OFFICIAL STATEMENT

Dated November 17, 2009

Rating:
S&P: "AAA" (Negative Outlook)
(See "BOND INSURANCE" and "OTHER INFORMATION - Rating" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, including the alternative minimum tax on corporations.

THE BONDS **HAVE** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$15,315,000
CITY OF KYLE, TEXAS
(Hays County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2009

Dated Date: November 15, 2009 **Due: February 15, as shown on the inside cover page**

PAYMENT TERMS . . . Interest on the $15,315,000 City of Kyle, Texas General Obligation Refunding Bonds, Series 2009 (the "Bonds") will accrue from November 15, 2009 (the "Dated Date") and will be payable on February 15 and August 15 of each year commencing February 15, 2010, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Kyle, Texas (the "City"). The Bonds are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance (see "THE BONDS – Authority for Issuance" and "THE BONDS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund certain of the City's outstanding obligations and to pay the costs of issuance related thereto (see "SCHEDULE I" herein).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. ("AGC" or the "Insurer"). See "BOND INSURANCE."

CUSIP PREFIX: 501552
MATURITY SCHEDULE
See Inside Front Cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel, Austin, Texas (see APPENDIX C - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through DTC on December 15, 2009.

SAMCO Capital Markets, Inc. **Hutchinson, Shockey, Erley & Co.**

MATURITY SCHEDULE

2/15 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers[1]
2010	$ 25,000	3.00%	1.00%	501552DR1
2011	250,000	2.00%	0.95%	501552DS9
2012	405,000	2.00%	1.25%	501552DT7
2013	555,000	2.00%	1.65%	501552DU4
2014	710,000	3.00%	2.20%	501552DV2
2015	870,000	4.00%	2.60%	501552DW0
2016	1,030,000	4.00%	2.90%	501552DX8
2017	1,140,000	4.00%	3.10%	501552DY6
2018	1,195,000	4.00%	3.30%	501552DZ3
2019	1,245,000	4.00%	3.50% [2]	501552EA7
2020	1,295,000	4.00%	3.75% [2]	501552EB5
2021	1,215,000	4.00%	3.85% [2]	501552EC3
2022	1,265,000	4.00%	3.95% [2]	501552ED1
2023	1,315,000	4.00%	4.05%	501552EE9
2024	1,370,000	4.00%	4.15%	501552EF6
2025	1,430,000	4.125%	4.22%	501552EG4

(Accrued Interest from November 15, 2009 to be added)

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(1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the Underwriters of the Bonds. Neither the City, the Financial Advisor, nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

(2) Yield shown is yield to first call date, February 15, 2018.

Optional Redemption . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2019, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

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AGC makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGC has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGC supplied by AGC and presented under the heading "BOND INSURANCE" and "APPENDIX D – Specimen Financial Guaranty Insurance Policy".

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

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City and the Underwriters to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

TABLE OF CONTENTS

The cover page hereof, this page, the schedule and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

THE CITY	The City of Kyle, Texas (the "City") is a political subdivision located in Hays County operating as a home rule city under the laws of the State of Texas and a Charter approved by the voters in 2000. The City operates under the City Council/Manager form of government in which the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 18.86 square miles in area (see APPENDIX A - "General Information Regarding the City").
THE BONDS	The Bonds are issued as $15,315,000 General Obligation Refunding Bonds, Series 2009 (the "Bonds). The Bonds are issued as serial Bonds maturing on February 15 in each of the years 2010 through and including 2025 (see "THE BONDS – Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from November 15, 2009, and is payable on February 15, 2010 and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS – Description of the Bonds").
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Kyle, Texas (the "City") (see "THE BONDS – Authority for Issuance").
SECURITY	The Bonds constitute direct obligations of the City secured by a continuing ad valorem tax levied annually, within the limits prescribed by law, on all taxable property within the City, as provided by the Ordinance. See "THE BONDS – Security and Source of Payment."
OPTIONAL REDEMPTION	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2019, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.
QUALIFIED TAX-EXEMPT BONDS	The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used to refund certain of the City's outstanding obligations and to pay the costs of issuing the Bonds.
RATING	The Bonds are expected to be assigned a rating of "AAA" (negative outlook) by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P") by virtue of a financial guaranty insurance policy to be issued by Assured Guaranty Corp. ("AGC"). The outstanding debt of the City is rated "A+" by S&P without regard to credit enhancement. The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies (see "BOND INSURANCE" and "OTHER INFORMATION – Rating").

