

AN ORDINANCE 2006-06-08-0687

RE-APPROVING, AND RE-AUTHORIZING THE EXECUTION OF, ALL DOCUMENTS RELATED TO OBTAINING A U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ("HUD") SECTION 108 LOAN IN THE MAXIMUM PRINCIPAL AMOUNT OF \$57,000,000 TO FINANCE VARIOUS CAPITAL IMPROVEMENTS, INCLUDING A CONTRACT FOR LOAN GUARANTEE ASSISTANCE WITH HUD, A PROMISSORY NOTE AND ALL OTHER RELATED DOCUMENTS, AND PLEDGING CERTAIN FUNDS AND REVENUES OF THE CITY TO SECURE SUCH PROMISSORY NOTE INCLUDING COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS AND GROSS REVENUES OF THE CITY'S SOLID WASTE MANAGEMENT SYSTEM.

* * * * *

WHEREAS, in connection with obtaining a loan in an amount up to \$57,000,000 (the "HUD 108 Loan") from the **UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT** ("HUD") under Section 108 of title I of the Housing and Community Development Act of 1974, as amended (the "HUD Act"), the City Council of the **CITY OF SAN ANTONIO, TEXAS** (the "City") approved Ordinance No. 99726 on September 16, 2004, which authorized the submission to HUD of an application for the HUD 108 Loan to finance various capital improvements in the City and authorized certain officials of the City to execute all documents in connection therewith required by HUD; and

WHEREAS, also in connection with obtaining the HUD 108 Loan, the City Council of the City approved Ordinance No. 100362 on January 27, 2005 for the purpose of amending Ordinance No. 99726 in order to revise the City's repayment commitment for the HUD 108 Loan by adding a commitment of the City to make or supplement annual debt payments from lawful revenues authorized by the City Council if Community Development Block Grant funds are not available for repayment of the HUD 108 Loan; and

WHEREAS, following discussions with HUD and the Texas Attorney General's Office, which must approve the issuance of the promissory note being authorized by this Ordinance, which will be given by the City to HUD (the "Note") to evidence the City's repayment obligations related to the HUD 108 Loan, the City has determined that it is necessary to revise the additional security originally intended to secure repayment of the Note by granting a first lien on and pledge of the "Gross Revenues" derived from the City's "Solid Waste Management System" (as such terms are defined in the "Contract" described below), as authorized by Section 373.005(d), Texas Local Government Code, as amended, and Section 363.135(2), Texas Health and Safety Code; and

WHEREAS, the City and HUD have finalized all terms relating to the HUD 108 Loan, including a *Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5308* (the "Contract"), and the Note to evidence the City's repayment obligations related to the HUD 108 Loan; and

WHEREAS, on May 18, 2006, the City Council adopted a resolution authorizing and directing the City Clerk to give notice of intention relating to the Contract and the issuance of the Note; and

WHEREAS, said notice has been duly published in the *San Antonio Express-News*, which is a newspaper of general circulation in the City, in its issues of May 23, 2006, and May 30, 2006; and

WHEREAS, the City received no petition signed by at least five percent of the qualified electors of the City protesting the issuance of the Note or entering into the Contract; and

WHEREAS, the City Council now deems it necessary and appropriate to approve the form and content of the Contract and the Note, including the pledge of funds and revenues described therein, and to re-authorize certain City officials to execute the Contract and the Note and all other documents, and take all other actions deemed necessary, in connection with obtaining the HUD 108 Loan; and

WHEREAS, it is hereby officially found and determined that the meeting at which this Ordinance was passed was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code; **NOW THEREFORE:**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:

SECTION 1. CONSENT TO AND APPROVAL OF CONTRACT, NOTE AND ALL OTHER DOCUMENTS RELATED TO HUD 108 LOAN. The City Council hereby approves the Contract and the Note in substantially the forms affixed hereto and incorporated herein for all purposes as Attachment I, and further authorizes and reauthorizes the officials of the City named in Ordinance No. 99726 (i.e., the City Manager or in her stead, a Deputy City Manager, an Assistant City Manager, an Assistant to the City Manager, or the Director of Housing and Community Development) to execute the Contract, the Note and all other documents related to the HUD 108 Loan and to approve any and all changes to the Contract and the Note from the forms presented and approved at this meeting, and such approval shall be evidenced by the signature of such official of the City thereon and the delivery of such executed Contract and Note concurrent with the initial delivery of such documents to HUD.

SECTION 2. PLEDGE OF CERTAIN FUNDS AND REVENUES TO SECURE NOTE. Without limiting the full and complete approval of the form of the Contract set forth in Attachment I, the City Council specifically authorizes the lien on and pledge of the funds and revenues of the City as set forth in Sections 5 and 15 of the Contract, including:

- (i) all allocations or grants which have been made or for which the City may become eligible under Section 106 of the HUD Act, as well as any grants which are or may become available to the Borrower pursuant to Section 108(q) of the HUD Act;
- (ii) program income, as defined at 24 CFR 570.500(a) (or any successor regulation), directly generated from the use of the "Guaranteed Loan Funds" (as defined in the Contract);
- (iii) the Gross Revenues of the City's Solid Waste Management System, pursuant to authority granted in Section 373.005(d), Texas Local Government Code, as amended, and Section 363.135(2), Texas Health and Safety Code;
- (iv) all proceeds (including insurance and condemnation proceeds) from any of the foregoing; and
- (v) all funds or investments in the accounts established pursuant to Sections 1 and 6 of the Contract.

SECTION 3. AUTHORIZATION OF OTHER NECESSARY ACTIONS. The City Council hereby authorizes the City Manager, a Deputy City Manager, any Assistant City Manager, any Assistant to the City Manager, the Acting Director of Finance, and the Director of Housing and Community Development to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the City all such instruments, documents and agreements, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the Contract and the Note, to obtain the HUD 108 Loan, and to obtain the Texas Attorney General's approval of the Contract and the Note.

SECTION 4. ENFORCEABILITY OF ORDINANCE. If any section, paragraph, clause, or provision of this Ordinance shall be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Ordinance. In case any obligation of the City authorized or established by this Ordinance is held to be in violation of law as applied to any person or any circumstance, such obligation shall be deemed to be the obligation of the City to the fullest extent permitted by law.

SECTION 5. INCORPORATION OF RECITALS. The City Council hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City Council hereby incorporates such recitals as a part of this Ordinance.

SECTION 6. EFFECTIVE DATE. Pursuant to Section 1201.028, Texas Government Code, this Ordinance shall be effective immediately upon adoption, notwithstanding the provisions of Section 15 of the City Charter of the City to the contrary.

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TS/bh
6/08/06
Item #17

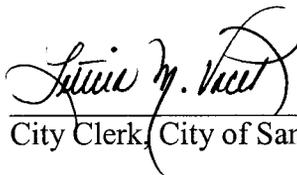
PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS AT A REGULAR MEETING ON THIS 8TH DAY OF JUNE, 2006.



MAYOR

ATTEST:

PHIL HARDBERGER



City Clerk, City of San Antonio, Texas

(CITY SEAL)

APPROVED AS TO FORM:

By: 

for City Attorney

** ** * ** * ** *

[SIGNATURE PAGE FOR CITY ORDINANCE APPROVING HUD 108 LOAN DOCUMENTS]

ATTACHMENT I

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CONTRACT FOR LOAN GUARANTEE ASSISTANCE UNDER SECTION 108 OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974, AS AMENDED, 42 U.S.C. §5308

Date of Contract _____

This Contract for Loan Guarantee Assistance ("Contract") is entered into between the City of San Antonio, Texas, as Borrower (the "Borrower"), and the Secretary of Housing and Urban Development ("Secretary"), as guarantor for the Guarantee made pursuant to section 108 ("Section 108") of title I of the Housing and Community Development Act of 1974, as amended (the "Act") and 24 CFR Part 570, Subpart M, of the promissory note executed contemporaneously herewith and numbered B-04-MC-48-0508, in the Maximum Commitment Amount of \$57,000,000, and any amended note or note issued in substitution for such note and having the same note number (the "Note"). This is the first Contract under the Funding Approval ("Commitment") of the same number, which was approved by the Secretary on May 16, 2005. The funds paid or credited to the account of the Borrower pursuant to the Note are referred to herein as the "Guaranteed Loan Funds." The Note (including the Fiscal Agency Agreement and the Trust Agreement as defined in Section I.A. of the Note and incorporated therein) is hereby incorporated into the Contract. Terms used in the Contract with initial capital letters and not otherwise defined in the text hereof shall have the respective meanings given thereto in the Note. The Fiscal Agency Agreement and the Trust Agreement are sometimes collectively referred to herein as the "Fiscal Agency/Trust Agreements," and the Fiscal Agent and the Trustee respectively are sometimes collectively referred to as the "Fiscal Agent/Trustee."

PART I

- A. **The Note: Advances and Records.** The Note provides that Advances and Conversion Date Advances shall be made thereunder upon the written request of the Borrower and the approval of the Secretary, pursuant to this Contract and the Fiscal Agency Agreement. The Commitment Schedule attached to the Note represents the principal repayment schedule for the Maximum Commitment Amount of the Note. At all times, the total amount of all Advances and Conversion Date Advances under the Note for all Principal Due Dates shall not exceed the Maximum Commitment Amount of the Note. Prior to the Conversion Date (as defined in the Note, Section I.A.), the total amount of Advances made by the Holder for each Principal Due Date under the Note shall not exceed the applicable Commitment Amount for such Principal Due Date set forth in the Commitment Schedule of the Note. Prior to the Conversion Date, the Borrower agrees that the Fiscal Agent

pursuant to the Fiscal Agency Agreement shall record the date and amount of each payment and Advance under the Note and shall maintain the books and records of all Advances and Conversion Date Advances for each Principal Due Date, interest rates on Advances, payments, and Principal Amounts outstanding for each Principal Due Date. On and after the Conversion Date, the Borrower agrees that the Trustee pursuant to the Trust Agreement will maintain the books and records of all payments on the Note and all Principal Amounts and interest rates on such Principal Amounts (each as to be set forth on Schedule P&I to the Note). No advances of any kind may be made on the Note after its Conversion Date.

