the Master Ordinance is referred to herein as "this Ordinance," "System Bonds" are referred to as the "Bonds" and "System Obligations" are referred to as the "Obligations." Other defined terms used in this APPENDIX D shall have the meanings given such terms in APPENDIX C to this Official Statement, unless the context of the use of such term herein indicates otherwise.

ARTICLE III

TERMS OF THE BONDS

Section 3.1. Name.

The name, amount, purpose, and legal authorization for each series of Bonds shall be specified in the Supplemental Ordinance authorizing such series.

Section 3.2. Numbers; Date, and Denomination.

Each series of Bonds shall be numbered and dated and shall be in principal denominations as specified in the authorizing Supplemental Ordinance.

Section 3.3. Terms.

Each Series of Bonds shall bear interest from the dates and at the rates per annum and shall mature on the date or dates to be set forth in the authorizing Supplemental Ordinance. Bonds may bear interest at a fixed, variable, auction, term or commercial paper rate or any other rate provided for in the authorizing Supplemental Ordinance.

Section 3.4. Redemption Prior to Maturity.

Each Series of Bonds may be subject to redemption in the manner provided in the authorizing Supplemental Ordinance.

Section 3.5. Manner of Payment, Characteristics, Execution, and Authentication.

Each authorizing Supplemental Ordinance shall designate a Paying Agent/Registrar for such series of Bonds. The Bonds shall be payable, shall have the characteristics, shall be signed and executed, shall be sealed, and shall be authenticated, all as provided and in the manner indicated in the authorizing Supplemental Ordinance. To the extent required by Texas law, Bonds initially delivered shall also have attached or affixed thereto the registration certificate of the Comptroller of Public Accounts of the State of Texas. If any officer of the City whose manual or facsimile signature shall appear on the Bonds, as provided in the authorizing Supplemental Ordinance, shall cease to be such officer before the authentication of the Bonds or before the delivery of the Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond. The definitive Bonds shall be printed, lithographed, engraved, or typewritten or produced by any combination of these methods, or produced in any other manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof, but the initial Bonds submitted to the Attorney General of Texas may be typewritten, photocopied, or otherwise reproduced.

The approving legal opinion of Bond Counsel for the Bonds, may be printed on the back of the Bonds over the certification of the City Secretary of the City which may be executed in facsimile. CUSIP numbers and a statement of insurance, if any, also may be printed on applicable Bonds, but errors or omissions in the printing of the opinion, the numbers, or the statement of insurance shall have no effect on the validity of the Bonds.

ARTICLE IV

FORM OF BONDS

Each series of Bonds shall be in substantially the form set out in the Supplemental Ordinance, with such omissions, insertions and variations as may be permitted or required pursuant to the terms of such ordinance for each series of the Bonds (including appropriate variations required for any Bonds issued as capital appreciation bonds).

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

Section 5.1. Pledge Securing Bonds.

The City hereby covenants and agrees that Gross Revenues of the System shall, as collected and received by the City, be deposited and paid into the special funds hereinafter established, after satisfying any requirements of the Previous Ordinance. For so long as the Previous Ordinance Bonds remain Outstanding, the City hereby covenants and agrees that gross revenues (as defined under the Previous Ordinance) shall be applied in the manner set forth in the Previous Ordinance to provide for the payment of all Required Payments, and then Gross Revenues shall be applied in the manner hereinafter set forth in order to provide for the payment of all remaining Maintenance and Operation Expenses that have not been paid as Required Payments. Net Revenues shall be applied to provide for the payment of principal of, interest on and any redemption premiums on the First Lien Bonds, any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; to provide for the payment of principal of, interest on and any redemption premiums on the Second Lien Bonds, any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; and to provide for the disposition of the remaining Net Revenues in accordance with this Ordinance. The First Lien Bonds shall constitute special obligations of the City that shall be payable solely from and shall be equally and ratably secured by a lien on the Net Revenues as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund for and pledged to the payment of the First Lien Bonds as hereinafter provided, and the First Lien Bonds shall be, in all respects, on a parity with and of equal dignity with one another. The Second Lien Bonds shall constitute special obligations of the City that shall be payable solely from and, subject only to the senior and superior lien on Net Revenue pledged to the payment of the First Lien Bonds and other obligations payable from the First Lien Bond Interest and Sinking Fund, shall be equally and ratably secured by a lien on the Net Revenues, as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund for and pledged to the payment of the Second Lien Bonds as hereinafter provided, and the Second Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the First Lien Bonds and the Second Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the First Lien Bonds or the Second Lien Bonds out of any funds raised or to be raised by taxation. Chapter 1208, Texas Government Code, applies to the issuance and delivery of the First Lien Bonds and the Second Lien Bonds and the pledge of the Net Revenues granted under this Ordinance, and such pledge is therefore valid, effective, and perfected.

Section 5.2. Rates and Charges.

So long as any Bonds remain Outstanding, the City shall fix, charge, and collect rates and charges for the use and services of the System which are calculated to be fully sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(a) 120% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds and First Lien Bonds then Outstanding, or

(b) 110% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds, First Lien Bonds, and Second Lien Bonds then Outstanding,

plus an amount equal to the sum of all deposits required to be made to the First Lien Bond Reserve Fund and to the Second Lien Bond Reserve Fund in such Fiscal Year; provided that in calculating the Net Revenues required by paragraphs (a) and (b) above all or any portion of such Net Revenues that exceed 100% of the combined Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance, and provided further that in no event shall Net Revenues ever be less than the amount required to establish and maintain the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as hereinafter provided, to establish and maintain the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund as hereinafter provided and, to the extent that funds for such purpose are not otherwise available, to pay all other Outstanding Obligations payable from the Net Revenues of the System, including all amounts owed as a repayment obligation by the City pursuant to a Reserve Fund Surety Policy or a Credit Agreement, as and when the same become due.

Effective for monthly billing cycles for the System commencing on April 1, 2005 and on April 1 of each year thereafter and subject to the terms of existing contracts, the requirements of the immediately preceding paragraph of this Section 5.2, applicable Texas law and the authority of the City Council of the City to adopt other rates and charges, rates and charges for the use and services of the System shall be adjusted based on the percentage change (if any) in the Designated Index or other appropriate index for the preceding calendar year. The calculation required by this Section 5.2 shall be made annually at the time City's Annual Budget for the System is adopted and shall be included in the Annual Budget for the System.

Section 5.3. Special Funds.

The following special Funds shall be established, maintained and accounted for on the books of the City as hereinafter provided so long as any of the Bonds or other Obligations remain Outstanding:

- (a) Revenue Fund;
- (b) First Lien Bond Interest and Sinking Fund;
- (c) First Lien Bond Reserve Fund;
- (d) Second Lien Bond Interest and Sinking Fund;
- (e) Second Lien Bond Reserve Fund;
- (f) Third Lien Obligation Interest and Sinking Fund;
- (g) Third Lien Obligation Reserve Fund (if and when required);
- (h) Fourth Lien Obligation Interest and Sinking Fund (if and when required);
- (i) Fourth Lien Obligation Reserve Fund (if and when required);
- (j) Interest and Sinking Funds and Reserve Funds for any additional Obligations that will be junior and subordinate to Fourth Lien Obligations (if and when required); and
- (k) CUS General Purpose Fund.

All of such Funds shall be maintained as separate accounts on the books of the City. The First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the First Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be pledged to the payment of the First Lien Bonds and such parity Obligations. The Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Second Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be and are hereby pledged to the payment of the Second Lien Bonds and such

parity Obligations. All of the Funds named above shall be used solely as herein provided so long as any First Lien Bonds or Second Lien Bonds or such parity Obligations remain Outstanding. The City reserves the right to establish, maintain, and account for on the books of the City such additional funds and accounts as may be necessary or desirable in the efficient administration of the System and flow of funds governing all Outstanding Obligations.

Section 5.4. Flow of Funds.

After making any Required Payments in accordance with the terms of the Previous Ordinance, Gross Revenues of the System shall be deposited as collected into the Revenue Fund and shall be applied (i) to pay Maintenance and Operation Expenses, to the extent not already paid, and (ii) to establish and maintain an operating reserve equal to two month's budgeted Maintenance and Operation Expenses. The remaining balance, together with Restricted Receipts, shall be applied in the following manner and in the following order of priority:

- (a) First, to make all deposits into the First Lien Bond Interest and Sinking Fund required by Section 5.5 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;
- (b) Second, to make all deposits into the First Lien Bond Reserve Fund required by Section 5.6 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;
- (c) Third, to make all deposits into the Second Lien Bond Interest and Sinking Fund required by Section 5.7 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;
- (d) Fourth, to make all deposits into the Second Lien Bond Reserve Fund required by Section 5.8 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;
- (e) Fifth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Third Lien Obligations authorized by Section 6.3 hereof, in order to provide for the payment of and security for such Third Lien Obligations;
- (f) Sixth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Fourth Lien Obligations described in Section 6.3 hereof, in order to provide for the payment of and security for such Fourth Lien Obligations; and
- (g) Seventh, to deposit any remaining Net Revenues into the CUS General Purpose Fund.

Section 5.5. First Lien Bond Interest and Sinking Fund.

On or before the last Business Day immediately preceding (i) an Interest Payment Date so long as any First Lien Bonds remain Outstanding, and (ii) any date when any payments are due and payable under a Qualified Hedge Agreement relating to First Lien Bonds, there shall be transferred into the First Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

- (a) Such amounts as will be sufficient to pay the amount of interest scheduled to become due on the First Lien Bonds on such Interest Payment Date; plus
- (b) Such amounts, if any, as will be sufficient to pay the amount of principal of the First Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any First Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of First Lien Bonds; plus
- (c) Such amounts, if any, as shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund.

Moneys credited to the First Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase First Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the First Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund. On or before each date principal becomes due and/or Interest Payment Date on the First Lien Bonds, the City shall transfer from the First Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the First Lien Bonds on such date.

Section 5.6. First Lien Bond Reserve Fund.

On or before the last Business Day of each month so long as any First Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the First Lien Bond Reserve Fund from the Revenue Fund amounts equal to one-sixtieth (1/60th) of the Reserve Fund Requirements for the First Lien Bonds unless or until there has been accumulated in the First Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the First Lien Bonds; provided that additional deposits into the First Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirement resulting from the issuance of any Additional First Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional First Lien Bonds. After such amount has accumulated in the First Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the First Lien Bond Reserve Fund, and any excess amounts in such Fund may be transferred to the Revenue Fund. But if and whenever the balance in the First Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the Reserve Fund Requirements on the First Lien Bonds until the First Lien Bond Reserve Fund has been restored to such amount. The First Lien Bond Reserve Fund shall be used to pay the principal of and interest on the First Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the First Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last First Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the First Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the First Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the First Lien Bond Reserve Fund causes the amount then on deposit in the First Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all First Lien Bonds, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such Obligations preceding an Interest Payment Date pursuant to Chapter 1207, Texas Government Code), or to the CUS General Purpose Fund.