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

PAYMENT RECORD .... The City has never defaulted in the payment of its general obligation tax debt.

Fiscal Year Ended 9/30	Estimated City Population[(1)]	Taxable Assessed Valuation[(2)]	Per Capita Taxable Assessed Valuation	G.O. Tax Debt[(3)]	Per Capita Funded G.O. Tax Debt	Ratio GO Debt to TAV	% of Total Tax Collections
2006	23,000	$ 783,756,963	$ 34,076	$ 7,830,000	$ 340	1.00%	100.01%
2007	25,100	931,747,182	37,121	17,255,000	687	1.85%	100.26%
2008	30,000	1,092,600,539	36,420	39,550,000	1,318	3.62%	98.81%
2009	32,000	1,260,138,006	39,379	44,160,000	1,380	3.50%	100.38%
2010	32,000	1,331,527,487	41,610	56,265,000 (4)	1,758 (4)	4.23% (4)	N/A (5)

(1) Source: The City.
(2) Valuations shown are certified taxable assessed values reported by the Hays Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
(3) Includes the self-supporting debt. Excludes an $11,000,000 2009 loan (the "2009 SIB Loan") the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas which will not involve payments until 2013. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the SIB Loan.
(4) Projected; includes the Bonds and excludes the Refunded Obligations.
(5) In process of collection. Payments are due upon the taxpayer's receipt of a tax statement and are delinquent if not paid prior to February 1, 2010.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires
Miguel Gonzalez Mayor	4½ Years	May 2011
Michelle Lopez Mayor Pro-Tem, District 1	2½ Years	May 2010
Becky Selbera Councilmember, District 2	7½ Years	May 2011
David Salazar Councilmember, District 3	5½ Years	May 2010
David Wilson Councilmember, District 4	1½ Years	May 2011
Lucy Johnson Councilmember, District 5	1 Year*	May 2012
Ray Bryant Councilmember, District 6	2 Years**	May 2012

*Was elected in August, 2008 at a special election and re-elected in May, 2009.
**Was elected in November, 2007 at a special election and re-elected in May, 2009.

CITY OFFICIALS

Name	Position
Thomas L. Mattis	City Manager
Charles Cunningham	Director of Finance
Amelia Sanchez	City Secretary

CONSULTANTS AND ADVISORS

Auditors .... Lockhart, Atchley & Associates, L.L.P.
Austin, Texas

Bond Counsel .... Bickerstaff Heath Delgado Acosta LLP
Austin, Texas

Financial Advisor .... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Charles Cunningham Director of Finance City of Kyle 100 West Center Street Kyle, Texas 78640 (512) 262-3952 (512) 262-3800 Fax	or	Garry Kimball Managing Director Specialized Public Finance Inc. 406 West 13th Street Austin, Texas 78701 (512) 275-7300 (512) 275-7305 Fax

OFFICIAL STATEMENT
RELATING TO

$15,315,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2009

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of the $15,315,000 City of Kyle, Texas General Obligation Refunding Bonds, Series 2009 (the "Bonds"). The Bonds are being issued pursuant to an Ordinance approved by the City Council on November 17, 2009. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City of Kyle, Texas is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State including the City's Home Rule Charter, initially adopted by the voters in 2000. The City operates as a home rule City under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is three years with the terms of two Councilmembers expiring in each year and the Mayor expiring every third year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety, highways and streets, water and sanitary sewer utilities, library, public improvements, planning and zoning, and general administrative services. The estimated 2009 population is 32,000. The City covers approximately 18.86 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund certain of the City's outstanding obligations (the "Refunding Obligations") and to pay the costs of issuing the Bonds.

REFUNDED OBLIGATIONS . . . The Bonds will be issued to pay principal of and interest due on the City's outstanding Combination Tax and Revenue Certificates of Obligation, Series 2000, maturing 2011 through 2020, inclusive (the "2000 Refunded Certificates") and a State Infrastructure Bank Loan maturing 2010 through 2025 (the "2005 Refunded Obligation", collectively, the "Refunded Obligations"). The Series 2000 Refunded Certificates are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Obligations, as applicable, from funds and direct obligations of the United States of America to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The outstanding principal and interest on the 2005 Refunded Obligation is to be paid on the December 15, 2009, by agreement with the Texas Department of Transportation. The Paying Agent at closing will wire to the Texas Department of Transportation the outstanding principal and interest due on the 2005 Refunded Obligation.