B. **Borrower's Requests for Advances.** All requests for Advances or Conversion Date Advances by the Borrower under the Note shall: be in writing; specify the amount of the Advance requested; identify the Note by Borrower, number and Maximum Commitment Amount; be addressed to the Secretary at the address for notices specified in paragraph 12(f) of this Contract; be signed by an authorized official of the Borrower; and otherwise be in the form prescribed by the Secretary. Advances and Conversion Date Advances shall be requested and will only be approved and made in increments of not less than \$1,000 for any Principal Due Date. A request for an initial Advance under a Note, or a request for a Conversion Date Advance, shall be received by the Secretary at least ten Business Days prior to the Borrower's proposed Funding Date or Conversion Date, as applicable. All other requests for Advances shall be received by the Secretary not less than five Business Days prior to the proposed Funding Date. The Borrower may not deliver a Note or a request for an Advance or Conversion Date Advance to the Secretary more than two calendar months prior to the Borrower's proposed Funding Date. At least two Business Days prior to the proposed Funding Date or Conversion Date if the Borrower's request was timely received, or the next available Funding Date for which the request was timely received, the Secretary shall, except as otherwise provided in paragraph 11(c) or 12 hereof, deliver a corresponding Authorization Order or Advance Order (as applicable) to the Fiscal Agent in accordance with Section 2.03 or 2.04 of the Fiscal Agency Agreement for the applicable Funding Date or Conversion Date. If the Borrower requests an Advance or Conversion Date Advance of less than the outstanding Maximum Commitment Amount under the Note, the Borrower may also specify in its written request the amount of the Advance or Conversion Date Advance to be allocated to each Commitment Amount or Principal Amount per Principal Due Date under the Note. If the Borrower does not specify how the Advance or Conversion Date Advance should be allocated among Commitment Amounts/Principal Due Dates, the Borrower hereby authorizes the Secretary to direct the Fiscal Agent to allocate the Advance to the respective Commitment Amounts or Principal

Amounts in order of the earliest Principal Due Date(s).

- C. **Conversion; Public Offering.** On the Conversion Date (if any), trust certificates backed by the Note (and similar notes issued by other Section 108 borrowers) will be purchased for a purchase price of the full principal amount thereof by underwriters selected by the Secretary (the "Underwriters") pursuant to an Underwriting Agreement between the Underwriters and the Secretary, at a closing on such Conversion Date as determined by the Secretary and the Underwriters. The Borrower agrees that the interest rate at which the trust certificate of a specified maturity is sold to the Underwriters shall govern the interest rate inserted on the Conversion Date in Schedule P&I of the Note for the Principal Amount of corresponding maturity.
- D. **Consents.** By execution of this Contract, the Borrower ratifies and consents to the Secretary's selection of the Underwriters and authorizes the Secretary to negotiate with the Underwriters the terms of the Underwriting Agreement and of the public offering of interests in the trust certificates to investors (including the applicable interest rates). In addition, by execution hereof the Borrower ratifies and consents to the Secretary's selection of the Fiscal Agent/Trustee and agrees to the respective terms of the Fiscal Agency/Trust Agreements. If Advances have been made in the Maximum Commitment Amount of the Note not less than ten Business Days prior to the proposed Conversion Date, or if the Borrower requests a Conversion Date Advance, the Borrower authorizes the Secretary to deliver Schedule P&I to the Note completed in accordance herewith to the Fiscal Agent/Trustee on the Conversion Date in accordance with the Fiscal Agency/Trust Agreements, concurrent with delivery of the Secretary's Guarantee of the trust certificates at the closing on the Conversion Date, and thereafter the Note shall be enforceable in accordance with its terms including Schedule P&I. In addition, the Secretary reserves the right to notify the Borrower not less than one calendar month in advance of a specified Conversion Date that the Note will be sold to the Underwriters on such date, if the Secretary in his sole discretion determines that market conditions or program needs require the participation in the proposed public offering of all or substantially all Borrowers with outstanding Advances.

PART II**1. Receipt, Deposit and Use of Guaranteed Loan Funds.**

(a) Except for funds deducted on the Conversion Date pursuant to paragraph 4(b) and fees and charges deducted by the Fiscal Agent/Trustee pursuant to paragraph 4(a), the Guaranteed Loan Funds shall be electronically transferred in accordance with the Borrower's instructions for deposit in a separate, identifiable custodial account (the "Guaranteed Loan Funds Account") with a financial institution whose deposits or accounts are Federally insured. The Guaranteed Loan Funds Account shall be established and designated as prescribed in the attached form document entitled "Letter Agreement for Section 108 Loan Guarantee Program Custodial Account" (**Attachment 1**) and shall be continuously maintained for the Guaranteed Loan Funds. Such Letter Agreement must be executed when the Guaranteed Loan Funds Account is established. (A fully executed copy of such Letter Agreement shall be submitted to the Secretary within thirty days of its execution.)

The Borrower shall make withdrawals from said account only for payment of the costs of approved Section 108 activities, for transfer to the Loan Repayment Account or for the temporary investment of funds pursuant to this paragraph 1(a). Such temporary investment of funds into the Guaranteed Loan Funds Investment Account shall be required within three Business Days after the balance of deposited funds exceeds the amount of the Federal deposit insurance on the Guaranteed Loan Funds Account. At that time, any balance of funds in the Guaranteed Loan Funds Account exceeding such insurance coverage shall be fully (100%) and continuously invested in Government Obligations, as defined in paragraph 10 hereof, held in the Guaranteed Loan Funds Investment Account.

All temporary investments, whether or not required as above, shall be limited to Government Obligations having maturities that are consistent with the cash requirements of the approved activities. In no event shall the investments mature on or after December 1, 2011, or have maturities which exceed one year. All such investments shall be held in trust for the benefit of the Secretary by the above financial institution in an account (the "Guaranteed Loan Funds Investment Account") established and designated as prescribed in the attached form document entitled "Letter Agreement for Section 108 Loan Guarantee Program Custodial Investment Account" (**Attachment 2**), which account shall be maintained for all Government Obligations purchased with funds from the Guaranteed Loan Funds Account. The Guaranteed Loan Funds Investment Account need only be established if and when the Borrower is required to invest, or otherwise invests, the Guaranteed Loan Funds in Government Obligations. Such Letter

Agreement must be executed when the Guaranteed Loan Funds Investment Account is established. (A fully executed copy of such Letter Agreement shall be submitted to the Secretary within thirty days of its execution.) All proceeds and income derived from such investments shall be returned to the Guaranteed Loan Funds Account.

All funds in the Guaranteed Loan Funds Account or the Guaranteed Loan Funds Investment Account must be withdrawn and disbursed by the Borrower for approved activities by December 1, 2011. Any funds remaining in either Account after this date shall be immediately transferred to the Loan Repayment Account established pursuant to paragraph 6 of this Contract.

(b) The Borrower shall by the fifteenth day of each month provide the Secretary with a written statement showing the balance of funds in the Guaranteed Loan Funds Account and the withdrawals from such account during the preceding calendar month, and a statement identifying the obligations and their assignments in the Guaranteed Loan Funds Investment Account.

(c) Upon the Secretary giving notice that the Borrower is in Default under this Contract or the Note, all right, title, and interest of the Borrower in and to the Guaranteed Loan Funds and Guaranteed Loan Funds Investment Accounts shall immediately vest in the Secretary for use in making payment on the Note, purchase of Government Obligations in accordance with paragraph 10, or payment of any other obligations of the Borrower under this Contract or the Fiscal Agency/Trust Agreements.

2. **Payments Due on Note; Final Payment and Discharge.** The Borrower shall pay to the Fiscal Agent/Trustee, as collection agent for the Note, all amounts due pursuant to the terms of the Note. In accordance with the Note and the Fiscal Agency/Trust Agreements, payment shall be made by 3:00 P.M. (New York City time) on the seventh Business Day (the "Note Payment Date") preceding the relevant Interest Due Date or Principal Due Date (each as defined in the Note). If any Note Payment Date falls on a day that is not a Business Day, then the required payment shall be made on the next Business Day. Payment may be made by check or wire transfer.

Upon final payment of all amounts due to Holders under the Note, including any payment made by the Secretary pursuant to the Guarantee, the Fiscal Agent/Trustee is required by the Fiscal Agency/Trust Agreements to return the Note to the Secretary. Upon final payment to the Secretary of any amounts due as a result of Guarantee Payments or otherwise due under this Contract, the Secretary will cancel and return the Note to the Borrower in discharge of the Borrower's obligations under the Note.

3. **Selection of New Fiscal Agent or Trustee.** The Secretary shall select a new Fiscal Agent or Trustee if the Fiscal Agent or Trustee resigns or is removed by the Secretary. The Borrower hereby consents in advance to any such selection and to any changes in the Fiscal Agency/Trust Agreements agreed to by any Fiscal Agent or Trustee and the Secretary, subject to paragraph 4(e) of this Contract.
4. **Payments Due Fiscal Agent or Trustee; Documents to the Secretary.**

(a) The Borrower agrees to pay the fees of the Fiscal Agent as required by Exhibit G to the Fiscal Agency Agreement, and any additional amounts that may be due pursuant to Section 6.01 of the Fiscal Agency Agreement. If not paid by the Borrower by any other means prior thereto, the Borrower agrees that any such fees or additional amounts that have been incurred prior to an Advance or a Conversion Date Advance may be deducted by the Fiscal Agent/Trustee from the proceeds of the Advance or Conversion Date Advance, as applicable.