Section 5.7. Second Lien Bond Interest and Sinking Fund.

On or before the last business day immediately preceding (i) an Interest Payment Date, so long as any Second Lien Bonds remain Outstanding, and (ii) on any date when any payment is due and payable under a Qualified Hedge Agreement relating to Second Lien Bonds, there shall be transferred into the Second Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

- (a) such amounts as will be sufficient to pay the amount required to pay the amount of interest scheduled to become due on the Second Lien Bonds on such Interest Payment Date; plus
- (b) such amounts, if any, as will be sufficient to pay the amount of the next maturing principal of the Second Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any Second Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of Additional Second Lien Bonds; plus

- (c) such amounts, if any, shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund.

Moneys credited to the Second Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase Second Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the Second Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund. On or before each principal becomes due and/or Interest Payment Date on the Second Lien Bonds, the City shall transfer from the Second Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the Second Lien Bonds on such date.

The Paying Agent/Registrar shall totally destroy all paid Second Lien Bonds and shall provide the City with an appropriate certificate of destruction.

Section 5.8. Second Lien Bond Reserve Fund.

On or before the last Business Day of each month so long as any Second Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the Second Lien Bond Reserve Fund from the Revenue Fund amounts equal to at least one-sixtieth (1/60th) of the Reserve Fund Requirements for the Second Lien Bonds unless or until there has been accumulated in the Second Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the Second Lien Bonds; provided that additional deposits into the Second Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirements resulting from the issuance of any Additional Second Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional Second Lien Bonds. After such amount has accumulated in the Second Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the Second Lien Bond Reserve Fund, and any excess amounts in the Fund may be transferred to the Revenue Fund. But if and whenever the balance in the Second Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the Reserve Fund Requirements on the Second Lien Bonds until the Second Lien Bond Reserve Fund has been restored to such amount. The Second Lien Bond Reserve Fund shall be used to pay the principal of and interest on the Second Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the Second Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Second Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the Second Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the Second Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the Second Lien Bond Reserve Fund causes the amount then on deposit in the Second Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all Second Lien Bonds, the City may transfer such excess amount to any fund established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, Texas Government Code), or to the CUS General Purpose Fund.

Section 5.9. CUS General Purpose Fund.

Subject to the payment to the provider of a Reserve Fund Surety Policy of any interest on amounts advanced and any expenses incurred under the Reserve Fund Surety Policy required to be paid pursuant to an agreement between the City and the provider of such Reserve Fund Surety Policy, and subject to the provisions of Sections 5.5, 5.6, 5.7, and 5.8 hereinabove in this Article, from any moneys remaining in the Revenue Fund, at least

annually within 90 days following the end of each Fiscal Year, there shall be set aside and credited to the CUS General Purpose Fund, the remaining revenues in the Revenue Fund. Moneys accounted for in the CUS General Purpose Fund, subject to any limitations herein or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any combination of the following:

(a) Capital Costs. To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the System, or any part thereof, and any equipment therefor, authorized by law;

(b) Major Maintenance Costs. To pay the costs of extraordinary and major repairs, renewals, replacements, or maintenance items pertaining to any properties of the System of a type not recurring annually or at shorter intervals and not paid as Maintenance and Operation Expenses;

(c) Debt Service Requirements. To pay any Bonds or other Obligations or securities pertaining to the System and payable from Net Revenues (regardless of whether such securities are secured by a lien thereon), as to Debt Service Requirements and any other appurtenant charge pertaining to such Debt Service Requirements on any Interest Payment Date, or any redemption date or redemption dates, or by purchase in the open market, or by creating an escrow to provide for the payment of or to defease such Bonds, other Obligations or securities or otherwise;

(d) Legal Obligations. To pay any obligations pertaining to the System and arising from a judgment against the City or any officer, employee, or other agent of the City acting within the scope of his official duties, rights, or privileges, or the scope of his employment, as the case may be, in any suit, action, or special proceedings in equity or at law, in any court of competent jurisdiction, or a settlement by the City of any claim to avoid or to settle such a suit, action, or special proceedings, except to the extent revenues are otherwise available to defray such an obligation, including, without limitation, insurance proceeds, or to pay any penalties, fines, settlements or other amounts required to be paid by the City as a result of federal or state administrative proceedings relating to the System;

(e) Assumed and Other Obligations. To pay any bonds or other obligations assumed by the City which were issued or incurred by water districts annexed and dissolved by the City, which bonds or other obligations are by their own terms secured in whole or in part by a pledge of water or sewer revenues which did not terminate upon the annexation and dissolution of such water districts, and other bonds or obligations issued or assumed by the City for combined utility system purposes which are payable from ad valorem taxes or sources other than the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, or the Second Lien Bond Reserve Fund;

(f) Lawful System Purposes. For any other lawful purpose of the System as the City may determine; and

(g) Drainage Purposes. For planning, design, construction, regulation, improvement, repair, maintenance, and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components, including, without limitation, the costs of developing, implementing, and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing, or maintaining any required permits related to the operation of the storm sewer system, and also including payment of debt service on bonds, notes, or other obligations issued for the purposes listed in this paragraph (g); provided that the aggregate amount withdrawn from the CUS General Purpose Fund pursuant to this paragraph (g) during any Fiscal Year shall not exceed 8% of the Gross Revenues of the System for the immediately preceding Fiscal Year.

Section 5.10. Application of CUS General Purpose Fund.

Moneys shall be withdrawn from the CUS General Purpose Fund for any one, all, or other combination of such purposes designated in Section 5.9 hereof in the same manner that other claims against the System are presented and paid. Amounts in the CUS General Purpose Fund at the beginning of a Fiscal Year which are deposited into the Revenue Fund in that Fiscal Year are Gross Revenues for the Fiscal Year in which such amounts are deposited into the Revenue Fund.

Section 5.11. Investment of Funds; Transfer of Investment Income.

(a) Money in the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the CUS General Purpose Fund may, at the option of the City, be invested in investments as permitted by state law, consistent with the City's investment policy; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of moneys in the First Lien Bond Reserve Fund or the Second Lien Bond Reserve Fund mature later than the final maturity date of the First Lien Bonds or the Second Lien Bonds, as the case may be. All such investments shall be valued in terms of current market value no less frequently than the last Business Day of the City's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series may be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository of the City, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such fund. If necessary, such investments shall be promptly sold to prevent any default.

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

Section 5.12. Security for Uninvested Funds.

So long as any Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the CUS General Purpose Fund shall be secured by the pledge of security as provided by law for cities in the State of Texas.

Section 5.13. Reservation of Right to Issue Board Bonds on a Parity with Previous Ordinance Bonds.

The City reserves the right to issue Board Bonds at any time and from time to time to the Texas Water Development Board on a parity with the Previous Ordinance Bonds, anything in this Ordinance or any Supplemental Ordinance to the contrary notwithstanding. Except for the right to issue the Board Bonds, the City hereby covenants and agrees not to issue any bonds or other obligations under the terms of the Previous Ordinance.

ARTICLE VI

ADDITIONAL BONDS AND OTHER OBLIGATIONS

Section 6.1. Additional First Lien Bonds and Additional Second Lien Bonds.

The City reserves the right to issue, for any lawful System purpose, including the refunding of any previously issued First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any other bonds or obligations of the City issued in connection with the System or payable from Net Revenues, or to pay obligations incurred under or pursuant to any Credit Agreement or Qualified Hedge Agreement, one or more series of (i) Additional First Lien Bonds on a parity with the Outstanding First Lien Bonds payable from, and secured by a first lien on, the Net Revenues of the System senior and superior to the lien securing the Second Lien Bonds; and (ii) Additional Second Lien Bonds on a parity with the Outstanding Second Lien Bonds; provided, however, that no Additional First Lien Bonds or Additional Second Lien Bonds may be issued unless:

- (a) The First Lien Bond Reserve Fund (and, for the issuance of Additional Second Lien Bonds, the Second Lien Bond Reserve Fund) each contains the amount of money then required to be on deposit therein;

(b) For either the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period immediately preceding the month in which the Supplemental Ordinance authorizing such Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, is adopted (the "Base Period") either:

- (1) Net Revenues are certified by the City Controller of the City to have been equal to not less than the greater of (A) 120% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds and any Previous Ordinance Bonds or (B) 110% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds, Second Lien Bonds, and any Previous Ordinance Bonds, after giving effect to the issuance of the Additional First Lien Bonds or Additional Second Lien Bonds to be issued; or
- (2) Net Revenues, adjusted to give effect to any rate increase, new customers, or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, to the same extent as if such rate increase, new customers, or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least the greater of (A) or (B) in paragraph (1) above, as certified by an independent consulting engineer or independent firm of consulting engineers;

provided that all or any portion of the Net Revenues required by clauses (1) and (2) of paragraph (b) above that exceed 100% of the Maximum Annual Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance; provided, further, that this requirement shall not apply to the issuance of any series of Additional Second Lien Bonds for the purpose of refunding Outstanding First Lien Bonds, or to the issuance of any series of Additional First Lien Bonds or Additional Second Lien Bonds for refunding purposes, that will not have the result of increasing the Average Annual Debt Service Requirements on the First Lien Bonds or the Second Lien Bonds; and

- (c) Provision is made in the Supplemental Ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds then proposed to be issued for (1) additional payments into the First Lien Bond Interest and Sinking Fund or Second Lien Bond Interest and Sinking Fund, as the case may be, sufficient to provide for the payment of the increased principal of and interest on the First Lien Bonds or Second Lien Bonds resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, and (2) additional payments into the First Lien Bond Reserve Fund or Second Lien Bond Reserve Fund, as the case may be, sufficient to provide for the accumulation therein of the increased Reserve Fund Requirements resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, by not later than 60 months from the date of issuance of such Additional First Lien Bonds or Additional Second Lien Bonds.
- (d) Special Provisions for Refunding Short Term Obligations. The provisions of paragraph (b) above shall not apply to the issuance of Additional First Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or the issuance of Additional Second Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or Second Lien Bonds.
- (e) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:
 - (i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify in a written certificate delivered to the City that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence; and

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(f) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements in connection with any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas; and

(ii) the City's financial advisor shall certify in a written certificate delivered to the City that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article Six if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account the Qualified Hedge Agreement.

Section 6.2. Short Term Obligations.

The City reserves the right to issue, from time to time, one or more series of Additional First Lien Bonds and/or Additional Second Lien Bonds in accordance with Section 6.1 hereof as Short Term Obligations.