The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, (1) the City will deposit with the Escrow Agent cash and direct obligations of the United States (the "Federal Securities") in amounts sufficient to accomplish the discharge and final payment of the Series 2000 Refunded Certificates on their respective maturity dates and redemption dates, as applicable, and (2) the City will deposit with the Paying Agent sufficient amounts to accomplish the discharge and final payment of the 2005 Refunded Obligation.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of the Ordinance authorizing the issuance of the Series 2000 Refunded Certificates and by the deposit of cash with the Paying Agent will have effected the defeasance of the 2005 Refunded Obligation pursuant to the State Infrastructure Bank Loan, and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement. See APPENDIX C - "Form of Bond Counsel's Opinion" herein.

Grant Thornton LLP, Certified Public Accountants, will verify the mathematical accuracy of schedules provided by the Financial Advisor at the time of delivery of the Bonds to the Underwriters and that the Federal Securities will mature at such times and yield interest in amounts, together with uninvested funds, if any, in the Escrow Fund, sufficient to pay the principal of and interest on the Series 2000 Refunded Certificates as the same shall become due by reason of stated maturity or earlier redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay principal of or interest on the Refunding Bonds. See "OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations."

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Series 2000 Refunded Certificates that the Series 2000 Refunded Certificates will be redeemed prior to their stated maturity on the first optional redemption date, on which date money will be made available to redeem the Series 2000 Refunded Certificates from money held under the Escrow Agreement.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated November 15, 2009 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the Dated Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2010 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to $2.50 per $100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2019, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Bonds are to be redeemed, the City may select the maturities to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice.

Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinance provides for the defeasance of Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption (with respect to the Bonds), or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" mean (a) direct, noncallable obligations of the United States of America, including Bonds that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding Bonds secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

DTC will act initially as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such series, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered in accordance with the Ordinance. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

Paying Agent/Registrar . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Bondholders' Remedies . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or Bonds of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's Bonds are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bond or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . The City may amend the Ordinance without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by the holders of such Bonds for consent to any such amendment, addition, or rescission as provided in the Ordinance.

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

Sources:	
Principal	$ 15,315,000.00
Net Reoffering Premium	324,351.80
Accrued Interest	48,569.80
Total Sources	$ 15,687,921.60
Uses:	
Deposit to Escrow Fund	$ 1,119,725.57
2005 Refunded Obligation Payoff	14,085,261.06
Deposit to Debt Service Fund	53,323.05
Underwriter's Discount	109,393.30
Costs of Issuance (including bond insurance)	320,218.62
Total Uses	$ 15,687,921.60

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BOND INSURANCE

The Insurance Policy . . . Concurrently with the issuance of the Bonds, Assured Guaranty Corp. ("AGC" or the "Insurer") will issue its financial guaranty insurance policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX D to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer . . . AGC is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. AGC commenced operations in 1988. AGC is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of AGC or any claims under any insurance policy issued by AGC.

AGC's financial strength is rated "AAA" (negative outlook) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "Aa3" (under review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's") and "AA-" (negative outlook) by Fitch, Inc. ("Fitch"). Each rating of AGC should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGC. AGC does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments . . . In a press release dated November 12, 2009, Moody's announced that it had downgraded the insurance financial strength rating of AGC to "Aa3" from "Aa2" and that the status of AGC's insurance financial strength rating would remain under review for possible downgrade. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

In a press release dated October 12, 2009, Fitch announced that it had downgraded the insurer financial strength rating of AGC to "AA-" (negative outlook) from "AA" (ratings watch negative). Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On July 1, 2009, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGC. At the same time, S&P revised its outlook on AGC to negative from stable.

Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

There can be no assurance as to the outcome of Moody's review, or as to any further ratings action that Fitch or S&P may take with respect to AGC.

For more information regarding AGC's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, which was filed by AGL with the SEC on November 16, 2009.