(b) The Borrower agrees to pay the Borrower's share, as determined by the Secretary, of the customary and usual issuance, underwriting, and other costs related to the public offering and future administration of the Note and the trust certificates, as approved by the Secretary, including the cost of reimbursement and/or compensation of the Trustee pursuant to the Trust Agreement, including Sections 3.11 and 7.01 thereof. In connection with the public offering on the Conversion Date, such payment shall either be made by wire transfer to the Trustee on the day prior to the Conversion Date or shall be deducted from the Guaranteed Loan Funds on the Conversion Date.

(c) The Borrower shall submit to the Secretary not later than ten Business Days prior to the Funding Date for the initial Advance hereunder, or if not submitted earlier, prior to any Conversion Date or Public Offering Date applicable to the Note, this executed Contract, the executed Note, a request for an Advance or a Conversion Date Advance (as applicable) in proper form, and an opinion acceptable to the Secretary from the Borrower's counsel to the effect that: (i) the governing body of the Borrower has authorized by resolution or ordinance, in accordance with applicable State and local law, the issuance of the Note and the execution of this Contract; (ii) the Note and this Contract are valid, binding, and enforceable obligations of the Borrower; (iii) the pledge of funds pursuant to 24 CFR 570.705(b)(2) and paragraph 5(a) of this Contract is valid and binding; and (iv) there is no outstanding litigation that will affect the validity of the Note or this Contract. In addition, the Borrower shall submit any other additional documents or opinions specifically

required by this Contract (e.g., paragraph 5(c), or paragraph 15, et seq.), at the time required thereby.

(d) The Borrower agrees to reimburse the Underwriters upon demand by the Secretary for the Borrower's share, as determined by the Secretary, of all reasonable out-of-pocket expenses (including reasonable fees and disbursements of counsel) incurred in connection with a proposed public offering, if the Underwriters incur such additional costs for the public offering because of any refusal, inability, or failure on the part of the Borrower timely to submit in acceptable form any document required by this Contract (including paragraph 4(c)), or because of any withdrawal by the Borrower from the public offering, after the Borrower has submitted a request for a Conversion Date Advance hereunder. By execution and delivery of this Contract to the Secretary, the Borrower hereby expressly authorizes the Secretary to pay amounts due under this paragraph from funds pledged under paragraph 5(a) of this Contract.

(e) The undertakings in paragraphs 3 and 4 of this Contract are expressly subject to the requirement that the Fiscal Agency/Trust Agreements shall in no event require payment of fees or charges, reimbursement of expenses, or any indemnification by the Borrower from any source other than funds pledged pursuant to paragraphs 5 or 15 et seq. of this Contract.

5. **Security.** The Borrower hereby pledges as security for repayment of the Note, and such other charges as may be authorized in this Contract, the following:

(a) All allocations or grants which have been made or for which the Borrower may become eligible under Section 106 of the Act, as well as any grants which are or may become available to the Borrower pursuant to Section 108(q).

(b) Program income, as defined at 24 CFR 570.500(a) (or any successor regulation), directly generated from the use of the Guaranteed Loan Funds.

(c) Other security as described in paragraph 15, et seq.

(d) All proceeds (including insurance and condemnation proceeds) from any of the foregoing.

(e) All funds or investments in the accounts established pursuant to paragraphs 1 and 6 of this Contract.

6. **Loan Repayment Account.**

(a) All amounts pledged pursuant to paragraphs 5(b), 5(c), and 5(d) of this Contract shall be deposited immediately on

receipt in a separate identifiable custodial account (the "Loan Repayment Account") with a financial institution whose deposits or accounts are Federally insured. The Loan Repayment Account shall be established and designated as prescribed in the attached form document entitled "Letter Agreement for Section 108 Loan Guarantee Program Custodial Account" (**Attachment 1**) and shall be maintained for such pledged funds. The Loan Repayment Account need only be established if and when the Borrower receives amounts pledged pursuant to paragraph 5(b), 5(c) or 5(d). Such Letter Agreement must be executed when the Loan Repayment Account is established. (A fully executed copy of such Letter Agreement shall be submitted to the Secretary within thirty days of its execution.) Borrower shall make withdrawals from said account only for the purpose of paying interest and principal due on the Note (including the purchase of Government Obligations in accordance with paragraph 10 hereof), for payment of any other obligation of the Borrower under this Contract or the Fiscal Agency/Trust Agreements, or for the temporary investment of funds pursuant to this paragraph, until final payment and discharge of the indebtedness evidenced by the Note, unless otherwise expressly authorized by the Secretary in writing. Such temporary investment of funds shall be required within three Business Days after the balance of deposited funds exceeds the amount of the Federal deposit insurance on the Loan Repayment Account. At that time, the balance of funds in the Loan Repayment Account exceeding such insurance coverage shall be fully (100%) and continuously invested in Government Obligations, as defined in paragraph 10 hereof.

All temporary investments, whether or not required as above, shall be limited to Government Obligations having maturities that are consistent with cash requirements for payment of principal and interest as required under the Note. In no event shall the maturities of such investments exceed one year. All such investments shall be held in trust for the benefit of the Secretary by the above financial institution in an account (the "Loan Repayment Investment Account") established and designated as prescribed in the attached form document entitled "Letter Agreement for Section 108 Loan Guarantee Program Custodial Investment Account" (**Attachment 2**), which account shall be maintained for all Government Obligations purchased with funds from the Loan Repayment Account. Such Letter Agreement must be executed when the Loan Repayment Investment Account is established. (A fully executed copy of such Letter Agreement shall be submitted to the Secretary within thirty days of its execution.) All proceeds and income derived from such investments shall be returned to the Loan Repayment Account.

(b) Borrower shall by the fifteenth day of each month, provide the Secretary with a written statement showing the

balance of funds in the Loan Repayment Account and the deposits and withdrawals of all funds in such account during the preceding calendar month and a statement identifying the obligations and their assignments in the Loan Repayment Investment Account.

(c) Upon the Secretary giving notice that the Borrower is in Default under this Contract or the Note, all right, title, and interest of the Borrower in and to the Loan Repayment and Loan Repayment Investment Accounts shall immediately vest in the Secretary for use in making payment on the Note, purchase of Government Obligations in accordance with paragraph 10, or payment of any other obligation of the Borrower under this Contract or the Fiscal Agency/Trust Agreements.

7. **Use of CDBG or EDI Funds for Repayment.** Any funds available to the Borrower under Section 106 of the Act (including program income derived therefrom) are authorized to be used by the Borrower for payments due on the Note, Optional Redemption (as defined in the Note), payment of any other obligation of the Borrower under this Contract or the Fiscal Agency/Trust Agreements, or the purchase of Government Obligations in accordance with paragraph 10. Any funds specifically available to the Borrower for such payments or as a debt service reserve under an EDI Grant Agreement pursuant to Section 108(q) of the Act which supports the eligible project(s) and activities financed by the Note may also be used therefor; any other use of Section 108(q) funds for such purposes shall require the prior written approval of the Secretary. Unless otherwise specifically provided herein or unless otherwise expressly authorized by the Secretary in writing, the Borrower shall substantially disburse funds available in the Loan Repayment or the Loan Repayment Investment Accounts before funds from grants under Section 106 of the Act are withdrawn from the U.S. Treasury for such purposes.
8. **Secretary's Right to Restrict Use of CDBG Funds to Repayment.** Upon a determination by the Secretary that payments required by paragraph 2 and/or paragraph 4 of this Contract are unlikely to be made as specified, the Secretary may give the Borrower notice that the availability to the Borrower of funds pledged under paragraph 5(a) of this Contract for purposes other than satisfaction of the pledge is being restricted. This restriction shall be in an amount estimated by the Secretary to be sufficient to ensure that the payments referred to in paragraph 2 and/or paragraph 4 hereof are made when due. This restriction may be given effect by conditioning the restricted amounts to prohibit disbursement for purposes other than satisfaction of the pledge at the time such restricted funds are approved as grants, by limiting the Borrower's ability to draw down or expend the restricted funds for other purposes, and by disapproving payment requests submitted with respect to such grants for purposes other than satisfaction of the pledge.

9. **Secretary's Right to Use Pledged Funds for Repayment.** The Secretary may use funds pledged under paragraph 5(a) of this Contract or funds restricted under grants pursuant to paragraph 8 of this Contract to make any payment required of the Borrower under paragraph 2 and/or paragraph 4, if such payment has not been timely made by the Borrower.
10. **Defeasance.** For purposes of this Contract, after the Conversion Date the Note shall be deemed to have been paid (defeased) if there shall have been deposited with the Trustee either moneys or Government Obligations (as defined below), which in the sole determination of the Secretary, mature and bear interest at times and in amounts sufficient, together with any other moneys on deposit with the Trustee for such purpose, to pay when due the principal and interest to become due on the Note. The Aggregate Principal Amount of the Note or any unpaid Principal Amount may be so defeased, in whole or in part, as of any Interest Due Date, or any other Business Day acceptable to both HUD and the Borrower. In accordance with the Note and the Trust Agreement, the Borrower shall give timely notice and written instructions to the Secretary and the Trustee concerning any principal amounts proposed to be defeased, including any Optional Redemptions proposed, which instructions shall be approved by the Secretary. If the unpaid Aggregate Principal Amount of the Note guaranteed pursuant to this Contract shall be defeased and deemed to have been paid in full, then the Borrower shall be released from all agreements, covenants, and further obligations under the Note.

"Government Obligation" means a direct obligation of, or any obligation for which the full and timely payment of principal and interest is guaranteed by, the United States of America, including but not limited to, United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series or certificates of ownership of the principal of or interest on direct obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System and has capital and surplus (exclusive of undivided profits) in excess of \$100,000,000.