Section 6.3. Third Lien Obligations and Fourth Lien Obligations.

The City reserves the right to issue, for any lawful purpose, Third Lien Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the First Lien Bonds and the Second Lien Bonds. The City also reserves the right to issue Fourth Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of First Lien Bonds, Second Lien Bonds, and Third Lien Obligations.

Section 6.4. Supplemental Ordinance.

Bonds payable from Net Revenues shall be issued only after authorization thereof by a Supplemental Ordinance stating the purpose or purposes of the issuance of such additional Bonds, directing the application of the proceeds thereof to such purpose or purposes, directing the execution and authentication thereof, and fixing and determining the date, principal amount, maturity or maturities, designation, and numbers thereof, the maximum rate or the rate or rates of interest to be borne thereby, any prior redemption privileges of the City with respect thereto, and other provisions thereof. Upon such authorization such additional Bonds may at one time or from time to time be executed by and on behalf of the City and authenticated and delivered by the City or upon its order. All additional Bonds shall bear such date, shall bear such numbers and series designation, letters, or symbols prefixed to their numbers distinguishing them from each other security, shall be payable at such place or places, may be subject to redemption prior to maturity on such terms and conditions, and shall bear interest at such rate or at such different or varying rates per annum, as may be fixed by ordinance or other document of the City. Third Lien Obligations, Fourth Lien Obligations, Qualified Hedge Agreements, and Credit Agreements shall be issued pursuant to Supplemental Ordinances or pursuant to separate ordinances that shall provide for the timing of transfer from the Revenue Fund to the debt service funds and reserve funds, if any, established for such Obligations consistent with the order of priority set forth in Section 5.4 hereof.

Section 6.5. Special Project Obligations.

The City reserves the right to issue other obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

ARTICLE VII
COVENANTS AND PROVISIONS
RELATING TO BONDS AND OTHER OBLIGATIONS

Section 7.1. Punctual Payment of Bonds and Other Obligations.

The City covenants that it will punctually pay or cause to be paid the interest on and principal of all Bonds and other Obligations according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any Supplemental Ordinance authorizing the issuance of such Bonds and other Obligations.

Section 7.2. Power to Own and Operate System; Ratemaking Power.

The City covenants that it currently owns the System and has all necessary power and authority to own and operate the System as herein described and provided and that it possesses, and shall exercise, all necessary power and authority to establish, fix, increase, impose and collect rates and charges for the use and services of the System in the amounts required to comply with the covenants and provisions contained herein.

Section 7.3. Maintenance of System.

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

Section 7.4. Sale or Encumbrance of System.

So long as any Bonds remain Outstanding, the City covenants that it will not sell, dispose of or, except as permitted in Article VI, further encumber the System; provided, however, that this provision shall not prevent the City from disposing of any portion of the System which is being replaced or is deemed by the City to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Net proceeds from any such disposition may be deposited in the CUS General Purpose Fund. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation, political subdivision or other entity to operate the System or to lease and/or operate or to lease and lease back to the City all or part of the System shall not be considered as an encumbrance of the System.

Section 7.5. Insurance.

The City covenants that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance may be applied to repair or replace the insured property that is damaged or destroyed, or may be deposited in the CUS General Purpose Fund. The cost of all such insurance, together with any additional insurance, shall be a part of the Maintenance and Operation Expenses.

Section 7.6. Accounts, Records, and Audits.

So long as any Bonds or other Obligations remain Outstanding, the City covenants that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof. The City shall after the close of each Fiscal Year prepare financial statements of the System, and have those financial statements audited by an independent certified

public accountant or independent firm of certified public accountants. After the audit, the City shall furnish a copy of these audited financial statements, together with the independent certified public accountant's report thereon, without cost, to the Municipal Advisory Council of Texas, each Rating Agency then rating the Bonds, the Texas Water Development Board, and any Owners of Bonds who shall request the same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.7. Competition.

To the extent it legally may, the City covenants that it will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities to the extent that such competing facilities would impair the City's ability to pay principal of or interest on the Bonds or other Obligations.

Section 7.8. Pledge and Encumbrance of Net Revenues.

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

Section 7.9. Covenants with Respect to Certain Assumed Water District Bonds.

So long as any Bonds or other Obligations remain Outstanding, the City covenants as follows:

- (a) To the extent it legally may, the City will impose, and strictly enforce, the requirement upon all water districts located within the City's extraterritorial jurisdiction that any bonds or obligations issued or incurred by such water districts which are secured in whole or in part by pledges of or liens on water or sewer revenues shall provide that all such pledges of and liens on water or sewer revenues shall automatically terminate upon the annexation and dissolution of the district by the City;
- (b) The City shall use its best efforts to redeem, refund, or defease all annexed water district bonds assumed by the City which by their own terms are secured in whole or in part by pledges of or liens on water or sewer revenues which do not terminate upon annexation and dissolution by the City of such water district, or otherwise to provide for the discharge of such pledges or liens on water or sewer revenues; and
- (c) Pursuant to Section 43.075, Texas Local Government Code, the City shall, unless it has theretofore made adequate provision for the payment thereof, annually levy and cause to be collected taxes upon all taxable property of the City sufficient to pay principal of and interest, as they respectively become due and payable, on all assumed bonds, warrants and other obligations that were issued by water districts that have been annexed to, and dissolved by, the City, and which are by their own terms secured in whole or in part by a lien on or pledge of water or sewer revenues which did not terminate upon the annexation and dissolution by the City of such water district.

Section 7.10. Bondholders Rights and Remedies.

This Ordinance shall constitute a contract between the City and the Owners of the Bonds from time to time Outstanding and this Ordinance shall be and remain irrevocable until the Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this

Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use and services of the System, the deposit of the revenues thereof into the special funds herein provided, and the application of such revenues in the manner required in this Ordinance. A Supplemental Ordinance may provide that, so long as an issuer of a municipal bond insurance policy shall not have defaulted in its payment obligations under such policy with the City insuring a portion of the Bonds, such issuer shall, under the terms of this Ordinance, at all times be deemed to be the exclusive owner of such Bonds for the purpose of all approvals, consents, waivers or institutions of any action and the direction of all remedies.

Section 7.11. Defeasance.

The City may defease the provisions of this Ordinance and discharge its obligation to the Owners of any or all of the Bonds or other Obligations to pay principal, interest and redemption premium, if any, thereon in any manner permitted by law, including by depositing with the Paying Agent/Registrar, or if authorized by Texas law with any national or state bank having trust powers and having combined capital and surplus of at least \$50 million or with the Comptroller of Public Accounts of the State of Texas (or any successor office) either: (a) cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement, cash and/or securities authorized by § 1207.062 of the Texas Government Code, as amended at the time of issuance of such series of Bonds or Obligations. Such deposits may be invested only in obligations described above that are in principal amounts and maturities and bear interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption. Upon such deposit and upon receipt of an opinion of nationally recognized bond counsel to the effect that such Bonds or Obligations are deemed to be fully paid and are no longer outstanding, such Bonds or other Obligations shall no longer be regarded to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the System after the Obligations are retired. Payments of principal of and interest on any Bonds or other Obligations made by a provider of a Credit Agreement insuring a portion of the Bonds or other Obligations shall not be deemed to have been paid hereunder and such Bonds or other Obligations shall continue to be Outstanding until paid by the City.

Section 7.14. Amendment of Ordinance Without Consent.

The City may, without the consent of or notice to any of the Owners, amend this Ordinance and any Supplemental Ordinance for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in this Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Bonds;
- (b) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Bonds;
- (c) to add to the covenants and agreements of the City contained in this Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in this Ordinance;
- (d) to subject additional revenues to the lien and pledge of this Ordinance;
- (e) to provide for the issuance of Adjustable Rate Obligations, Short Term Obligations, or Refundable Obligations;
- (f) to authorize Credit Agreements and Qualified Hedge Agreements with respect to Outstanding Bonds;
- (g) to provide for the continued tax exemption for any Outstanding Bonds;
- (h) to provide for the continued exemption from registration of any Outstanding Bonds under the federal securities laws; or

- (i) to permit other utility systems provided for in Chapter 1502 of the Texas Government Code, as amended, to be combined with the System.

Section 7.15. Amendment to Ordinance Requiring Consent.

The City may, with the consent of Owners holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Owners of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, or reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Owners for consent to any such amendment, addition, or rescission. For the purposes of this Section 7.15, the Owners of the Bonds shall include the initial Owners regardless of whether such Bonds are being held for subsequent resale.

Section 7.16. No Free Service.

The City will not grant or permit any free service from the System, except for public buildings and institutions operated by the City and properties permitted to be exempt by state law. In addition, the City will not grant or permit any free service from the System permitted by the previous sentence if to do so would violate any condition or covenant to which the City is bound in connection with any federal grant agreement or otherwise.

APPENDIX E
PROPOSED FORM OF CO-BOND COUNSEL OPINION

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APPENDIX F
CONTINUING DISCLOSURE SCHEDULES

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APPENDIX F

CONTINUING DISCLOSURE SCHEDULES

- Schedule 1: Net Revenues of the System and Debt Service Coverage
- Schedule 2: Coverage of Maximum Annual Debt Service by Net Revenues
- Schedule 3: Employees
- Schedule 4: System Budget
- Schedule 5: Water Supply - Capacity, Production and Sales
- Schedule 6: Ten Largest Treated Water Customers
- Schedule 7: Ten Largest Untreated Water Customers
- Schedule 8: Ten Largest Sewer Customers
- Schedule 9: Rate Adjustments
- Schedule 10: Funding of Proposed System Improvements
- Schedule 11: Obligations Payable from System Revenues
- Schedule 12: Discretionary Debt Service Paid by the System
- Schedule 13A: Indirect Charges Paid by the System
- Schedule 13B: CUS General Purpose Fund Transfers-Storm Water Fund
- Schedule 14: System Debt Service Schedule

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APPENDIX G
DEPOSITORY TRUST COMPANY

APPENDIX G

DEPOSITORY TRUST COMPANY

The information in this APPENDIX G concerning DTC and its book-entry system has been obtained from DTC. The City believes such information to be reliable, but the City takes no responsibility for the accuracy or completeness thereof.