Capitalization of Assured Guaranty Corp.
As of September 30, 2009, AGC had total admitted assets of $2,096,784,037 (unaudited), total liabilities of $1,917,777,236 (unaudited), total surplus of $179,006,801 (unaudited) and total statutory capital (surplus plus contingency reserves) of $951,037,548 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Incorporation of Certain Documents by Reference
The portions of the following documents relating to AGC are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);

- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 (which was filed by AGL with the SEC on November 16, 2009); and
- the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.

All consolidated financial statements of AGC and all other information relating to AGC included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "BOND INSURANCE-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of AGC incorporated by reference herein and of the statutory financial statements filed by AGC with the Maryland Insurance Administration are available upon request by contacting AGC at 31 West 52nd Street, New York, New York 10019 or by calling AGC at (212) 974-0100. In addition, the information regarding AGC that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at http://www.sec.gov and at AGL's web site at http://www.assuredguaranty.com, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

AGC makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGC has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGC supplied by AGC and presented under the heading "BOND INSURANCE".

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of RATINGS herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. Neither the City or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

THE CITY

Description of the City . . . The City is located approximately 15 miles south of the Austin, Texas city limits on Interstate Highway 35. The City is a political subdivision located in Hays County operating as a home rule city under the laws of the State of Texas and a charter approved by the voters in 2000. The City operates under the City Council/Manager form of government in which the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City's population has increased more than ten-fold since 1997, from 3,003 persons in 1997 to an estimated population of 32,000 in 2010.

As the City continues to experience rapid population growth, the City will have greater demands on its staff and facilities. The City continues to increase its personnel to meet such needs. In addition, the City has a rolling five year capital improvement plan to manage its growing facilities and infrastructure needs.

The City currently receives water from three sources under three long term agreements. In an existing agreement with Guadalupe Blanco River Authority, the City contracts for up to 5.2 million gallons per day ("gpd"); an additional .45 million gpd is secured under an agreement with Barton Springs/Edwards Aquifer Conservation District and an agreement with Edwards Aquifer Authority allows delivery of an additional .4 million gpd for a total of 6.05 million gpd. The City's staff believes that such water will be sufficient for the City and its anticipated growth through the end of 2011. Additionally, the City is pursuing doubling its pumping authority of groundwater through the Edwards Aquifer Authority. The City is participating in a joint project with several other cities and the Canyon Regional Water Authority to bring water from the Carizzo-Wilcox aquifer to this area. Completion of this project will provide the City's needs for at least the next 40 years.

The City, through its private operator of the facility, recently completed the construction of the second phase of its wastewater treatment plant bringing its total capacity to 3.0 MGD. The plant was built for an ultimate capacity of 4.5 MGD. The City anticipates that it will be required to begin an additional 1.5 MGD expansion of the plant by the end of 2012.

TAX INFORMATION

Ad Valorem Tax Law . . . The appraisal of property within the City is the responsibility of the Hays Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of eleven members appointed by the Board of Directors of the Appraisal District.

The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children.

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and Section 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Section 11.253 of the Texas Tax Code provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property.

Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

The City may create one or more tax increment financing zones within the City ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general City use but are restricted to paying or financing "project costs" within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under such tax abatement agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. A tax abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes; however, no Bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 15 of each year and the final installment due on August 15.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, up to 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

City Application of Tax Code . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $30,000 and disabled veterans are granted an exemption of $3,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax non-business personal property and the Hays County Tax Office collects taxes for the City.

The City does permit split payments, and discounts are not allowed.

The City does not tax freeport property.

The City collects the additional one-half cent sales tax for ad valorem tax reduction.

The City does not collect the one-half cent sales tax for economic development.

The City has not adopted a tax abatement policy.

The City agreed to create a Tax Increment Finance District ("TIFD"), which encompasses approximately 66.33 acres of land (along the western frontage road of IH-35 in the northern portion of the City), in order to pay for certain public infrastructure within the zone through the issuance of bonds or use of the tax increment funds. The City created the TIFD effective in 2004. As of January 1, 2009, the taxable assessed value of property in the zone was $46,753,060. Revenues of the City's TIFD secure the repayment of a $14,000,000 loan (the "2005 SIB Loan") the City received in 2005 to undertake road improvements within the TIFD pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas, acting through the Texas Department of Transportation. The 2005 SIB Loan matures in 2025 and has an annual loan payment of approximately $1,263,489.19. The City has also pledged its general ad valorem tax authority as additional security to the 2005 SIB Loan on a subordinate basis. **The Bonds are being issued, in part, to refinance the 2005 SIB Loan.** Additionally, the City in 2009 approved an $11,000,000 SIB Loan (the "2009 SIB Loan" and, together with the 2005 SIB Loan, the "SIB Loans") for other TIFD-related road improvements. This 2009 SIB Loan has an interest rate of 4.25% and a final term of 20 years, with principal and interest first payable in 2013. See "DEBT INFORMATION – Other Obligations."