11. **Default.** (a) A Default under the Note and this Contract shall occur upon failure by the Borrower to:
- (i) pay when due an installment of principal or interest on the Note; or
 - (ii) punctually and properly perform, observe, and comply with any covenant, agreement, or condition contained in: (A) this Contract, (B) any security agreement, deed of trust, mortgage, assignment, guarantee, or other contract securing payment of indebtedness evidenced by the Note, or (C) any future

amendments, modifications, restatements, renewals, or extensions of any such documents.

(b) The Borrower waives notice of Default and opportunity for hearing with respect to a Default under paragraph 11(a).

(c) In addition to Defaults under paragraph 11(a), the Secretary may declare the Note in Default if the Secretary makes a final decision in accordance with the provisions of section 111 of the Act and 24 CFR 570.913 (or any successor provisions), including requirements for reasonable notice and opportunity for hearing, that the Borrower has failed to comply substantially with title I of the Act. Notwithstanding any other provision, following the giving of such reasonable notice, the Secretary may, in the Secretary's sole discretion pending the Secretary's final decision, withhold the guarantee of any or all obligations not yet guaranteed on behalf of the Borrower under outstanding commitments, suspend approval of any further Advances or Conversion Date Advances under the Note, and/or direct the Borrower's financial institution to: refuse to honor any instruments drawn upon, or withdrawals from, the Guaranteed Loan Funds Account or the Loan Repayment Account initiated by the Borrower, and/or refuse to release obligations and assignments by the Borrower from the Guaranteed Loan Funds Investment Account or the Loan Repayment Investment Account.

12. **Remedial Actions.** Upon a Default or declaration of Default under this Contract, the Secretary may, in the Secretary's sole discretion, take any or all of the following remedial actions:

(a) With any funds or security pledged under this Contract, the Secretary may: (i) continue to make payments due on the Note, (ii) make a prepayment under Section I.D. of the Note or make an acceleration payment with respect to the principal amount of the Note subject to Optional Redemption as provided in Section III of the Note, (iii) purchase Government Obligations in accordance with paragraph 10 of this Contract, (iv) pay any interest due for late payment as provided in the Note, this Contract, or the Fiscal Agency/Trust Agreements, (v) pay any other obligation of the Borrower under this Contract or the Fiscal Agency/Trust Agreements, and/or (vi) pay any reasonable expenses incurred by the Secretary or the Fiscal Agent/Trustee as result of the Borrower's Default.

(b) The Secretary may withhold the guarantee of any or all obligations not yet guaranteed or the disbursement of any or all grants not yet disbursed in full under outstanding guarantee commitments or grant approvals for the Borrower under Sections 108 and/or 106 of the Act.

(c) The Secretary may withhold approval of any or all further Advances or Conversion Date Advances under the Note (if

applicable); direct the Borrower's financial institution to refuse to: honor any instruments drawn upon, or withdrawals from, the Guaranteed Loan Funds Account or the Loan Repayment Account by the Borrower, and/or to release obligations and assignments by the Borrower from the Guaranteed Loan Funds Investment Account or the Loan Repayment Investment Account; and/or direct the Borrower and/or the Borrower's financial institution to transfer remaining balances from the Guaranteed Loan Funds Account to the Loan Repayment Account.

(d) Until the Conversion Date, or with respect to amounts subject to Optional Redemption, the Secretary may accelerate the Note.

(e) The Secretary may exercise any other appropriate remedies or sanctions available by law or regulation applicable to the assistance provided under this Contract, or may institute any other action available under law to recover Guaranteed Loan Funds or to reimburse the Secretary for any payment under the Secretary's Guarantee or any reasonable expenses incurred by the Secretary as a result of the Default.

(f) All notices and submissions provided for hereunder shall be in writing (including by telex, telecopier or any other form of facsimile communication) and mailed or sent or delivered, as to each party hereto, at its address set forth below or at such other address as shall be designated by such party in a written notice to the other party hereto. All such notices and other communications shall be effective when received as follows: (i) if sent by hand delivery, upon delivery; (ii) if sent by mail, upon the earlier of the date of receipt or five Business Days after deposit in the mail, postage prepaid; (iii) if sent by telex, upon receipt by the sender of an answer back; and (iv) if sent by telecopier, upon receipt.

The Secretary:

U.S. Dept. of Housing and Urban Development
Attention: Paul Webster, Director
Financial Management Division
451 7th Street SW, Room 7180
Washington, DC 20410

Borrower:

Andrew Cameron
Director of Housing and Community Development
1400 S. Flores St., Unit 3
San Antonio, Texas 78204

13. **Limited Liability.** Notwithstanding any other provision of this Contract, the Fiscal Agency/Trust Agreements or the Note, any recovery against the Borrower for any liability for amounts due pursuant to the Note, the Fiscal Agency/Trust Agreements or this Contract shall be limited to the sources of security pledged in paragraph 5 or any Special Conditions of this Contract in paragraph 15, which shall include the pledge and firm commitment by the Borrower as described in paragraph 15(c) with regard to payments on the Note. Neither the general credit nor the taxing power of the Borrower, or of the State in which the Borrower is located, is pledged for any payment due under the Note, the Contract, or the Fiscal Agency/Trust Agreements.
14. **Incorporated Grant Agreement.** The Contract and the Note are hereby incorporated in and made a part of the Grant Agreement authorized by the Secretary on September 30, 2004 under the Funding Approval for grant number B-04-MC-48-0508 to the Borrower. In carrying out activities with the Guaranteed Loan Funds hereunder, the Borrower agrees to comply with the Act and 24 CFR Part 570, as provided in Subpart M thereof.
15. **Special Conditions and Modifications:**
- (a) Paragraph 5(c) of the Contract is amended by deleting the paragraph as written in its entirety and substituting therefor the following:
- "(c) Other security, consisting of the Borrower's first and prior lien on and pledge of the "Gross Revenues" derived from its "Solid Waste Management System" (as such terms are defined in paragraph 15(c)(i) of this Contract), as described in Borrower's Ordinance No. _____, adopted on June 8, 2006, authorizing the issuance of the Note (the "Ordinance"). The Ordinance is attached as **Attachment 3** to this Contract.
- (b) Guaranteed Loan Funds shall be used by the Borrower to finance public improvements in low- and moderate-income areas of the City of San Antonio, pursuant to 24 CFR 570.703(1), to be supervised by the San Antonio Public Works Department or other appropriate department(s) of the Borrower.
- (c) The Borrower's obligation to make the payments on the Note with funds described in paragraphs 5(a), (b), (d) and (e) shall be absolute and unconditional. In addition, as authorized by Section 373.005(d), Texas Local Government Code, as amended, and Section 363.135(2), Texas Health and Safety Code, the Borrower's obligation to make the payments on the Note are further secured by a first and prior lien on and pledge of the "Gross Revenues" derived by the Borrower

from its "Solid Waste Management System" (as such terms are defined below).

- (i) Definitions. As used in this Contract, the following capitalized terms shall be defined as follows:
- (A) "Additional Parity Obligations" means the additional bonds, notes and other obligations which the Borrower reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in paragraph 15(c)(ii) of this Contract.
 - (B) "Gross Revenues" means all revenues, income, and receipts of every nature derived or received by the Borrower from the ownership and operation of the Solid Waste Management System, including the interest income from the investment or deposit of money in any fund created pursuant to Borrower's pledge of Gross Revenues, or maintained by the Borrower in connection with the Solid Waste Management System.
 - (C) "Parity Obligations" means, collectively, the Note and any Additional Parity Obligations then outstanding.
 - (D) "Solid Waste Management System" means all plants, composting process plants, incinerators, sanitary landfills, transfer stations, and other works and equipment that is acquired, installed, or operated by the Borrower to collect, handle, store, process, recover material or energy from, or dispose of solid waste, and includes all sites for those works and equipment.
- (ii) Right to Issue Additional Parity Indebtedness. The Borrower shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue and deliver Additional Parity Obligations in accordance with law, in any amounts, and for any lawful purpose of the Borrower including, but not limited to, acquiring land, acquiring and constructing new facilities or extensions and improvements to, and acquiring equipment for, the Solid Waste Management System, and refunding any Parity Obligations and/or the interest thereon. Such Additional Parity Obligations, if and when authorized, issued, and delivered in accordance

with the provisions hereof, shall be secured by and made payable equally and ratably on a parity with the then outstanding Parity Obligations (including the Note) from a first lien on and pledge of the Gross Revenues. Such Additional Parity Obligations may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the Borrower reserves the right to employ the same in its financing arrangements, provided, however, that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

- (A) No Default/Compliance with Covenants. The chief financial officer of the Borrower shall have executed a certificate stating (i) that, to the best of his or her knowledge and belief, the Borrower is not then in default as to any covenant, obligation or agreement contained in any resolution, agreement or other proceeding relating to any obligations of the Borrower payable in whole or in part from, and secured by a lien on and pledge of, the Gross Revenues that would materially affect the security or payment of the Parity Obligations, and (ii) either (a) payments into all special funds or accounts created and established for the payment and security of all outstanding Parity Obligations have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein, or (b) the application of the proceeds of sale of such Parity Obligations then being issued will cure any such deficiency.
- (B) Historical Gross Revenues Test. The chief financial officer of the Borrower shall have executed a certificate to the effect that, according to the books and records of the Borrower, the Gross Revenues for the preceding Fiscal Year, or for a 12 consecutive month period out of the 18 consecutive months immediately preceding the month the resolution authorizing the issuance of such Additional Parity Obligations is adopted, are equal to at least 125% of the average annual debt service requirements for all Parity Obligations (including such

Additional Parity Obligations proposed to be issued) which will remain outstanding following delivery of such Additional Parity Obligations. In making the determination of the Gross Revenues, the chief financial officer may take into consideration a change in the fees and other charges which result in the collection of Gross Revenues that became effective at least sixty (60) days prior to the last day of the period for which Gross Revenues are determined and, for purposes of satisfying the above Gross Revenues test, make a pro forma determination of the Gross Revenues of the Borrower for the period of time covered by this certification based on such forecast of additional Gross Revenues provided by such change in fees and other charges being in effect for the entire period covered by the chief financial officer's certificate.