Book-Entry-Only System

The City has elected to utilize the Book-Entry-Only System of DTC, as described in this APPENDIX G. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Supplemental Ordinance authorizing the issuance of the Bonds. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to Remarketing Agent's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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APPENDIX H
DESCRIPTION OF RESERVE FUND SURETY POLICIES

APPENDIX H

DESCRIPTION OF RESERVE FUND SURETY POLICIES

THE FOLLOWING INFORMATION HAS BEEN OBTAINED FROM THE APPLICABLE SURETY PROVIDER AND ITS (OR ITS AFFILIATE'S) WEBSITE FOR USE IN THIS OFFICIAL STATEMENT. THE CITY, THE FINANCIAL ADVISOR AND THE UNDERWRITERS DO NOT MAKE ANY REPRESENTATIONS AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

The Debt Service Reserve Fund Surety Bond

The following information has been furnished by National Public Finance Guarantee Corporation ("National") for use in this Official Statement.

National does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the MBIA Reserve Fund Surety Policy (as defined below) and National set forth in this Appendix H. Additionally, National makes no representation regarding the Bonds or the advisability of investing in the Bonds.

In order to satisfy the Reserve Fund Requirement in connection with the Series 2004 Bonds the City obtained from MBIA Insurance Corporation ("MBIA Corp.") a surety bond (the "MBIA Reserve Fund Surety Policy"), which MBIA Reserve Fund Surety Policy remains in full force and effect. The MBIA Reserve Fund Surety Bond provides that upon notice from the Paying Agent to MBIA Corp. to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, MBIA Corp. will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the MBIA Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by MBIA Corp. of a Demand for Payment in the form attached to the MBIA Reserve Fund Surety Policy, duly executed by the Paying Agent; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Paying Agent to MBIA Corp., MBIA Corp. will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the MBIA Reserve Fund Surety Policy is the initial face amount of the MBIA Reserve Fund Surety Policy less the amount of any previous deposits by MBIA Corp. with the Paying Agent which have not been reimbursed by the City. The City and MBIA Corp. have entered into a Financial Guaranty Agreement dated as of May 15, 2004 (the "MBIA Financial Guaranty Agreement"). Pursuant to the MBIA Financial Guaranty Agreement, the City is required to reimburse MBIA Corp., within one year of any deposit, the amount of such deposit made by MBIA Corp. with the Paying Agent under the MBIA Reserve Fund Surety Policy. Such reimbursement shall be made only after all required deposits to pay Maintenance and Operation Expenses and required deposits into the First Lien Bond Interest and Sinking Fund and other Master Ordinance required deposits have been made.

Under the terms of the MBIA Financial Guaranty Agreement, the Paying Agent is required to reimburse MBIA, with interest, until the face amount of the MBIA Reserve Fund Surety Policy is reinstated before any deposit is made to the CUS General Purpose Fund. No optional redemption of Bonds may be made until the MBIA Reserve Fund Surety Bond is reinstated. The MBIA Reserve Fund Surety Bond is held by the Paying Agent in the Debt Service Reserve Fund and is provided as an alternative to the City depositing funds equal to the Debt Service Reserve Requirement for outstanding Bonds.

On February 18, 2009, MBIA Inc., the parent holding company of MBIA Corp., announced that it had established a new U.S. public finance financial guarantee insurance company within the MBIA Inc. group by

restructuring MBIA Corp. and its subsidiaries through a series of transactions (the “Transactions”). As part of the Transactions, (i) the stock of MBIA Insurance Corp. of Illinois (which, effective March 19, 2009 was renamed National Public Finance Guarantee Corporation), an existing public finance financial guarantee insurance subsidiary of MBIA Corp., was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. (“National Holdings”), also a subsidiary of MBIA Inc.; and (ii) effective January 1, 2009, MBIA Corp. ceded to National all of MBIA Corp.’s U.S. public finance business, including the MBIA Reserve Fund Surety Policy, pursuant to that certain Amended and Restated Quota Share Reinsurance Agreement between MBIA Corp. and National (the “Reinsurance Agreement”). Pursuant to the Reinsurance Agreement, MBIA Corp. paid to National approximately \$2.89 billion (which equals the net unearned premium, loss and loss adjustment expense reserves, net of the 22 percent ceding commission that MBIA Corp. received) as a premium to reinsure the policies covered under the Reinsurance Agreement (each a “Covered Policy”). The MBIA Reserve Fund Surety Policy is a Covered Policy. National was further capitalized with \$2.09 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which was ultimately contributed to National through National Holdings. The Reinsurance Agreement provides a cut-through provision enabling the holder of a Covered Policy to make a claim for payment directly against National. In addition, National has also issued second-to-pay policies for the benefit of the holder of a Covered Policy, granting such policyholder the right to make a claim directly against National if MBIA Corp. did not honor such claim.

National Public Finance Guarantee Corporation (“National”)

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

The principal executive offices of National are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The MBIA Reserve Fund Surety Bond is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of National

National’s current financial strength ratings from the major rating agencies are summarized below:

Agency	Ratings	Outlook
S&P	BB	Developing
Moody’s	Baa2	Review for Downgrade

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above

ratings may have an adverse effect on the market price of the Bonds. National does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. Notably, on March 4, 2013, the New York State Supreme Court, New York County (Justice Kapnick) issued a decision dismissing the Article 78 Proceeding entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al., which was originally commenced on June 15, 2009 by a group of eighteen domestic and international financial institutions. In its decision, the court ruled that approval of MBIA's February 19, 2009 Transformation by the New York State Insurance Department was neither arbitrary nor capricious nor in violation of the New York Insurance Law. For additional information concerning this litigation and other material litigation involving National and MBIA Inc., including but not limited to certain actions relating to the Transactions entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al., and Barclays Bank PLC., et al. v. James Wrynn, in his capacity as Superintendent of the New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, which is hereby incorporated by reference into this appendix and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at <http://www.mbia.com>.

MBIA Inc. and National are defending against the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National Financial Information

Based upon statutory financials, as of December 31, 2012, National had cash and admitted assets of \$5.7 billion (unaudited), total liabilities of \$3.7 billion (unaudited), and total surplus of \$2.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2012, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2012, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012;

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the MBIA Reserve Fund Surety Policy offered hereby shall be deemed to be incorporated by reference in this appendix and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this appendix, shall be deemed to be modified or superseded for purposes of this appendix to the extent

that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this appendix.

MBIA Inc, files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings (including MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to National at its principal executive offices.

ASSURED GUARANTY MUNICIPAL CORP.

In connection with the issuance of the Series 2005 Bonds and the Series 2007A Bonds, the City obtained separate Reserve Fund Surety Policies (the "Assured Reserve Fund Surety Bond") from Financial Security Assurance (now, Assured Guaranty Municipal Corp., "AGM") for the purpose of funding a portion of the shared First Lien Bond Reserve Fund. Such Assured Reserve Fund Surety Bond will not protect investors against changes in the market value of the Series 2005 Bonds or the Series 2007A Bonds, as applicable, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. AGM makes no representation regarding the Bonds, the Series 2005 Bonds, the Series 2007A Bonds or the advisability of investing in the Bonds, the Series 2005 Bonds or the Series 2007A Bonds. AGM makes no representation regarding the Official Statement, nor has it participated in the preparation of the Official Statement.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of the shareholders of AGL or AGM are obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3". AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from

CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Capitalization of AGM

At December 31, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,324,781,247 and its total net unearned premium reserve was approximately \$2,090,197,521, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGC are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013);

All consolidated financial statements of AGM and all other information relating to AGM included in documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds and may hold such Bonds for investment or may sell or otherwise dispose of such Bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented in this Appendix H.

EXHIBIT G

BOND PURCHASE AGREEMENT

(see attached)

PURCHASE CONTRACT

Relating to

\$ _____

**CITY OF HOUSTON, TEXAS
Combined Utility System First Lien Revenue Refunding Bonds,
Series 2013B**

May 7, 2013

Honorable Mayor, City Council, and City Controller
City of Houston, Texas
901 Bagby, 2nd Floor
Houston, Texas 77002

Ladies and Gentlemen:

The undersigned Loop Capital Markets LLC (the "Representative"), acting as the representative to the Underwriters appearing on the signature page hereof (collectively, the "Underwriters"), offers to enter into this Purchase Contract (this "Purchase Contract") with the City of Houston, Texas (the "Issuer") which, upon your acceptance of this offer and the approval of certain terms by the Mayor and the City Controller of the Issuer pursuant to an officers' pricing certificate, a substantial copy of which is attached hereto as Exhibit A (the "Pricing Certificate") will be binding upon you and the Underwriters. Terms not otherwise defined herein shall have the same meanings as set forth in the master ordinance adopted by the Issuer on April 21, 2004 (the "Master Ordinance") and the supplemental ordinance adopted by the Issuer on April 10, 2013 authorizing the issuance of the Bonds described below (the "Supplemental Ordinance" and from time to time herein, with the Master Ordinance, the "Ordinances"). Inasmuch as this purchase and sale represents a negotiated transaction, the Issuer understands, and hereby confirms, that the Underwriters are not acting as a fiduciary of the Issuer, but rather are acting solely in their capacity as Underwriters for their own account.

1. Purchase and Sale of the Bonds. (a) Upon the terms and conditions, and in reliance upon the representations, warranties, and covenants herein, the Underwriters hereby agree to purchase from the Issuer, and the Issuer hereby agrees to sell to the Underwriters, all (but not less than all) of \$_____ "City of Houston, Texas Combined Utility System First Lien Revenue Refunding Bonds, Series 2013B" (the "Bonds"), at the purchase price (the "Purchase Price") for the Bonds. The purchase price for the Bonds is \$_____, which is the principal amount of the Bonds plus the net original issue premium (\$_____) and less the Underwriters' discount (\$_____). The date of initial delivery of the Bonds to the Underwriters is May __, 2013. The Bonds shall be dated May __, 2013.

(b) The proceeds of the Bonds will be used, together with other available funds, for the following purposes: (i) paying the costs of the extension, construction, improvement or repair of the System; (ii) refunding all or a portion of the City's outstanding Combined Utility System Commercial Paper Notes, Series B (the "Refunded Notes"); (iii) making a cash deposit into the Reserve Fund in an amount not to exceed 10% of the proceeds of the Bonds, which includes funding the Series 2013B Bond Reserve Fund Requirement (defined in the Official Statement); and (iv) paying the costs of issuance and refunding and defeasing the Refunded Notes, all under and pursuant to the Ordinances, in accordance with Chapters

1207, 1371, and 1502, Texas Government Code, as amended, and all other applicable laws (collectively, the “Act”). The principal amount, the dated date, the maturities, the redemption provisions, and the interest rates per annum are set forth in the Pricing Certificate.

2. Public Offering. The Underwriters agree to make a bona fide public offering of all the Bonds at the offering prices set forth on the inside cover page of the Final Official Statement described below. On or before Closing (described below), the Representative shall execute a certificate prepared by Co-Bond Counsel (hereinafter defined) verifying the initial offering prices to the public at which a substantial amount of each stated maturity of the Bonds were sold to the public.