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Table 1 - Valuation, Exemptions and General Obligation Debt

2009/10 Market Valuation Established by Hays Central Appraisal District				
(excluding totally exempt property)			$	1,352,468,980
Less Exemptions/Reductions at 100% Market Value:				20,941,493
2009/10 Taxable Assessed Valuation			$	1,331,527,487 (1)
Debt Payable from Ad Valorem Taxes (as of 9-30-09)(2)	$	43,095,000		
The Bonds		15,315,000		
Total Debt Payable from Ad Valorem Taxes			$	58,410,000
Interest and Sinking Fund (as of 9-30-09)			$	213,000
Ratio Tax Supported Debt to Taxable Assessed Valuation				4.39%

2009 Estimated Population - 32,000
Per Capita Taxable Assessed Valuation - $41,610
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $1,825

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(1) Does not exclude the incremental taxable assessed value of real property located within the TIFD.
(2) Excludes the Refunded Obligations and the 2009 SIB Loan. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the 2009 SIB Loan. Includes self-supporting debt.

Table 2 – Valuation and General Obligation Debt History

Fiscal Year Ended 9/30	Estimated Population(1)	Taxable Assessed Valuation(2)	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year(3)	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2006	23,000	$ 783,756,963	$ 34,076	$ 7,830,000	1.00%	$ 340
2007	25,100	931,747,182	37,121	17,255,000	1.85%	687
2008	30,000	1,092,600,539	36,420	39,550,000	3.62%	1,318
2009	32,000	1,260,138,006	39,379	44,160,000	3.50%	1,380
2010	32,000	1,331,527,487	41,610	56,265,000 (4)	4.23% (4)	1,758 (4)

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(1) Source: The City.
(2) Valuations shown are certified taxable assessed values reported by the Hays Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District update records. Does not exclude the incremental taxable assessed value of real property located within the TIFD.
(3) Excludes an $11,000,000 loan (the "2009 SIB Loan") the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas and includes the self-supporting debt. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the 2009 SIB Loan.
(4) Projected; includes the Bonds and excludes the Refunded Obligations.

TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2006	$ 0.2777	$ 0.1697	$ 0.1080	$ 2,176,493	98.32%	100.01%
2007	0.2724	0.1790	0.0934	2,540,651	98.44%	100.26%
2008	0.2707	0.1200	0.1507	2,971,541	98.80%	98.81%
2009	0.3731	0.1731	0.2000	4,706,355	99.00%	100.38%
2010	0.4240	0.1830	0.2410	5,645,677	N/A (1)	N/A (1)

(1) Payments are due upon the taxpayer's receipt of a tax statement and are delinquent if not paid prior to February 1, 2010.

TABLE 4 - TEN LARGEST TAXPAYERS

Name of Taxpayer	2009/10 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
SCC Kyle Partners Ltd.	$ 27,890,620	2.09%
Kyle Marketplace Ltd.	20,163,910	1.51%
DDR DB Kyle LP	16,020,500	1.20%
HEB Food Store #014	7,810,217	0.59%
HD Development Properties LP	6,945,520	0.52%
Kohl's Illinois Inc.	5,362,970	0.40%
Home Depot	4,924,452	0.37%
Sterling/Babcock & Brown LP	3,589,260	0.27%
Plum Creek Development Partners Ltd.	3,372,900	0.25%
Kyle 35 Retail Ltd.	3,309,340	0.25%
	$ 99,389,689	7.46%

TABLE 5 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional obligations since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional obligations, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total Net Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 11/1/09
City of Kyle	$ 58,410,000	100.00%	$ 58,410,000 (1)
Hays County	73,985,000	12.39%	9,166,742
Hays Consolidated Independent School District	313,347,309	38.64%	121,077,400
Total Direct and Overlapping Tax Supported Debt			$ 188,654,142
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			14.17%
Per Capita Overlapping Tax Supported Debt			$ 5,895.44

(1) Includes the Bonds and includes the self-supporting debt. Excludes the Refunded Obligations and the 2009 SIB Loan. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the 2009 SIB Loan.