(C) Delivery of Opinion Related to Taxability of Interest on Additional Parity Obligations. As long as the Note remains outstanding and in order to reflect compliance with the provisions of OMB Circular No. A-129, the Borrower shall deliver to the Secretary an opinion of nationally recognized bond counsel addressed to HUD to the effect that the interest on the Additional Parity Obligations is not excludable from federal income taxation.

(iii) Right to Issue Subordinate Lien Indebtedness. The Borrower shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue and deliver bonds, notes and other obligations in accordance with applicable law which are secured, in whole or in part, with a lien on and pledge of revenues of the Solid Waste Management System that is junior and subordinate to the first and prior lien on and pledge of Gross Revenues securing the then outstanding Parity Obligations ("Subordinate Lien Obligations"). Subordinate Lien Obligations may be issued in any principal amount, and for any lawful purpose of the Borrower, without first satisfying any historical or projected Gross Revenues tests relating to the Solid Waste Management System imposed by this Contract.

(d) The Borrower shall deliver to the Secretary contemporaneously with the delivery of this Contract

and the Note, an opinion of Borrower's counsel on its letterhead, addressed and satisfactory to the Secretary, that the pledge of the Borrower as described in paragraphs 15(a) and (c) is a valid, legally binding and enforceable obligation of the Borrower.

- (e) A default under the pledge and commitment of Borrower as described in paragraph 15(c) shall constitute a default under this Contract and will be subject to the terms and conditions set forth in paragraphs 11 and 12 of this Contract.
- (f) Additional Grounds for Default. Notice of Default. Restriction of Pledged Grants. Availability of Other Remedial Actions.

(i) The Borrower acknowledges and agrees that the Secretary's guarantee of the Note is made in reliance upon the availability of grants pledged pursuant to paragraph 5(a) (individually, a "Pledged Grant" and, collectively, the "Pledged Grants") in any Federal fiscal year subsequent to the Federal fiscal year ending September 30, 2006 to: (A) pay when due the payments to become due on the Note, or (B) defease (or, if permitted, prepay) the full amount outstanding on the Note. The Borrower further acknowledges and agrees that if the Secretary (in the Secretary's sole discretion) determines that Pledged Grants are unlikely to be available for either of such purposes, such determination shall be a permissible basis for any of the actions specified in paragraphs (ii) and (iii) below (without notice or hearing, which the Borrower expressly waives).

(ii) Upon written notice from the Secretary to the Borrower at the address specified in paragraph 12(f) above that the Secretary (in the Secretary's sole discretion) has determined that Pledged Grants are unlikely to be available for either of the purposes specified in (A) and (B) of paragraph (i) above (such notice being hereinafter referred to as the "Notice of Impaired Security"), the Secretary may limit the availability of Pledged Grants by withholding amounts at the time a Pledged Grant is approved or by disapproving payment requests (drawdowns) submitted with respect to Pledged Grants.

(iii) If after 60 days from the Notice of Impaired Security the Secretary (in the Secretary's sole discretion) determines that Pledged Grants are still unlikely to be available for either of the purposes specified in (A) and (B) of paragraph (i) above, the Secretary may declare the Note in Default and exercise any and all remedies available under paragraph 12.

This paragraph (iii) shall not affect the right of the Secretary to declare the Note and/or this Contract in Default pursuant to paragraph 11 and to exercise in connection therewith any and all remedies available under paragraph 12.

(iv) All notices and submissions provided for hereunder shall be submitted as directed in paragraph 12(f) above.

(g) Notwithstanding any other provision of the Note or this Contract, the following provisions to assure compliance with Texas law shall govern:

(i) The Secretary shall not require the Note to be converted to a fixed-rate Note pursuant to Sections II and III thereof at an interest rate on any Principal Amount on Schedule P&I thereof that exceeds the maximum rate payable by the Borrower thereon under generally applicable Texas law, including Chapter 1204 of the Texas Government Code, as amended. This limitation on the interest rate on the principal of the Note also applies if the Note bears interest at a variable rate prior to a conversion to a fixed rate. In addition, the accrual of interest on unpaid interest shall be limited to the extent permissible under Texas law.

(ii) Part I, paragraph C, of the Contract is amended to delete the last sentence thereof, and to insert the following two new sentences at the end:

"The Borrower agrees that the interest rate at which the trust certificate corresponding to a specified Principal Due Date on Schedule P&I of the Note is sold to the Underwriters shall be the interest rate inserted on the Conversion Date in Schedule P&I for the Principal Amount corresponding to such Principal Due Date. Such interest rate for each trust certificate shall be that rate which the Underwriters determine will enable them to sell under then-prevailing market conditions such certificate, or interests therein, for 100% of the Principal Amount of such certificate."

(iii) Paragraph 4(e) of the Contract is amended by deleting the paragraph as written in its entirety and substituting therefor the following:

"(e) The undertakings in paragraphs 3 and 4 of this Contract are expressly subject to the requirement that the Fiscal Agency/Trust Agreements shall in no event require payment of

fees or charges, reimbursement of expenses or any indemnification by the Borrower from any source other than funds pledged pursuant to paragraphs 5(a) and (b) of this Contract."

- (iv) The provisions of the Fiscal Agency/Trust Agreements (including any future amendments thereto or any new fiscal agency or trust agreements in the future) relating to indemnification, standard of care, choice of law and disposition of unclaimed property as they concern the Borrower are subject to the limitations of this Contract and will be enforceable against the Borrower only to the extent permitted by Texas law. The Secretary further agrees that he will require the Fiscal Agent and Trustee to maintain the registration books referred to in section 5.01 of the Amended and Restated Master Fiscal Agency Agreement and in section 5.03 of the Trust Agreement in a form that can be converted to a writing and a copy of which can be provided to the Borrower in Texas within a reasonable time after request.
- (v) To the extent that a pledge of ad valorem tax is securing payment of all or a portion of the principal of and interest on the Note, acceleration of the maturity date of that portion of the Note shall not be available as a remedy in the event of a default by the Borrower under the Note or this Contract.

[Rest of Page Intentionally Left Blank]

THE UNDERSIGNED, as authorized officials on behalf of the Borrower or the Secretary, have executed this Contract for Loan Guarantee Assistance, which shall be effective as of the date of execution hereof on behalf of the Secretary.

City of San Antonio, Texas
BORROWER

BY: _____
(Signature)

(Name)

(Title)

(Date)

SECRETARY OF HOUSING AND URBAN
DEVELOPMENT

BY: _____
(Signature)

Nelson R. Bregón
(Name)

General Deputy Assistant
Secretary for Community
Planning and Development
(Title)

(Date)

ATTACHMENT 3

Copy of Ordinance
(to be provided by Borrower)

COPY

ATTACHMENT I

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SECTION 108 LOAN GUARANTEE PROGRAM

VARIABLE/FIXED RATE NOTE

NOTE NUMBER: **B-04-MC-48-0508**
The City of
BORROWER: **San Antonio, Texas**

DATE OF NOTE: _____

PRINCIPAL DUE DATES AND PRINCIPAL AMOUNT: Before the Conversion Date, the aggregate of Advances made for each applicable Principal Due Date specified in the Commitment Schedule to this Note; on or after the Conversion Date, the Principal Amount (if any) listed for each Principal Due Date in Schedule P & I hereto.

MAXIMUM COMMITMENT
AMOUNT: **\$57,000,000**

COMMITMENT AMOUNTS: See
Commitment Schedule attached hereto.

VARIABLE INTEREST RATE: As set forth below.

REGISTERED HOLDER: AFTERWATCH & CO
As Nominee for
Money Market Obligations Trust
on behalf of its Government Obligations Fund

I. Terms Applicable Before the Conversion Date

A. Advances

For value received, the undersigned, the San Antonio (the "Borrower", which term includes any successors and assigns), a public entity organized and existing under the laws of the State (or Commonwealth as applicable) of Texas promises to pay to the Registered Holder (the "Holder,"

which term includes any successors or assigns), at the time, in the manner, and with interest at the rate or rates hereinafter provided, such amounts as may be advanced under this Note from time to time by the Holder for disbursement to, or on behalf of, the Borrower (individually, an "Advance", and collectively, "Advances"). The Holder shall make Advances upon the written request of the Borrower and the approval of the Secretary of Housing and Urban Development or his designee (the "Secretary"), pursuant to the Contract for Loan Guarantee Assistance (as further defined in Section IV.A. of this Note, the "Contract"), and the Amended and Restated Master Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated as of May 17, 2000, between The Chase Manhattan Bank (now known as JPMorgan Chase Bank), as Fiscal Agent (the "Fiscal Agent"), and the Secretary. The total amount of Advances made for each Principal Due Date under this Note shall not exceed the applicable Commitment Amount for such Principal Due Date set forth on the Commitment Schedule attached hereto. The aggregate of all Advances under this Note for all Principal Due Dates shall not exceed the Maximum Commitment Amount specified on the attached Commitment Schedule. The Fiscal Agent shall record the date and amount of all payments and Advances on this Note and maintain the books and records of all such Advances and Commitment Amounts for each corresponding Principal Due Date, and all payments. No Advances shall be made on this Note after its Conversion Date.

As used herein, "Conversion Date" means the date (if any) upon which this Note is (i) delivered by the Holder to the Fiscal Agent against payment therefore by the purchasers selected by the Secretary to make such payment; and (ii) assigned to JPMorgan Chase Bank (or any successor thereto) acting in its capacity as Trustee (the "Trustee") pursuant to a Trust Agreement between the Secretary and the Trustee, dated as of January 1, 1995, as such agreement may be amended or supplemented (the "Trust Agreement"). Upon the occurrence of both (i) and (ii) in the previous sentence, Section III of this Note applies, thereby converting this Note to a fixed rate obligation.