3. Official Statement. The Preliminary Official Statement has been prepared by the Issuer for use by the Underwriters in connection with the public offering, sale and distribution of the Bonds. The Issuer hereby represents and warrants that the Preliminary Official Statement was deemed final by the Issuer as of its date, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by Section (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”).

(a) The Issuer agrees to deliver to the Underwriters at such addresses as the Representative shall specify, a reasonable number of copies of the Official Statement relating to the Bonds, dated as of May 7, 2013, (the “Final Official Statement”), as the Representative shall reasonably request in order to comply with paragraph (b)(4) of Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the “Rule”), and with Rule G-32, and all other applicable rules, of the Municipal Securities Rulemaking Board. The Issuer agrees to deliver such Final Official Statements within seven business days after the execution of this Purchase Contract.

(b) The Issuer has approved the Final Official Statement (the Final Official Statement and any amendments or supplements and all appendices thereto that may be authorized for use with respect to the Bonds are herein referred to collectively as the “Official Statement”) and consents to their distribution and use by the Underwriter, and authorizes the execution of the Final Official Statement by a duly authorized officer of the Issuer. The Issuer hereby represents and warrants that the Final Official Statement delivered to the Underwriters was deemed final by the Issuer as of the date thereof, except for the omission of such information as permitted to be excluded by the Rule.

(c) The Representative shall give notice to the Issuer on the date after which no participating underwriter, as such term is defined in the Rule, remains obligated to deliver Final Official Statements pursuant to paragraph (b)(4)(iii) of the Rule. Unless written notice to the contrary is provided by the Representative to the Issuer, the Issuer may assume such date to be the Closing.

(d) The Issuer has agreed in the Ordinance to provide certain periodic information and notices of material events in accordance with the Rule as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Underwriters’ obligation to accept and pay for the Bonds is conditioned upon the Representative’s review and approval of a certified copy of the Ordinance containing the agreements described under such heading.

4. Good Faith Check. In connection with the execution of the Pricing Certificate, the Representative will deliver to the Issuer a corporate check of the Representative payable to the Issuer in an amount equal to \$_____ as security for the performance by the Underwriters of their obligations to

accept and pay for the Bonds at the Closing (described below) in accordance with the provisions of this Purchase Contract. Such check shall be held by the Issuer uncashed until the Closing. At the Closing, such check shall be returned to the Representative upon receipt by or on behalf of the Issuer of the Purchase Price for the Bonds. In the event the Mayor and City Controller do not execute the Pricing Certificate or upon the Issuer's failure to deliver the Bonds at the Closing, or if the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Contract, or if such obligations shall be terminated for any reason permitted by this Purchase Contract, such check shall be returned to the Representative within two business days of such event. In the event that the Underwriters fail (other than for a reason permitted under this Purchase Contract) to accept and pay for the Bonds at the Closing, such check shall be retained and may be cashed by the Issuer as and for full liquidated damages for such failure for any and all defaults hereunder on the part of the Underwriter, and the cashing of such check and retention of such proceeds shall constitute a full release and discharge of all claims and rights hereunder against the Underwriters.

5. Representations and Warranties of the Issuer. The Issuer represents and warrants to the Underwriters that:

(a) The Issuer is a home-rule city operating as such under the Constitution and laws of the State of Texas (the "State"), and the Issuer is authorized by the Act, among other things, (i) to issue the Bonds for the purposes described in the Supplemental Ordinance and (ii) to secure the Bonds in the manner described in the Ordinances and as described in the Final Official Statement.

(b) The Issuer has the full legal right, power, and authority (i) to adopt the Supplemental Ordinance authorizing the issuance of and awarding the sale of the Bonds; (ii) to authorize the Mayor and the City Controller to execute the Pricing Certificate awarding the sale of the Bonds; (iii) to enter into this Purchase Contract described in the Supplemental Ordinance; (iv) to issue, sell, and deliver the Bonds to the Underwriters as provided herein; and (v) to carry out and consummate all other transactions described in each of the aforesaid documents, and the Issuer has complied in all material respects with all provisions of applicable law, including the Act, in all matters relating to such transactions.

(c) The Issuer has duly authorized (i) the execution and delivery of the Bonds and the execution, delivery, and due performance of this Purchase Contract; (ii) the distribution and use of the Official Statement; and (iii) the taking of any and all such actions as may be required on the part of the Issuer to carry out, give effect to, and consummate the transactions described in such instruments. All consents or approvals necessary to be obtained by the Issuer in connection with the foregoing have been received or will be received prior to, or in connection with, the Closing, and the consents or approvals so received are still in full force and effect.

(d) (i) The Master Ordinance was duly adopted by the Issuer on April 21, 2004, remains in full force and effect since such date of adoption, and constitutes a legal, valid, and binding act of the Issuer.

(ii) the Supplemental Ordinance has been duly adopted by the Issuer, is in full force and effect, and constitutes the legal, valid, and binding act of the Issuer;

(iii) this Purchase Contract, the Escrow Agreement, and the Pricing Certificate, when executed and delivered, will constitute legal, valid, and binding obligations of the Issuer; and

(iv) the Ordinances, the Escrow Agreement, and this Purchase Contract are enforceable against the Issuer in accordance with their respective terms, except as enforceability thereof may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally.

(e) When delivered to the Underwriter, the Bonds will have been duly authorized, executed, authenticated, issued, and delivered and will constitute legal, valid, and binding special obligations of the Issuer in conformity with the laws of the State of Texas, including the Act, and will be entitled to the benefit and security of the Ordinances.

(f) As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(g) The information relating to the Issuer and the Issuer's Combined Utility System (the "System") contained in the Final Official Statement is, and as of the date of Closing, true and correct in all material respects, and the Final Official Statement does not contain any untrue statement of a material fact relating to the Issuer or the System or omit to state any material fact relating to the Issuer or the System necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) If, at any time prior to the earlier of (i) receipt of notice from the Representative pursuant to Section 3(c) hereof that Final Official Statements are no longer required to be delivered under the Rule or (ii) 25 days after the Closing, any event occurs with respect to the Issuer as a result of which the Final Official Statement as then amended or supplemented might include an untrue statement of a material fact, or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Issuer shall promptly notify the Representative in writing of such event. Any information supplied by the Issuer for inclusion in any amendments or supplements to the Final Official Statement will not contain any untrue or misleading statement of a material fact relating to the Issuer or omit to state any material fact relating to the Issuer necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(i) Neither the adoption of the Ordinances, the execution and delivery of this Purchase Contract, the Pricing Certificate, the Bonds, nor the consummation of the transactions described herein or therein or the compliance with the provisions hereof or thereof will conflict with, or constitute on the part of the Issuer or the System a violation of, or a breach of or default under, (i) any statute, indenture, mortgage, commitment, note, or other agreement or instrument to which the Issuer or the System is a party or by which it is bound; (ii) any provision of the Texas Constitution; or (iii) any existing law, rule, regulation, ordinance, judgment, order, or decree to which the Issuer (or the members of the City Council, or any of its officers in their respective capacities as such) is subject.

(j) Except as may be disclosed in the Official Statement, the Issuer is not, in any material respect that would adversely affect the validity or marketability of the Bonds, in breach of or default under any applicable law or administrative regulation of the State of Texas or any department, division, agency, or instrumentality thereof, or of the United States or any agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, note, resolution, certificate, agreement, or other instrument to which the Issuer is a party or is otherwise subject; and except as described in the Official Statement, the

Issuer has not entered into any contract or arrangement of any kind which might give rise to any lien or encumbrance on the Net Revenues pledged to the payment of the Bonds superior to or on a parity with the pledge securing the payment of the Bonds.

(k) Except as is specifically disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, public board, or body, pending in Harris County, Texas, or, to the best knowledge of the Issuer, threatened, which in any way questions the powers of the Issuer referred to in paragraph (b) above, or the validity of any proceeding taken by the Issuer in connection with the issuance of the Bonds, or wherein an unfavorable decision, ruling, or finding could materially adversely affect the transactions described in this Purchase Contract, or of any other document or instrument required or described in this financing, or which, in any way, could adversely affect the validity or enforceability of the Ordinances, the Bonds, or this Purchase Contract or, to the knowledge of the Issuer, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the Bonds for federal income tax purposes or in any other way questions the status of the Bonds under federal or State tax laws or regulations.

(l) Any certificate signed by an official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer, as appropriate, to the Underwriters as to the truth of the statements therein contained.

(m) The Issuer has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(n) The Issuer will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Bonds be applied in a manner other than as provided in the Supplemental Ordinance.

(o) The Issuer has complied in all material aspects with all previous continuing disclosure undertakings in written contracts or agreements entered into by the Issuer as specified in paragraph (b)(5)(i) of the Rule.

(p) To the best of the knowledge of the Issuer, the financial statements of the System included in Appendix A to the Final Official Statement present fairly the financial position and the results of operations of the System at the respective dates and for the respective periods indicated therein, in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods presented.

(q) As of the date of the Closing, there will not be any material adverse change in the financial position, results of operations, or condition, financial or otherwise, of the System from that described in the Final Official Statement other than in the ordinary course of business or as may be otherwise disclosed to the Underwriters in accordance with this Purchase Contract.

6. Covenants of the Issuer. The Issuer covenants with the Underwriters as follows:

(a) The Issuer will cooperate, at no expense to the Issuer, with the Underwriters in qualifying the Bonds for offer and sale under the securities or Blue Sky laws of such jurisdictions of the United States as the Representative may request; provided, however, that the Issuer shall not be required to consent to suit

or to service of process in any jurisdiction. The Issuer consents to the use by the Underwriters in the course of their compliance with the securities or Blue Sky laws of the various jurisdictions of the documents relating to the Bonds, subject to the right of the Issuer to withdraw such consent for cause by written notice to the Representative.

(b) Prior to the earlier of (i) receipt of notice from the Representative pursuant to Section 3(c) hereof that Final Official Statements are no longer required under the Rule or (ii) 25 days after the Closing, the Issuer shall provide the Representative with such information regarding its current financial condition and ongoing operations as the Issuer shall deem material and such other information concerning the Issuer as the Representative may reasonably request.

7. Closing. At or before 12:00 p.m., Houston, Texas time on May ____, 2013 or at such other time and/or date as shall have been mutually agreed upon by the Issuer and the Representative, at the offices of Andrews Kurth LLP, the Issuer will deliver, or cause to be delivered, to the Representative, the Bonds together with the other documents hereinafter mentioned and, provided the Representative has made arrangements with The Depository Trust Company, New York, New York (“DTC”), for the Bonds to be book-entry only securities, the Issuer shall take appropriate steps to provide DTC with one or more definitive bonds for each year of maturity of the Bonds, and the Representative will accept such delivery and pay the Purchase Price of the Bonds by making a federal funds wire transfer in immediately available funds to The Bank of New York Mellon Trust Company, National Association, Houston, Texas (the “Paying Agent/Registrar”) for the account designated for the refunding of the Refunded Obligations. Upon receipt of such payment and at the Closing, the Issuer immediately shall return to the Representative the good-faith check described in Section 4 hereof.