DEBT INFORMATION

TABLE 6 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt(1)			The Bonds(2)			Less: Self-Supporting Debt	Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total		
2010	$ 2,120,000	$ 1,788,880	$ 3,908,880	$ 25,000	$ 436,753	$ 461,753	$ 960,108	$ 3,410,525
2011	2,140,000	1,696,190	3,836,190	250,000	579,588	829,588	976,482	3,689,295
2012	2,210,000	1,626,330	3,836,330	405,000	573,038	978,038	974,650	3,839,717
2013	2,290,000	1,553,845	3,843,845	555,000	563,438	1,118,438	977,078	3,985,205
2014	2,125,000	1,476,218	3,601,218	710,000	547,238	1,257,238	742,975	4,115,480
2015	2,190,000	1,402,036	3,592,036	870,000	519,188	1,389,188	745,909	4,235,314
2016	2,265,000	1,323,334	3,588,334	1,030,000	481,188	1,511,188	742,494	4,357,027
2017	1,445,000	1,250,671	2,695,671	1,140,000	437,788	1,577,788	423,494	3,849,965
2018	1,500,000	1,194,051	2,694,051	1,195,000	391,088	1,586,088	424,119	3,856,020
2019	1,560,000	1,134,976	2,694,976	1,245,000	342,288	1,587,288	424,369	3,857,895
2020	1,625,000	1,071,436	2,696,436	1,295,000	291,488	1,586,488	428,569	3,854,355
2021	1,835,000	1,003,993	2,838,993	1,215,000	241,288	1,456,288	426,813	3,868,468
2022	1,910,000	926,550	2,836,550	1,265,000	191,688	1,456,688	419,275	3,873,963
2023	1,995,000	844,400	2,839,400	1,315,000	140,088	1,455,088	426,150	3,868,338
2024	2,085,000	756,975	2,841,975	1,370,000	86,388	1,456,388	426,750	3,871,613
2025	2,180,000	660,263	2,840,263	1,430,000	29,494	1,459,494	425,000	3,874,756
2026	2,280,000	558,213	2,838,213	-	-	-	422,500	2,415,713
2027	2,385,000	451,413	2,836,413	-	-	-	424,250	2,412,163
2028	1,300,000	339,663	1,639,663	-	-	-	420,000	1,219,663
2029	1,030,000	274,663	1,304,663	-	-	-	-	1,304,663
2030	1,075,000	225,738	1,300,738	-	-	-	-	1,300,738
2031	1,130,000	174,675	1,304,675	-	-	-	-	1,304,675
2032	1,180,000	121,000	1,301,000	-	-	-	-	1,301,000
2033	1,240,000	62,000	1,302,000	-	-	-	-	1,302,000
	$43,095,000	$ 21,917,509	$ 65,012,509	$15,315,000	$ 5,852,022	$ 21,167,022	$11,210,983	$ 74,968,548

(1) Excludes the Refunded Obligations and the $11,000,000 2009 SIB Loan. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" below for a description.
(2) Interest calculated at a true interest cost of 3.77%.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing in excess of $3,000,000 of additional ad valorem tax supported debt within the next twelve to eighteen months.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . The City does not have any authorized but unissued general obligation debt.

OTHER OBLIGATIONS . . . The City obtained a $14,000,000 SIB Loan on March 17, 2005. The interest rate of the 2005 SIB Loan is 4.55% with equal annual installments of $1,263,489.19 beginning March 17, 2008 through March 17, 2024. The current calculated payoff amount for the 2005 SIB Loan is $14,083,091. The 2005 SIB Loan will be retired with proceeds of the Bonds.

In 2009, the City approved an $11,000,000 SIB Loan to finance additional road improvements Tax Increment Finance District ("TIFD") in order to pay for certain public infrastructure within the zone through the issuance of bonds or use of the tax increment funds. The City created the TIFD effective in 2004. As of January 1, 2009, the taxable assessed value of property in the zone was $46,753,060. Revenues of the City's TIFD secure the repayment of the SIB Loans described under "TAX INFORMATION – City Application of Tax Code" herein. The 2009 SIB loan matures in 2029 and will have annual payments of approximately $1,044,397 beginning in 2013. The City has also pledged its general ad valorem tax authority as additional security to the SIB Loans on a subordinate basis.