B. Variable Rate of Interest

From and including the date of each Advance to but excluding the earlier of (i) the Conversion Date, and (ii) the date of redemption or prepayment of such Advance pursuant to Section I.D. below (each such date of redemption or prepayment, a "Prepayment Date") interest shall be paid quarterly at a variable interest rate (as set forth below) on the unpaid principal balance of each Advance on the first day of each February, May, August and November (each, an "Interim Payment Date"), commencing on the first Interim Payment Date after the initial Advance is made under this Note. Interest also shall be paid on each applicable Conversion Date, Prepayment Date or Principal Due Date. The amount of interest payable on each Interim Payment Date will represent interest accrued during the three-month period ending immediately prior to such Interim Payment Date, or in the case of the first Interim Payment Date following each Advance that is not made on an Interim Payment Date, the period from and including the date of such Advance to but excluding the first Interim Payment Date following such Advance. The amount of interest payable on this Note's Conversion Date, Prepayment Date, or on any Principal Due Date that precedes such Conversion Date will represent interest accrued during the

period from the last Interim Payment Date to such Conversion Date, Prepayment Date, or Principal Due Date, respectively.

The initial variable interest rate for each Advance will be set on the date of such Advance and will be equal to 20 basis points (0.2%) above the Applicable LIBO Rate (as hereinafter defined) and thereafter will be adjusted monthly on the first day of each month (each, a "Reset Date") to a variable interest rate equal to 20 basis points (0.2%) above the Applicable LIBO Rate (such interest rate, as reset from time to time, the "Standard Note Rate"). If the Conversion Date for this Note has not occurred by the March 1 following the initial Advance under this Note, then the terms of Appendix A shall be used to set the variable interest rate. If the Fiscal Agent does not receive notice of either a Negotiated Special Interest Rate or Holder Determined Special Interest Rate (as defined in Appendix A attached hereto) from the Secretary or Holder, respectively, by the times specified in Appendix A to this Note, then the Standard Note Rate shall apply for the period to which such Negotiated Special Interest Rate or Holder Determined Special Interest Rate would otherwise apply. The Fiscal Agent may conclusively rely on any such notice as to the correctness of any matters set forth therein. Appendix A shall be inapplicable to this Note on or after the Conversion Date.

"LIBO Rate" for any given Business Day means, except in the case of manifest error, the interest rate per annum published on that day in the Eastern Edition of The Wall Street Journal or any successor publication ("WSJ"), published by Dow Jones & Company, Inc., in the section titled "Money Rates" (or any successor section) and opposite the caption "London Interbank Offered Rates (LIBOR) -- three months" (or any successor caption). If such rate does not appear in WSJ on a given Business Day, for each interest period, the LIBO Rate shall be the interest rate, converted to a bond-equivalent yield basis, for deposits in U.S. dollars for three months which appears on Telerate Page 3750 or such other page as may replace Page 3750 on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying such rate (together, "Telerate Page 3750") as of 11:00 a.m., London time, on the day (the "Determination Date") that is two London Banking Days preceding the relevant Reset Date or Advance. If such rate does not appear on Telerate Page 3750 on such Determination Date, such rate shall be obtained from the Reuters Screen ISDA Page as of 11:00 a.m., London time, on such Determination Date. If, in turn, such rate does not appear on the Reuters Screen ISDA Page on such Determination Date, the offered quotation from each of four reference banks (expressed as a percentage per annum) as of approximately 11:00 a.m., London time, on such Determination Date for deposits in U.S. dollars to prime banks on the London interbank market for a 3-month period, commencing on the Reset Date or date of such Advance, shall be obtained. If at least two such quotations are provided, the LIBO Rate for such Reset Date or date of such Advance will be the arithmetic mean of the quotations, rounded to five decimal places. If fewer than two such quotations are provided as requested, the LIBO Rate for that Determination Date shall be the rate for the most recent day preceding such Determination Date for which the LIBO Rate shall have been displayed on Telerate Page 3750. The LIBO Rate for any interest period shall be converted to a bond-equivalent yield basis by multiplying such rate by the actual number of days in such interest period and dividing that number by 180.

"Applicable LIBO Rate" means: (1) with respect to the initial interest rate for the first Advance hereunder, the LIBO Rate two London Banking Days before the date of such first Advance; (2) with respect to the initial interest rate for any subsequent Advance made before the first Reset Date, the interest rate borne by the first Advance; (3) with respect to the initial interest rate for any subsequent Advance made after the first Reset Date, the LIBO Rate two London Banking Days before the immediately preceding Reset Date; and (4) with respect to the subsequent interest rate at any Reset Date for any Advance, the LIBO Rate two London Banking Days before such Reset Date.

"London Banking Day" means any day in which dealings in deposits in United States dollars are transacted in the London interbank market. Interest payable on or before the Conversion Date shall be calculated on the basis of a 360-day year and the actual number of days lapsed.

C. Principal Amount

Prior to the Conversion Date, the aggregate amount of Advances under this Note for each specified Principal Due Date shall be the Principal Amount paid by the Borrower on such Principal Due Date (as assigned to such Advances by the Secretary's instructions to the Fiscal Agent in accordance with the Contract and the Fiscal Agency Agreement), except to the extent such Principal Amount shall have been reduced by redemption before such Principal Due Date as provided below.

D. Redemption before Conversion Date

At any time on or before the Conversion Date, the Borrower, with the consent of the Secretary, may redeem this Note, in whole or in part, upon fourteen calendar days notice to the Fiscal Agent and the Secretary, at the purchase price of one hundred percent (100%) of the unpaid Principal Amount to be redeemed, plus accrued interest thereon to the date of redemption. Partial redemptions shall be credited against the applicable Principal Amount(s). The related Commitment Amounts and the Maximum Commitment Amount shall be adjusted concurrently with any such redemptions in accordance with the Secretary's instructions to the Fiscal Agent pursuant to the Contract and the Fiscal Agency Agreement.

II. Conversion

The following events shall occur on the Conversion Date:

A. Schedule P&I

On the Conversion Date all Advances owed by the Borrower under this Note with the same Principal Due Date shall be aggregated into a single Principal Amount which will accrue interest at the fixed rate applicable to such Principal Due Date. Such Principal Amount may be adjusted by the Fiscal Agent in accordance with the following paragraph or paragraph IV.H, as applicable. Whether or not adjusted, each Principal Amount, the fixed rate applicable to each Principal Amount, and the applicable Principal Due Date, shall be listed by the Secretary in Schedule P&I. Schedule P&I will be provided by the Secretary to the Fiscal Agent and attached to this Note by the Fiscal Agent upon the Fiscal Agent's receipt of this Note on the Conversion Date.

B. Conversion Date Advances

If, on or prior to the Conversion Date, the Borrower has not utilized the entire Commitment Amount indicated on the Commitment Schedule attached hereto for a given Principal Due Date, the Borrower may, in accordance with the Fiscal Agency Agreement and the Contract, and with the approval of the Secretary, utilize such Commitment Amount on the Conversion Date to obtain a Conversion Date Advance. A "Conversion Date Advance" shall mean any amount by which the Secretary instructs the Fiscal Agent to increase a Principal Amount on Schedule P&I for a given Principal Due Date, effective as of the Conversion Date of this Note. Conversion Date Advances shall be funded by the sale of this Note to the purchaser selected by the Secretary. The proceeds of a Conversion Date Advance (net of any applicable fees) shall be distributed to or on behalf of the Borrower on the Conversion Date. The total amount of Conversion Date Advances hereunder shall not exceed the sum of any unused Commitment Amounts for all Principal Due Dates.

III. Terms Applicable Upon Conversion

The following terms shall apply to this Note from the Conversion Date (if any) until this Note is canceled, or matured and paid in full:

Commencing on the Conversion Date, the Borrower promises to pay to the Holder on the applicable Principal Due Date each Principal Amount set forth on the attached Schedule P&I, together with interest on each such Principal Amount at the rate applicable thereto specified on the Schedule P&I. Interest shall be calculated and payments shall be made in the manner set forth below.

Interest on each scheduled Principal Amount of this Note due as of a given date specified on Schedule P&I hereto shall accrue at the related per annum rate specified on Schedule P&I from (and including) the Conversion Date to (but excluding) such Principal Due Date or, if applicable, to the applicable Interest Due Date on which an Optional Redemption (as defined below) occurs. Each interest amount accrued on each unpaid Principal Amount of this Note shall be due semiannually as of February 1 and August 1 of each year (each such February 1 and

August 1, an "Interest Due Date") commencing on the first such date after the Conversion Date, until each Principal Amount listed on Schedule P&I to this Note is paid in full. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Certain Principal Amounts that are indicated as being eligible for Optional Redemption on Schedule P&I may be paid, in whole or in part, at the option of the Borrower as of any Interest Due Date on or after the date specified in such schedule (an "Optional Redemption"). In order to elect an Optional Redemption of such a Principal Amount, the Borrower shall give notice of its intention to prepay a Principal Amount to the Trustee and the Secretary not less than 60 days and not more than 90 days prior to the Interest Due Date as of which the Borrower intends to prepay the Principal Amount. The Trustee shall apply any payments received in respect of Optional Redemptions in accordance with written instructions of the Borrower, as approved by the Secretary. Principal Amounts that are not indicated as being eligible for Optional Redemption on Schedule P&I may not be prepaid.

IV. General Terms

A. Additional Definitions

For purposes of this Note, the following terms shall be defined as follows:

"Business Day" shall mean a day on which banking institutions in New York City are not required or authorized to remain closed and on which the Federal Reserve Bank and the New York Stock Exchange are not closed. If any payment (including a payment by the Secretary) is required to be made on a day that is not a Business Day, then payment shall be made on the next Business Day.