The activities relating to the final execution and delivery of the Bonds and the payment therefor and the delivery of the certificates, opinions, and other instruments as described in Section 8 of this Purchase Contract shall occur at the offices of Andrews Kurth LLP in Houston, Texas, or such other place as shall have been mutually agreed upon by the Issuer and the Representative. The payment for the Bonds and simultaneous delivery of the Bonds to the Representative is herein referred to as the “Closing.”

8. Closing Conditions. The obligations of the Underwriters to purchase the Bonds shall be subject (a) to the performance by the Issuer of its obligations to be performed hereunder at and prior to the Closing, (b) to the accuracy, in all material respects, of the representations and warranties of the Issuer herein as of the date hereof and as of the time of the Closing, and (c) to the following conditions, including the delivery by the Issuer of such documents as are enumerated herein in form and substance reasonably satisfactory to Co-Bond Counsel (named below) and Bracewell & Giuliani LLP, Houston, Texas, Counsel to the Underwriters (the “Underwriters’ Counsel”):

(a) At the time of Closing, (i) the Official Statement, this Purchase Contract, the Pricing Certificate, the Master Ordinance, and the Supplemental Ordinance shall be in full force and effect and shall not have been amended, modified, repealed, or supplemented from the date hereof except as may have been agreed to in writing by the Representative; (ii) the proceeds of the sale of the Bonds shall be deposited and applied as described in the Supplemental Ordinance; and (iii) the Issuer shall have duly adopted and there shall be in full force and effect such ordinances or resolutions as, in the opinion of Andrews Kurth, Houston, Texas, and Bates & Coleman, P.C., Houston, Texas, as co-bond counsel (“Co-Bond Counsel”), shall be necessary in connection with the transactions described herein.

(b) At or prior to the Closing, the Representative shall receive the following executed or certified documents in such number of counterparts as shall be mutually agreeable to the Issuer, Underwriters' Counsel, and Co-Bond Counsel:

(i) The Bonds, the Supplemental Ordinance (containing the agreement to provide continuing disclosure of information as described in the Official Statement), and the Pricing Certificate;

(ii) A final opinion of Co-Bond Counsel dated the date of Closing, in substantially the form set forth as Appendix E in the Official Statement;

(iii) A letter of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, to the effect that Co-Bond Counsel's final opinion referred to in Section 8(b)(ii) hereof may be relied upon by the Underwriters to the same extent as if such opinion were addressed to the Underwriter;

(iv) A supplemental opinion of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, in substantially the form set forth in Exhibit B hereto;

(v) An opinion of Greenberg Traurig, LLP and Edgardo E. Colón, P.C., Special Disclosure Co-Counsel to the Issuer, addressed to the Underwriters, substantially in the form of Exhibit C attached hereto;

(vi) An opinion of the City Attorney of the Issuer addressed to the Underwriters substantially in the form of Exhibit D attached hereto;

(vii) A certificate signed by an authorized officer of the Issuer as prepared by Co-Bond Counsel setting forth facts, estimates, and circumstances in existence on the date of Closing, which facts, estimates, and circumstances shall be sufficiently set forth therein to support the conclusion that it is not expected that the proceeds of the Bonds will be used in a manner or that the Issuer will take any action or omit to take any action that would cause the Bonds to be "arbitrage bonds," with the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations, temporary regulations, and proposed regulations promulgated under the Code, and stating that to the best knowledge and belief of such officer there are no other facts, estimates, or circumstances that would materially affect such expectations;

(viii) [intentionally left blank];

(ix) An opinion of Underwriters' Counsel in substantially the form set forth in Exhibit E hereto;

(x) The approving opinion of the Attorney General of Texas with respect to the Bonds;

(xi) The registration certificate of the Comptroller of Public Accounts of the State of Texas with respect to the Bonds;

(xii) The Final Official Statement;

(xiii) Specimen Bonds;

(xiv) An executed copy of the escrow agreement for the Refunded Notes between the City and The Bank of New York Mellon Trust Company, National Association (the “Escrow Agreement);

(xv) Letters from Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, and Moody’s Investor Service to the effect at the Bonds have been assigned ratings of “___” and “___”, respectively, which ratings shall be in effect as of the date of Closing;

(xvi) A letter or letters, dated the date of closing, and acceptable to the Representative and Underwriters’ Counsel from Deloitte & Touche LLP, independent certified public accountants and auditors for the System acknowledging to the inclusion in the Official Statement of the audited financial statements of the Combined Utility System Fund and their report thereon, for the Fiscal Year ended June 30, 2012;

(xvii) A certificate, in form and substance reasonably satisfactory to the Representative and Underwriters’ Counsel, of the Issuer or any duly authorized officer or official of the Issuer satisfactory to the Representative and Underwriters’ Counsel, dated as of the Closing, to the effect that: (i) each of the Issuer’s representations, warranties, and covenants contained herein are true and correct in all material respects as of the Closing; (ii) the Issuer has authorized, by all action necessary under the Act and the laws and Constitution of the State, the adoption of the Ordinances, and the execution, delivery, and due performance of the Bonds, this Purchase Contract, and the Pricing Certificate; (iii) no litigation is pending in Harris County, Texas, or to the knowledge of the officer or official of the Issuer signing the certificate threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Ordinances, the Bonds, this Purchase Contract, or the Pricing Certificate; (iv) the Bonds, this Purchase Contract, and the Pricing Certificate are in the form or in substantially the form approved for such execution by appropriate proceedings of the Issuer; (v) since June 30, 2012, there has not been any material adverse change in the properties, financial position, or results of operations of the System, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Official Statement or as otherwise disclosed to the Underwriters pursuant to this Purchase Contract, and since such date the Issuer has not entered into any transaction or incurred any debt or other liability material as to the System, except as set forth in the Official Statement or as otherwise disclosed to the Underwriter; (vi) the information contained in the Official Statement relating to the Issuer and the System, their respective organization, activities, properties, and financial condition, is true and correct in all material respects and does not contain any untrue or incorrect statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (vii) since the date of the Official Statement, there has been no material adverse change in the utilization of the System and no material adverse change in the governmental rules or regulations under which the System operates, except as may be disclosed in writing to the Representative;

(xviii) A Receipt and Cross Receipt, dated the Closing Date, of the Issuer and the Underwriters as to the receipt of the Bonds and the payment therefor;

(xiv) To the extent proceeds of the Bonds are used to refund and defease the Refunded Obligations, a copy of the special report prepared by Grant Thornton LLP, addressed to the Issuer,

Co-Bond Counsel, and the Underwriters verifying the arithmetical computations of the adequacy of the maturing principal and interest on the escrowed securities and uninvested cash on hand to pay, when due, the principal of and interest on the Refunded Obligations and the computation of the yield with respect to such securities and the Bonds; and

(xx) Such additional legal opinions, certificates, proceedings, instruments, and other documents as Underwriters' Counsel or Co-Bond Counsel may reasonably request to evidence compliance by the Issuer with legal requirements, the truth and accuracy, as of the time of Closing, of the representations of the Issuer herein contained, and the due performance or satisfaction by the Issuer at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Issuer.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Contract, or if the obligations of the Underwriters to purchase and accept delivery of the Bonds shall be terminated for any reason permitted by this Purchase Contract, the good faith check described in Section 4 hereof shall be returned to the Representative, this Purchase Contract shall terminate, and neither the Underwriters nor the Issuer shall be under further obligation hereunder; except that the respective obligations to pay expenses, as provided in Section 12 hereof, shall continue in full force and effect.

9. Cancellation Rights. The Underwriters shall have the right to cancel their obligations to purchase the Bonds if between the date hereof and the date of Closing:

(a) the House of Representatives or the Senate of the Congress of the United States, or a committee of either, shall have pending before it, or shall have passed or been recommended favorably, legislation introduced after the date hereof, which legislation, if enacted in its form introduced or as amended, would have the purpose or effect of imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, or upon interest received on obligations of the general character of the Bonds, to be includable in gross income for purposes of federal income taxation, and such legislation, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Bonds; or

(b) a decision with respect to legislation shall be reached by a committee of the House of Representatives or the Senate of the Congress of the United States, or legislation shall be favorably reported by such a committee or be introduced, by amendment or otherwise, in or be passed by the House of Representatives or the Senate, or recommended to the Congress of the United States for passage by the President of the United States, or be enacted, or a decision by a federal court of the United States or the United States Tax Court shall have been rendered, or a ruling, release, order, regulation or official statement by or on behalf of the United States Treasury Department, the Internal Revenue Service, or other governmental agency shall have been made or proposed to be made having the purpose or effect, or any other action or event shall have occurred which has the purpose or effect, directly or indirectly, of adversely affecting the federal income tax consequences of owning the Bonds or of any of the transactions contemplated in connection herewith, including causing interest on the Bonds to be included in gross income for purposes of federal income taxation, or imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, or upon interest received on obligations of the general character of the Bonds, which, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Bonds; or

(c) legislation shall have been enacted, or actively considered for enactment with an effective date prior to the Closing, or a decision by a court of the United States shall have been rendered, the effect of which is that the Bonds, including any underlying obligations, or the Master Ordinance or the Supplemental Ordinance, as the case may be, are not exempt from the registration, qualification, or other requirements of the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(d) a stop order, ruling, regulation, or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, shall have been issued or made, or any other event occurs, the effect of which is that the issuance, offering, or sale of the Bonds, including any underlying obligations, or the execution and delivery of the Supplemental Ordinance as contemplated hereby or by the Official Statement is, or would be, in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) any event shall have occurred or any information shall have become known to the Representative which causes the Representative to reasonably believe that the Official Statement, as then amended or supplemented, includes an untrue statement of a material fact, or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and either (i) the Issuer refuses to permit the Official Statement to be amended or supplemented in connection therewith or (ii) such event or information, in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds; or

(f) there shall have occurred any outbreak of hostilities or any national or international calamity or crisis, including a financial crisis, the effect of which on the financial markets of the United States is such as, in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds; or

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

(h) there shall have occurred or any notice shall have been given of any intended review, downgrading, suspension, withdrawal, or negative change in credit watch status by any national rating service to any of the System's obligations; or

(i) there shall be in force a general suspension of trading on the New York Stock Exchange, the effect of which on the financial markets of the United States is such, in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds; or

(j) a general banking moratorium shall have been declared by federal, New York, or State authorities; or

(k) any proceeding shall be pending by the Securities and Exchange Commission against the Issuer which in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds; or

(l) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds.