The City also has a capital lease obligation outstanding with AquaSource Services and Technologies, Inc. for a wastewater collection and treatment facility. For payment obligations under this lease see Note IV.F, Notes to Financial Statements, page 44 of the audited financial statements attached hereto as APPENDIX B.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the State-wide Texas Municipal Retirement System (the "TMRS"), one of over 827 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits from the TMRS administered plan depend upon the sum of the employees' contributions to the plan, with interest, and the City-financed monetary credits, with interest. Members can retire at ages 60 and above with 10 or more years of service or with 20 or more years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

The City's employee contribution rate is currently 7% of gross earnings and the City provides a monthly contribution of 8.84% of covered payroll, with an estimated contribution of $275,928 for calendar year 2009. Beginning on January 1, 2010, the City's monthly contribution rate will decrease to 8.32% of covered payroll and its estimated contribution will be $374,923 for calendar year 2010.

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (the "TMRS CAFR"), which can be obtained from the TMRS website at www.tmrs.org. As a result, the City's actuarial accrued liability has increased from $2,989,877 as of December 31, 2006 to $4,587,558 as of December 31, 2008. The City has funded $3,052,636 of this amount, giving the City a "funded ratio" of 66.5%.

See Note V.C., Notes to Financial Statements, page 47 of the audited financial statement attached hereto as APPENDIX B for further information on the City's Pension Plan.

OTHER POST-EMPLOYMENT BENEFITS

POST-EMPLOYMENT HEALTH INSURANCE . . . The City maintains a single-employer defined benefit health insurance plan for retirees through the Texas Municipal League Intergovernmental Employee Benefits Pool (the "Plan"). The City provides health insurance coverage only to certain retired employees. Former full-time employees who have retired after 25 years of service and all full-time employees who have completed 5 years or more of continuous service by April 1, 2009, and who complete a total of 25 years or more of continuous service are entitled to the same group health insurance coverage provided to active employees, which coverage is paid completely by the City. Employees who have completed less than 5 years of continuous service by April 1, 2009, and who complete 25 years or more of continuous service are also entitled to the same group health insurance coverage provided to active employees. In this case, however, the City pays only $300 (adjusted annually based on the Consumer Price Index) towards this coverage, with the employee responsible for the balance. Any employee hired after April 1, 2009, is not entitled to group health insurance following such employee's retirement.

The City contributes to the Plan at an actuarially determined rate. The rate is equal to the cost of providing health insurance coverage under the terms indicated above. The City's funding policy for the Plan is to assure that adequate resources are available to meet all health insurance payments for the upcoming year; the intent is not to pre-fund retiree health insurance during employees' entire careers. The City's contribution to the Plan for the year ended September 30, 2008, was $74,706, which amount equaled the required contribution for such year.

SUPPLEMENTAL DEATH BENEFITS . . . The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS (the "SDBF"), and the City provides this coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). Retired employees are insured for $7,500.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which rate is equal to the cost of providing one-year term life insurance. The City's funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contribution to the SDBF for the years ended September 30, 2006, 2007 and 2008 were $3,871, $4,235 and $5,236, respectively, which amounts equaled the required contribution for each such year.

The City has received a letter from TMRS informing the City that its contribution rate for the SDBF for the 2010 calendar year will be 0.16% of covered payroll, the same as is required in calendar year 2009. The TMRS CAFR includes financial and supplementary information for the SDBF.

See Note V.C., Notes to Financial Statements, page 51 of the audited financial statement attached hereto as APPENDIX B for further information on the City's Other Post-Employment Benefits.

OTHER BENEFITS . . . The City provides to certain employees or their estates a partial payment for up to 480 hours of unused sick leave accrued by such employee as described in Note I.E., Notes to Financial Statements, page 35 of the audited financial statement attached hereto in APPENDIX B for further information.