"Contract" shall mean the Contract for Loan Guarantee Assistance, and any amendments thereto, among the Secretary and the Borrower, the designated public entity named therein (if applicable), and the State named therein (if applicable), that refers to and incorporates this Note by the number hereof.

"Principal Amount" shall mean: (i) before the Conversion Date for this Note, the aggregate amount of Advances made for each Principal Due Date specified in the Commitment Schedule attached to this Note, less the amount of any redemptions pursuant to Section I.D. hereof, and any principal repayment; and (ii) on or after the Conversion Date, the principal amount (if any) stated for each Principal Due Date in Schedule P&I attached hereto, less the amount of any principal repayment and any Optional Redemptions made pursuant to Section III hereof and the Trust Agreement.

B. Timely Payment to Fiscal Agent or Trustee

Notwithstanding anything contained in Section I, Section II, or Section III, the Borrower, in accordance with the Contract, shall be required to make all payments of interest and principal, including any Optional Redemption payment, directly to the Fiscal Agent or the Trustee (as applicable) on the seventh Business Day prior to the appropriate Interim Payment Date, Interest Due Date, Principal Due Date, Prepayment Date, or date of Optional Redemption, as applicable.

C. Interest on Late Payments

If a payment of principal or interest herein provided for shall not be made by either (i) 2:30 p.m. on an Interest Due Date or Principal Due Date; or (ii) 2:30 p.m. on the second Business Day (as herein defined) next succeeding an Interim Payment Date, then interest shall accrue on the amount of such payment at the then applicable interest rate or rates payable on this Note, from the relevant due date, as the case may be, until the date such payment is made. Nothing in the immediately preceding sentence shall be construed as permitting or implying that the Borrower may, without the written consent of the Holder and the Secretary, modify, extend, alter or affect in any manner whatsoever the right of the Holder timely to receive any and all payments of principal and interest specified in this Note.

D. Applicability of Fiscal Agency Agreement or Trust Agreement

Prior to the Conversion Date, this Note and Advances and payments made hereunder shall be administered pursuant to the terms of the Fiscal Agency Agreement and are subject to such agreement. On or after the Conversion Date, this Note and Advances and payments made hereunder shall be administered pursuant to the Trust Agreement and are subject to such agreement. The terms and provisions of the Fiscal Agency Agreement or the Trust Agreement, insofar as they affect the rights, duties and obligations of the Holder and/or the Borrower, are hereby incorporated herein and form a part of this Note. The Borrower hereby agrees to be bound by all obligations of the Borrower to the Fiscal Agent set forth in the Fiscal Agency Agreement. Capitalized terms not defined in this Note shall have the meanings ascribed to them in the Fiscal Agency Agreement or Trust Agreement, as applicable. The Fiscal Agency Agreement provides for the Fiscal Agent to perform certain duties, including the duties of (i) paying agent and calculation agent for this Note until its Conversion Date, and (ii) registrar for this Note until this Note is canceled or a new registrar appointed, each in accordance with the Fiscal Agency Agreement. The Trust Agreement provides for the Trustee to perform certain duties, including the duties of collection agent for this Note after its Conversion Date until a new Trustee is appointed in accordance with the Trust Agreement. This Note may be surrendered to the Fiscal Agent for registration of transfer or exchange, as provided in the Fiscal Agency Agreement. The Fiscal Agent and Trustee each shall permit reasonable inspection to be made of a copy of the Fiscal Agency Agreement or Trust Agreement kept on file at its respective corporate trust office. Neither the Fiscal Agency Agreement nor the Trust Agreement shall change the Borrower's payment obligations under this Note.

E. Applicability of Contract and Secretary's Guarantee

This Note evidences indebtedness incurred pursuant to and in accordance with the Contract and pursuant to Section 108 of Title I of the Housing and Community Development Act of 1974, as amended (42 U.S.C. § 5308) (the "HCD Act"). This Note is subject to the terms and provisions of the Contract, to which Contract reference is hereby made for a statement of said terms and provisions and for a description of the collateral security for this Note. The payment of principal on the applicable Principal Due Dates and interest on the applicable Interim Payment Dates or Interest Due Dates under this Note is unconditionally guaranteed by the Secretary to the Holder through a guarantee (the "Guarantee"). Execution of the Secretary's Guarantee is required before this Note is effective, and such Guarantee shall be issued pursuant to and in accordance with the terms of the Contract and Section 108 of the HCD Act.

F. Default

A default under this Note shall occur upon failure by the Borrower to pay principal or interest on this Note when due hereunder. If a Borrower defaults on the payment of any interest or Principal Amounts when due, or if the Secretary gives notice of a final decision to declare the Borrower in default pursuant to the following paragraph of this Section IV.F, the Secretary may, but is not obligated to, make on any date on or prior to the Conversion Date with fourteen calendar days prior notice to the Fiscal Agent, or on the seventh Business Day preceding any Interest Due Date on or after the first permissible Optional Redemption date with seven Business Days prior notice to the Trustee, an acceleration payment to the Fiscal Agent or the Trustee, as applicable, equal to the Aggregate Principal Amount of the Note, together with accrued and unpaid interest thereon to such acceleration payment date or Interest Due Date, as applicable. In the event that any such acceleration payment is made from sources other than funds pledged by the Borrower as security under the Contract (or other Borrower funds), the amounts paid on behalf of the Borrower shall be deemed to be immediately due and payable to the Secretary. Nothing in this paragraph shall be construed as permitting or implying that the Borrower may, without the written consent of the Holder and the Secretary, modify, extend, alter or affect in any manner whatsoever the right of the Holder timely to receive any and all payments of principal and interest specified in this Note.

In addition, the Secretary may declare the Borrower in default under this Note if the Secretary makes a final decision in accordance with the provisions of 24 C.F.R. § 570.913 (or any successor regulation thereof), including requirements for reasonable notice and opportunity for hearing, that the Borrower has failed to comply substantially with Title I of the HCD Act. Following the giving of such reasonable notice, the Secretary may take the remedial actions specified as available in the relevant provisions of the Contract pending the Secretary's final decision.

G. Holder's Reliance on Guarantee

Following a default by the Borrower under the terms of this Note, the Holder agrees to rely wholly and exclusively for repayment of this Note upon the Guarantee. The enforcement of any instruments or agreements securing or otherwise related to this Note shall be the sole responsibility of the Secretary, and the Holder shall not be responsible for the preparation, contents or administration of such instruments and agreements, or for any actions taken in connection with such instruments and agreement. The Holder, to the extent it is legally able to do so, shall bind or cause to be bound its successors and assigns to all limitations imposed upon the Holder by this Note.

H. Amendment

This Note may only be amended with the prior written consent of the Secretary and the Borrower. No such amendment shall reduce, without the prior written consent of the Holder of this Note, in any manner the amount of, or delay the timing of, payments required to be received on this Note by the Holder, Fiscal Agent or Trustee, including Guarantee Payments; provided that prior to the Conversion Date, the Commitment Amounts on the Commitment Schedule attached hereto, and the Principal Amounts due on the corresponding Principal Due Dates may be rescheduled pursuant to written instructions given to the Fiscal Agent by the Secretary with the written agreement of the Borrower and the Secretary absent the consent of the Holder.

I. Waivers

The Borrower hereby waives any requirement for presentment, protest or other demand or notice with respect to this Note. The Borrower hereby waives notice of default and opportunity for hearing for any failure to make a payment when due.

J. Delivery and Effective Date

This Note is deemed issued, executed, and delivered on behalf of the Borrower by its authorized official as an obligation guaranteed by the Secretary pursuant to Section 108 of the HCD Act, effective as of the date of the Secretary's Guarantee.

V. Borrower-Specific Provisions

[This space intentionally left blank]

THE UNDERSIGNED, as an authorized official of the Borrower, has executed and delivered this Note.

ATTEST:

The City of
San Antonio, Texas

BORROWER

(Name)

(Title)

(Signature)

By: _____
(Signature)

(Name)

(Title)

ASSIGNMENT AND TRANSFER

For value received, the undersigned assigns and transfers this Note to

(Name and Address of Assignee)

(Social Security or Other Identifying Number of Assignee)

and irrevocably appoints _____
attorney-in-fact to transfer it on the books kept for registration of the Note, with full power of
substitution.

Dated: _____

Note: The signature to this assignment
must correspond with the name as written on
the face of the Note without alteration or
enlargement or other change.

Signature Guaranteed:

Qualified Financial Institution

By: _____
Authorized Signature

[This page to be completed by the Fiscal Agent for transfer of the Note by the Holder as of the
Conversion Date pursuant to the last paragraph of Section I.A. of this Note.]

APPENDIX A

Special Pre-Conversion Interest Rates.

- (a) The Holder and the Secretary contemplate that the majority of the outstanding Variable/Fixed Rate Notes will be purchased by underwriters selected by the Secretary for sale in public offerings to occur each year. If a public offering including this Note has not occurred by each March 1 following the initial Advance under this Note, the Secretary shall, upon request, advise the Holder as to when a public offering including this Note is expected to occur, and the Holder and the Secretary agree to consult with each other as to what the interest rate on this Note will be after May 1 of that year if a public offering has not occurred by such May 1. The Holder shall notify the Secretary if such consultation has not occurred by April 1 of that year. If no public offering including this Note has occurred on or before such May 1, the applicable interest rate on this Note from such May 1 shall be the rate (if any) negotiated and agreed upon by the Secretary and the Holder. Such rate may be the Standard Note Rate or some other rate agreed upon by the Holder and the Secretary at least two Business Days before such May 1 (such other rate, the "Negotiated Special Interest Rate"). The Secretary shall notify the Fiscal Agent and the Holder in writing of any Negotiated Special Interest Rate within two Business Days of the determination thereof.
- (b) If the Secretary and the Holder do not, by the April 15th preceding such May 1, negotiate and agree under Section (a) of this Appendix on an interest rate applicable to this Note, then the Holder may, on or before the April 20th preceding such May 1, give written notice to the Secretary of its intent to change the interest rate on this Note and, if such notice was given during such period, the Holder may, on such May 1, unilaterally determine (subject to the terms of this paragraph) the interest rate that this Note will bear (such rate, the "Holder Determined Interest Rate") from and including such May 1 to but excluding the earliest of: (i) the Conversion Date; (ii) the date that this Note is purchased by a new Holder (as described in Section (c) below) or (iii) a Monthly Special Reset Date (as defined below). Interest from and including such May 1 to but excluding the Public Offering Date shall be paid on the unpaid principal balance of all outstanding Advances under this Note at the rate(s) to be determined by the Holder which, based upon then prevailing market conditions and taking into account all the circumstances, will enable the Holder to sell this Note at one hundred percent (100%) of the aggregate amount of all Advances hereunder prior to the date of such sale. Such interest rate shall be determined as of such May 1 and shall be determined again on the foregoing basis on the first of each month thereafter (the first of each month after such May 1, a "Monthly Special Reset Date"). The Holder shall notify the Fiscal Agent and the Secretary in writing

within two Business Days following such dates of the determination of the Holder Determined Interest Rate and each applicable interest rate determined on a Monthly Special Reset Date.