10. Issuer Obligations Subject to Performance by Underwriter. The obligations of the Issuer hereunder are subject to the performance by the Underwriters of its obligations hereunder.

11. Survival of Representations, Warranties and Agreements. Unless otherwise set forth herein, all representations, warranties, and agreements of the Issuer shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Underwriters or the Issuer and shall survive the Closing.

12. Expenses. The Issuer will pay or cause to be paid all reasonable expenses incident to the performance of its obligations under this Purchase Contract, including, but not limited to, mailing or delivery of the Bonds; costs of printing the Final Official Statement, any amendment or supplement to the Final Official Statement, fees and disbursements of Co-Bond Counsel; fees and disbursements of Co-Disclosure Counsel; any fees charged by investment rating agencies for the rating of the Bonds; any paying agent/registrars fees; fees incident to the redemption of the Refunded Obligations; fees and expenses of the Issuer's independent certified public accountants; and fees and expenses of the Co-Financial Advisors to the Issuer. The Underwriters shall pay all advertising expenses in connection with the public offering of the Bonds, all other expenses incurred by it in connection with its public offering and distribution of the Bonds, including the fees and disbursements of Underwriters' Counsel and all other expenses incident to the performance of the obligations of the Underwriters under this Purchase Contract.

13. Other Transactions by Underwriters and Issuer. The Underwriters or their affiliates may from time to time, in their individual capacity and separate and apart from the transactions contemplated hereby and the compensation provided for herein, sell securities to, provide derivative products to, engage in swaps with, and enter into other transactions with the Issuer, or its agents acting in its behalf, and shall be entitled to retain any compensation or profits inuring to the Underwriters or its affiliates in connection therewith as approved by the Issuer.

14. Notices. Any notice or other communication to be given to the Issuer under this Purchase Contract may be given by delivering the same in writing at its address set forth above, Attention: City Secretary, with a copy to (i) the City Attorney and (ii) the Director, Department of Finance; and any notice or other communication to be given to the Representative under this Purchase Contract may be given by delivering the same in writing to Loop Capital Markets LLC, 440 Louisiana, Suite 900, Houston, Texas 77002, Attention: Curtis Flowers.

15. No Recourse Against Individuals. No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, against any official or employee of the Issuer or any person executing any Bonds.

16. Parties in Interest. This Purchase Contract is made solely for the benefit of the Issuer and the Underwriters (including the successors or assigns of the Underwriters) and no other person, including any purchaser of the Bonds, shall acquire or have any right hereunder or by virtue hereof.

17. **Effectiveness**. This Purchase Contract shall become effective upon the acceptance hereof by the Issuer and shall be valid and enforceable at the time of such acceptance.

18. **Governing Law**. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

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

20. **Section Headings**. Section headings have been inserted in this Purchase Contract as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Purchase Contract and will not be used in the interpretation of any provisions of this Purchase Contract.

21. **Counterparts**. This Purchase Contract may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute on and the same document. This Purchase Contract shall become effective upon the execution of the acceptance hereof by the officially authorized and designated officers of the Issuer shown below and shall be valid and enforceable as of the time of such acceptance.

[Signatures follow]

Very truly yours,

LOOP CAPITAL MARKETS LLC
As representative for the Underwriters

Citi
Mesirow Financial
Siebert Brandford Shank & Co.

By: _____
Authorized Signatory

ACCEPTED at _____ [a.m./p.m.] Central Time this _____ day of _____, 2013

CITY OF HOUSTON, TEXAS

By: _____
Annise D. Parker, Mayor

ATTEST:

By: _____
Anna Russell, City Secretary

By: _____
Ronald C. Green, City Controller

EXECUTION PAGE OF PURCHASE CONTRACT

EXHIBIT "A"
PRICING CERTIFICATE

EXHIBIT "B"

FORM OF OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CO-BOND COUNSEL]

[Closing Date]

LOOP CAPITAL MARKETS LLC
(as Representative of the Underwriters
named in the Bond Purchase Agreement)
440 Louisiana, Suite 900
Houston, Texas 77002

RE: City of Houston, Texas
Combined Utility System First Lien Revenue Refunding Bonds,
Series 2013B

Ladies and Gentlemen:

This opinion is being rendered pursuant to the Purchase Contract, dated May 7, 2013 (the "Purchase Contract"), between Loop Capital Markets LLC, as Representative of the Underwriters named in the Purchase Contract (the "Underwriters"), and the City of Houston, Texas (the "City") relating to the issuance, sale, and delivery by the City to the Underwriters of the referenced bonds (the "Bonds"). Except as otherwise defined herein, the terms defined in the Purchase Contract are used in this opinion with the meanings assigned to them in the Purchase Contract.

We have acted as Co-Bond Counsel to the City in connection with the issuance, sale, and delivery of the Bonds to the Underwriters. In our capacity as Co-Bond Counsel, we have examined a transcript of certain materials and proceedings pertaining to the Bonds, including certain certified and original proceedings of the City, and customary certificates, opinions, affidavits, and other documents executed by officers, agents, and representatives of the City and others. In our capacity as Co-Bond Counsel, we have also attended meetings of the City and have participated in conferences from time to time with representatives of the City, First Southwest Company and TKG & Associates LLC, the co-financial advisors to the City, the Underwriters, Co-Disclosure Counsel to the City, and Counsel to the Underwriters relative to the Preliminary Official Statement and the Official Statement.

In our examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based upon the foregoing, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The offering and sale of the Bonds need not be registered under the Securities Act of 1933, as amended;
2. No filing is required under the Trust Indenture Act of 1939, as amended, in connection with the Bonds or the Supplemental Ordinance;

3. The descriptions and summaries of the Bonds and the Ordinance (as defined in the Official Statement) contained under the headings "THE BONDS," "SECURITY FOR THE BONDS," "ADDITIONAL BONDS," "CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE," "BONDHOLDERS' REMEDIES," and "CONTINUING DISCLOSURE OF INFORMATION," except under the subheading "– Compliance the Prior Undertakings" in the Official Statement in all material respects fairly and accurately describe the provisions of such instruments for the purposes of the Official Statement; and the statements contained in the Official Statement under the headings "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "TAX MATTERS," and in the second paragraph under the heading "PURPOSE AND PLAN OF FINANCING – The Refunded Notes" are correct as to matters of law.

Except as stated above in paragraph 3, we have not assumed responsibility in this opinion with respect to the Official Statement or undertaken to verify the accuracy, completeness, or fairness of the statements contained therein. However, we advise you that in the course of our participation described above, nothing has come to our attention that would cause us to believe that the Official Statement as of its date and as of the date of this opinion (except for the financial statements and other financial, statistical, or technical data, as to which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In our capacity as Co-Bond Counsel we have delivered on this date the approving opinion with respect to the Bonds in substantially the form set forth in Appendix E of the Official Statement. The Underwriters may rely on such approving opinion as if it were addressed to them.

In rendering this opinion, we have not represented any of the Underwriters nor rendered any advice to the Underwriters in connection with the Purchase Contract or the transactions contemplated thereby, other than that set forth herein.

We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinion and conclusions expressed herein, and we call to your attention the fact that our legal opinions and conclusions are an expression of professional judgment and not a guarantee of result. This opinion may not be released to or relied upon by any other person or by you in any other context, without our prior written consent.

EXHIBIT "C"

OPINION OF SPECIAL DISCLOSURE CO-COUNSEL TO THE ISSUER

[LETTERHEAD OF SPECIAL DISCLOSURE CO-COUNSEL]

[Closing Date]

City of Houston, Texas
901 Bagby Street
Houston, Texas 77002

LOOP CAPITAL MARKETS LLC
(as Representative of the Underwriters
named in the Bond Purchase Agreement)
440 Louisiana, Suite 900
Houston, Texas 77002

Re: City of Houston, Texas Combined Utility System First Lien Revenue Refunding Bonds, Series 2013B (the "Bonds")

This letter is being delivered to you pursuant to Section 8(b)(v) of the Purchase Contract dated May 7, 2013 (the "Purchase Contract") between the City of Houston, Texas (the "City") and the Underwriters referred to therein (the "Underwriters") relating to the sale of the above-referenced Bonds. Capitalized terms used herein but not otherwise defined herein shall have the meanings given to such terms in the Purchase Contract.

We have served as Special Disclosure Co-Counsel to the City with respect to the issuance of the Bonds. In that connection, we have reviewed (1) the Supplemental Ordinance adopted by the City Council of the City on April 10, 2013 (the "Supplemental Ordinance"), authorizing the issuance of the Bonds and containing other matters, (2) the Official Statement, and (3) the Pricing Certificate containing certain terms with respect to the sale of the Bonds.

Based upon our participation in the preparation of the Official Statement, which does not include our independent inquiry or investigation into the accuracy, completeness or fairness of the statements contained therein, nothing has come to our attention to lead us to believe that the Official Statement (except for financial, statistical or technical data therein, including Appendices A and B, about which we are not called upon to comment), as of its date or as of the date hereof, contained or contains any untrue statement of a material fact, or omitted or omits to state any material facts required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This opinion may only be relied upon by you, by the Underwriters and by other persons to whom we grant written permission to rely hereon.

Very truly yours,

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EXHIBIT "D"

FORM OF OPINION OF CITY ATTORNEY

[LETTERHEAD OF THE CITY ATTORNEY]

[Closing Date]

LOOP CAPITAL MARKETS LLC
(as Representative of the Underwriters
named in the Bond Purchase Agreement)
440 Louisiana, Suite 900
Houston, Texas 77002

Re: City of Houston, Texas Combined Utility System First Lien Revenue Refunding Bonds, Series 2013B
(the "Bonds")

Ladies and Gentlemen:

This opinion is being rendered pursuant to Section 8(b)(vi) of the Purchase Contract, May 7, 2013 (the "Purchase Contract"), executed by Loop Capital Markets LLC (the "Representative") and the City of Houston, Texas (the "City") relating to the issuance, sale, and delivery by the City to the Underwriters of the Bonds. Except as otherwise provided herein, the terms defined in the Purchase Contract are used in this opinion with the meanings assigned to them in the Purchase Contract.