- (c) If the Secretary and the Holder have failed to agree upon an interest rate pursuant to Section (a) of this Appendix A, the Secretary, upon seven calendar days notice to the Holder, may arrange for the purchase of this Note in full by another entity on the following May 1 or any Business Day thereafter. If such a purchase occurs, the Holder shall sell and assign this Note to the purchaser thereof without recourse to the Holder and deliver this Note and its Guarantee to the Fiscal Agent for registration in the name of the purchaser thereof in accordance with the Secretary's written instructions. The purchase price for this Note shall be 100% of the aggregate amount of all Advances owing hereunder plus accrued interest to the date of purchase. Payment to the Holder of the purchase price for this Note shall be made by the purchaser thereof in Federal funds at the offices of the Holder, or at such other place as shall be agreed upon by the Holder and the Secretary, at 10:00 a.m., New York time, on the date of purchase. After such purchase date this Note shall bear a rate of interest negotiated between the Secretary and the new interim Holder (the "New Purchaser Special Interest Rate"). The Secretary shall notify the Fiscal Agent and the new purchaser in writing of any New Purchaser Special Interest Rate within two Business Days following the date of determination thereof.
- (d) Notwithstanding Sections (a) through (c) (inclusive) of this Appendix, no Borrower is obligated to pay interest at a variable rate exceeding the maximum rate permitted by generally applicable law of the Borrower's state (such rate, the "Maximum Rate"). If the Borrower receives notice of a variable interest payment that exceeds the Maximum Rate, then the Borrower shall timely pay such amount as does not exceed the Maximum Rate, and concurrently shall notify the Secretary and the Fiscal Agent of the reason for any interest non-payment.

COMMITMENT SCHEDULE

Note No. B-04-MC-48-0508

<u>Principal Due Date</u>	<u>Commitment Amount</u>
August 1, 2006	\$1,075,000
August 1, 2007	\$1,835,000
August 1, 2008	\$ 1,925,000
August 1, 2009	\$ 2,020,000
August 1, 2010	\$ 2,125,000
August 1, 2011	\$ 2,230,000
August 1, 2012	\$ 2,340,000
August 1, 2013	\$ 2,455,000
August 1, 2014	\$ 2,580,000
August 1, 2015	\$ 2,705,000
August 1, 2016	\$ 2,840,000
August 1, 2017	\$ 2,985,000
August 1, 2018	\$ 3,130,000
August 1, 2019	\$ 3,290,000
August 1, 2020	\$ 3,450,000
August 1, 2021	\$ 3,625,000
August 1, 2022	\$ 3,805,000
August 1, 2023	\$ 3,995,000
August 1, 2024	\$ 4,190,000
August 1, 2025	\$ 4,400,000
Maximum Commitment Amount =	\$ 57,000,000

SCHEDULE P&I*

Note No. B-04-MC-48-0508

Principal Amount	Principal Due Date	Interest Rate	Optional Redemption Available	
			YES	NO
\$	August 1, 2006			X
	August 1, 2007			X
	August 1, 2008			X
	August 1, 2009			X
	August 1, 2010			X
	August 1, 2011			X
	August 1, 2012			X
	August 1, 2013			X
	August 1, 2014			X
	August 1, 2015			X
	August 1, 2016		X	
	August 1, 2017		X	
	August 1, 2018		X	
	August 1, 2019		X	
	August 1, 2020		X	
	August 1, 2021		X	
	August 1, 2022		X	
	August 1, 2023		X	
	August 1, 2024		X	
	August 1, 2025		X	
<u>\$</u>	= Aggregate Principal Amount			

Principal Amounts due on or after August 1, 2017, may be redeemed, subject to the terms contained herein and in the Trust Agreement, on any Interest Due Date on or after August 1, 2016.

*This schedule will not be completed when initially executed and delivered by the Borrower for Guarantee for interim, variable-rate financing. It will be completed when assigned by the Holder at the request of the Borrower for conversion to Fixed Rates on the Conversion Date. The first date shown above on which Optional Redemption is available is expected to be the same when this schedule is completed, if the Borrower participates in the initial Section 108 public offering after receiving an interim financing Advance hereunder. If the Borrower participates in a later public offering, the first date on which Optional Redemption is available is expected to be correspondingly later.

Agenda Item #17

**CITY OF SAN ANTONIO
CITY COUNCIL MEMORANDUM**

TO: Sheryl Sculley, City Manager

FROM: Ben Gorzell Jr, Acting Director, Finance Department
Andrew W. Cameron, Director, Housing and Community Development

SUBJECT: An Ordinance Authorizing the Issuance of a Promissory Note to Secure a \$57 million HUD Section 108 Loan, Approving a Contract for Loan Guarantee Assistance with HUD, and Authorizing the City Manager and Other City Officials to Execute the Note, the Contract and All Related Documents

DATE: June 8, 2006

Summary and Recommendation

The following item is proposed for consideration:

An Ordinance Approving and Authorizing the Execution of All Documents Related to Obtaining a HUD Section 108 Loan in the Maximum Principal Amount of \$57,000,000 to Finance Various Capital Improvements, Including a Contract for Loan Guarantee Assistance and a Promissory Note, and Pledging Certain Funds and Revenues of the City to Secure Such Promissory Note.

Staff recommends approval of this Ordinance.

Background Information

On September 16, 2004, City Council authorized the submission of a \$57 million 108 loan application to the Department of Housing and Urban Development (HUD). Proceeds of the loan were planned to be utilized to fund various capital improvement projects including streets and drainage projects and improvements to public health facilities, parks, libraries, and community recreation and cultural facilities.

The repayment of annual debt service for the 108 Loan is to be made from Community Development Block Grant (CDBG) Funds received by the City on an annual basis. HUD reviewed the City's application and recommended it for approval with the condition that in the event CDBG funds were not available, the City would commit to the utilization of other lawful sources of revenues available to the City to meet the debt service requirements of the HUD 108 loan. The City's existing HUD 108 loans are secured by the property being improved with the loans. For the proposed capital improvement program, many of the projects involve street and infrastructure improvements making it impractical to pledge as security for the loan.

The City has been in discussions with HUD and the Office of the Texas Attorney General which must approve the City's note to secure the HUD 108 loan. Based on these discussions, a revised note to be issued by the City to secure the 108 loan has been developed. The proposed note provides that the City will utilize the following to repay the 108 loan: 1) CDBG Funds, 2) program income generated from the HUD 108 loan, and 3) gross revenues derived from the operation of the City's solid waste system. CDBG funds will be the first priority for repayment followed by CDBG program income. In the event these funds are insufficient for repayment of

the 108 loan, the City has pledged gross revenues from its solid waste system as security for the loan. However, if CDBG funds are insufficient, the City is not required to utilize the solid waste revenues for repayment of the loan and may exercise other options such as refinancing the loan or appropriating funds from any lawful revenue sources to meet debt service requirements.

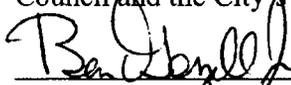
On May 18th, City Council approved a resolution authorizing the publication of a notice of the City's intention to issue the note inclusive of the terms previously described. The notice was published in the San Antonio Express News on the same day for two consecutive weeks with the first publication occurring at least 15 days before consideration for approval of the note by the City Council. The Ordinance authorizes the issuance of a \$57,000,000 promissory note by the City to secure the HUD 108 Loan, approves the Contract for Loan Guarantee Assistance with HUD in substantially final form, and authorizes the City Manager or in her stead, the Deputy City Manager, an Assistant City Manager, an Assistant to the City Manager, or the Director of Housing and Community Development to execute the Contract, the Note and all other documents related to the HUD 108 Loan and to approve any and all changes to the Contract and the Note.

Fiscal Impact

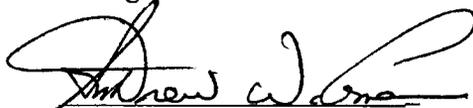
The proposed Ordinance authorizes the issuance of the promissory note by the City as security for the HUD Section 108 Loan which, in addition to a pledge of CDBG funds received by the City, includes a pledge of gross revenues derived from the operation of the City's Solid Waste System to secure the debt through the issuance of the promissory note by the City.

Coordination

The proposed Ordinance has been coordinated with the City Attorney's Office, outside Legal Council and the City's Bond Counsel for this transaction.



Ben Gorzell Jr., CPA
Acting Director of Finance

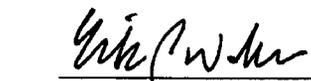


Andrew W. Cameron, Director
Housing and Community Development Dept.



Jelynn LeBlanc Burley
Deputy City Manager

for Approved for Council Consideration:



for Sheryl Sculley
City Manager