I and/or my designated attorneys have reviewed City Ordinance No. 2013-___ (the "Supplemental Ordinance") and the Pricing Certificate delivered pursuant to the "Master Ordinance" adopted by the City Council of the City on April 21, 2004, the Supplemental Ordinance, the Purchase Contract, and the Bonds. I and/or my designated attorneys have also conducted such other investigations of fact and law as I have found necessary or advisable for the purpose of this opinion. As the City Attorney, I am also aware of litigation and other legal matters related to the City that come to my attention in the performance of my duties.

It is my opinion that:

A. The City is a home-rule city duly organized and existing under the constitution and laws of the State of Texas with full power and authority, among other things, (1) to adopt and perform its duties and obligations under the Master Ordinance, the Supplemental Ordinance, and the Purchase Contract, (2) to authorize, issue, sell and deliver the Bonds, (3) to authorize, execute, and deliver the Pricing Certificate, and (4) to operate and maintain the System and to collect and enforce the collection of revenues of the System as covenanted in the Master Ordinance and the Supplemental Ordinance.

B. The Purchase Contract and the Pricing Certificate have been duly authorized, executed, and delivered by, and the Supplemental Ordinance has been duly adopted by, the City and such instruments constitute legal, valid and binding obligations of the City enforceable in accordance with their terms, except to the extent that their enforceability may be limited by applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and except that such enforceability is subject to general principles of equity and the exercise of judicial discretion (regardless of whether such enforceability is considered in a proceeding in law or at equity).

C. To my knowledge compliance with the provisions of the Supplemental Ordinance, the Purchase Contract, and the Pricing Certificate does not conflict with, or constitute a breach of or default under, any applicable law, administrative regulation, court order or consent decree of the State of Texas or any department, division, agency, or instrumentality thereof of the United States of America to which the City may be subject or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party.

D. All approvals, consents, and orders of any governmental authority, board, agency, or commission having jurisdiction which would constitute conditions precedent to the performance by the City of its obligations under the Master Ordinance, the Supplemental Ordinance, the Purchase Contract, the Pricing Certificate, and the Bonds and which can reasonably be obtained at this time have been obtained.

E. Except as disclosed in writing by the City to the Representative on or prior to the date of the sale of the Bonds, there is no litigation or proceeding, pending or to my knowledge, after due inquiry, threatened, in any way affecting the existence of the City, or the title of its officers to their respective offices, or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, or the right, power, and authority of the City to collect revenues pledged or to be pledged to pay the principal of and interest on the Bonds or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Master Ordinance, the Supplemental Ordinance, the Purchase Contract, or the Pricing Certificate or contesting in any way the completeness or accuracy of portions of the Official Statement relating to the Bonds dated May 7, 2013 (the "Official Statement"), under the captions "THE CITY AND THE SYSTEM," "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS," and "LITIGATION AND REGULATION" (collectively, the "City Portions"), the Official Statement, or contesting the powers of the City or its authority with respect to the Bonds, the Master Ordinance, the Supplemental Ordinance, the Purchase Contract, or the Pricing Certificate. In making the above statement, I have not reviewed the dockets of courts or relevant administrative agencies nor have I contacted such courts or agencies; I have relied solely on information brought to my attention as City Attorney as of the date of this letter.

F. Based on the examination made by the participation of my representatives at conferences at which the Official Statement was discussed, and without having undertaken to determine independently the accuracy and completeness of the statements contained in the Official Statement, I have no reason to believe that the information contained in the City Portions of the Official Statement as of its date and as of the date of this letter, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect (except for the financial statements and other financial, demographic and statistical projections and data included therein, as to which I express no view).

The information set forth herein is as of the date of this letter, and I disclaim any undertaking to advise you of changes which thereafter may be brought to my attention. This letter is solely for your information in connection with the sale of the Bonds and may not be relied upon by any other person without my prior written consent. It is not to be quoted in whole or in part or otherwise referred to in any documents, except for a closing list or transcript of the proceedings related to the issuance of the Bonds, and is not to be filed with or furnished to any governmental entity or person, without my prior written consent. The opinions herein expressed and the statements herein made are limited in all respects the laws of the State of Texas and applicable federal law.

Very truly yours,

David M. Feldman
City Attorney

EXHIBIT "E"

FORM OF OPINION OF UNDERWRITERS' COUNSEL

[LETTERHEAD OF UNDERWRITERS' COUNSEL]

[Closing Date]

LOOP CAPITAL MARKETS LLC
(as Representative of the Underwriters
named in the Bond Purchase Agreement)
440 Louisiana, Suite 900
Houston, Texas 77002

Re: City of Houston, Texas Combined Utility System First Lien Revenue Refunding Bonds, Series 2013B (the "Bonds")

Ladies and Gentlemen:

We have acted as counsel to you, as the Underwriters, in connection with the purchase by you on this date of the captioned Bonds issued under and pursuant to Master Ordinance No. 2004-299 adopted on April 21, 2004 by the City Council of the City of Houston Texas (the "Issuer"), Ordinance No. 2013-___ adopted on April 10, 2013 by the City Council of the Issuer, and a Pricing Certificate executed by the Mayor and the City Controller of the Issuer, which Bonds you are purchasing pursuant to the "Purchase Contract" between the Issuer and you dated as of May 7, 2013 (the "Purchase Contract"). This opinion and comments are being furnished to you pursuant to Section 8 of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used herein shall have the meanings ascribed thereto in the Purchase Contract.

We have examined such documents and satisfied ourselves as to such matters as we have deemed necessary in order to enable us to express the opinions set forth below. We have not examined the Bonds, and have relied upon certificates as to the execution, registration, and authentication thereof. We have reviewed the approving opinion of the Attorney General of the State of Texas and opinions of even date herewith of Andrews Kurth LLP, Houston, Texas, and Bates & Coleman P.C., Houston, Texas in their capacity as Co-Bond Counsel to the Issuer, delivered pursuant to the Purchase Contract and believe that such opinions are satisfactory in form and substance and that you and we are justified in relying thereon. As to various questions of fact material to this opinion, we have relied upon representations of the Issuer and statements in the Official Statement, dated as of May 7, 2013, relating to the Bonds.

We are of the opinion that under applicable laws of the United States of America the Bonds are exempt securities under the 1933 Act and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under 1933 Act or to qualify the Ordinances under the Trust Indenture Act.

The purpose of our professional engagement was not to establish or confirm factual matters set forth in the Official Statement, and we have not undertaken any obligation to verify independently any of the factual matters set forth in the Official Statement. Moreover, many of the determinations required to be made in the preparation of the Official Statement involve matters of a non-legal nature. We did not prepare, have not verified, are not passing upon, and do not assume any responsibility for the accuracy, completeness, or fairness of the statements contained in the Official Statement. We have, however,

participated in the preparation of the Official Statement, which participation included, among other things, general discussions and inquiries concerning various legal and related subjects and the review of certain records, documents, and proceedings. We also participated in conferences with representatives of the Issuer, Co-Bond Counsel, and the Co-Financial Advisors at which the contents of the Official Statement were discussed and revised. In the course of such activities, no facts came to our attention which would lead us to believe that the Official Statement (other than certain information concerning the Co-Financial Advisor; any financial, forecast, technical, and statistical statements and data included in the Official Statement; and the information regarding DTC and its book-entry-only system, in each case as to which no view need be expressed), as of the date of the Official Statement, (i) contained any untrue statement of a material fact or (ii) omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. As used herein, the phrase "to our attention" or any similar phrase means that the knowledge of these firms is limited to the present personal recollection of our attorneys who have prepared this opinion and who have had actual involvement in the transaction that is the subject of this opinion, and further you cannot rely on such attorneys having made any independent verification of, or inquiry with respect to, the facts relevant to this opinion.

In addition, based upon (i) our understanding of Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule") and interpretive guidance published by the Securities and Exchange Commission relating thereto; (ii) our review of the continuing disclosure undertaking of the Issuer contained in the Ordinance; and (iii) the inclusion in the Official Statement of a description of the specifics of such undertaking, and in reliance on the opinion of Co-Bond Counsel that the Ordinances have been duly adopted by the Issuer and constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms, we have no reason to believe that such undertaking does not meet the requirements of paragraph (b)(5)(i) of the Rule and, accordingly, we advise you that such undertaking provides a suitable basis for you, as the Underwriters and any other broker, dealer, or municipal securities dealer acting as a Participating Underwriter (as defined in the Rule) in connection with the offering of the Bonds, to make a reasonable determination that the Issuer has met the qualifications of paragraph (b)(5)(i) of the Rule.

We express no opinion and make no comment with respect to the tax-exempt status of or the sufficiency of the security for or the marketability of the Bonds.

You are reminded that this opinion expresses our professional judgment as to the legal issues explicitly addressed herein. We express no opinion as to any matters not specifically covered by the foregoing opinion. In rendering this opinion we do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of any future performance of the parties to the transaction, nor does this opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Our opinions herein are limited in all respects by the federal laws of the United States of America and the laws of the State of Texas, and we do not express any opinion as to the applicability of or the effect thereon of the laws of any state or other jurisdiction.

This opinion (i) has been furnished to you at your request, and we consider it to be a confidential communication which may not be furnished, reproduced, distributed, or disclosed to anyone without our prior written consent; (ii) is rendered solely for your information and assistance in connection with the transaction described herein and may not be relied upon by any other person or for any other purpose without our prior written consent; (iii) is rendered as of the date hereof and we undertake no, and hereby disclaim any and all, obligation to advise you of any changes or any new developments which might affect

any matters or opinions set forth herein; and (iv) is limited to the specific matters stated herein and no opinions may be inferred or implied beyond the specific matters expressly stated herein.

Respectfully submitted,

EXHIBIT H

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 6.7 of the Supplemental Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with Section 6.7 of the Supplemental Ordinance are as specified (and included in the Appendix or under the headings of the Official Statement referred to) below:

1. The portions of the financial statements of the City appended to the Official Statement as Appendix A, but for the most recently concluded fiscal year.
2. The average daily wastewater flow through and the effective treatment capacity of the Sewer Facilities presented under “THE CITY AND THE SYSTEM — Sewer Facilities - General.”
3. The number of “in-City” districts that the City has permitted to be created and the number of “in-City” districts that have been created as presented under “ANNEXATION PROGRAM AND ‘IN-CITY’ DISTRICTS - In-City Districts.”
4. The number of active service connections of the System and the sources of System Revenues presented under “SOURCES OF SYSTEM REVENUES — General.”
5. The rates charged to various types of customers of the System presented under “RATES — Current Rates.”
6. The information presented in the Schedules in the Official Statement listed in Appendix F to the Official Statement.

Accounting Principles

The accounting principles referred to in Section 6.7 of the Supplemental Ordinance are generally accepted accounting principles currently in effect for governmental units as prescribed by the Government Accounting Standards Board, which principles are subject to change from time to time to comply with state law or regulation.