FINANCIAL INFORMATION

TABLE 7 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2008	2007	2006	2005	2004
Revenues:					
Taxes	$ 4,025,516	$ 4,066,154	$ 3,193,662	$ 2,405,408	$ 1,872,938
Licenses and Permits	661,828	843,800	1,239,221	989,089	1,058,970
Intergovernmental	75,414	57,793	29,042	25,197	25,950
Charges for Services	1,600,513	1,202,839	1,010,607	936,087	630,116
Fines and Fees	923,763	469,190	504,456	412,798	401,304
Investment Earnings	83,769	245,475	308,808	185,810	57,930
Other	112,850	43,883	32,054	7,687	23,347
Total Revenues	$ 7,483,653	$ 6,929,134	$ 6,317,850	$ 4,962,076	$ 4,070,555
Expenditures:					
General Government	$ 4,208,003	$ 3,532,105	$ 2,504,147	$ 1,919,184	$ 1,420,480
Public Safety	2,455,281	1,994,543	1,719,553	1,451,266	1,043,638
Public Works	465,125	412,984	574,663	373,894	343,583
Culture and Recreation	1,308,249	1,170,630	997,098	822,152	505,838
Capital Outlay	342,356	1,158,222	306,695	764,177	450,256
Total Expenses	$ 8,779,014	$ 8,268,484	$ 6,102,156	$ 5,330,673	$ 3,763,795
Excess (Deficiency) of Revenues Over Expenditures	$ (1,295,361)	$ (1,339,350)	$ 215,694	$ (368,597)	$ 306,760
Budgeted Transfers In	$ 1,550,000	$ 841,023	$ 535,689	$ 852,932	$ 632,790
Budgeted Transfers Out	(1,878)	(702,749)	(10,615)	(37,003)	(89,400)
Net Increase (Decrease)	$ 252,761	$ (1,201,076)	$ 740,768	$ 447,332	$ 850,150
Other Adjustments	-	90,652	-	-	-
Beginning Fund Balance	2,864,378	3,974,802	3,234,034	2,786,702	1,947,793
					(11,241)
Fund Equity at End of Year[1]	$ 3,117,139	$ 2,864,378	$ 3,974,802	$ 3,234,034	$ 2,786,702

Source: City's Audited Financial Statements.

(1) The City estimates the General Fund Balance for fiscal year ending 2009 has reduced by approximately $500,000 primarily due to the funding of capital improvements. The City has adopted a balanced budget for fiscal year ending 2010.

TABLE 8 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected[1]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2005	$ 1,194,337	69.12%	$ 0.1984	$ 67.21
2006	1,512,432	69.49%	0.1930	65.76
2007	1,916,203	75.42%	0.2057	76.34
2008	2,274,877	76.56%	0.2082	75.83
2009	2,605,483	55.36%	0.2065	81.42

(1) Includes collection of ½ of 1% for the reduction of property tax.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . The City's accounting system is conducted on the modified accrual basis of accounting for all governmental fund types, expendable trust funds and agency funds. Under this basis, expenditures are recorded when liabilities are incurred; and, revenues are recorded when they become measurable and available as net current assets. The accrual basis of accounting is followed for the proprietary and non-expendable trust funds. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

GASB 34 ADOPTION BY THE CITY . . . In June 1999, the Governmental Accounting Standards Board issued GASB 34. The objective of GASB 34 is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The City implemented GASB 34 for its fiscal year ending September 30, 2006. While the adoption of GASB 34 has altered the presentation of some financial information, and the City has devoted additional resources to implementing GASB 34, the City believes that there has been no material adverse impact to its financial position, results of operation, or cash flows as a result of the implementation of GASB 34.

DEBT SERVICE FUND BALANCE . . . A reasonable debt service fund balance is maintained in order to compensate for unforeseen events.

BUDGETARY PROCEDURES . . . The City Charter requires on or before August 1 the City Manager submit to the City Council a proposed operating budget for the year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayers' comments. No later than the third Thursday of September, the budget shall be adopted and legally enacted through passage of an ordinance and, if not, the budget submitted by the City Manager shall be deemed adopted by the City Council.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a depository institution that has a main office or branch office in the State and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or" P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of Bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 9 - CURRENT INVESTMENTS . . . As of September 30, 2009, the City's investable funds were invested in the following categories:

Investments	Market Value	% of Total
MBIA	$ 20,477	0.08%
TexStar	8,447,018	34.78%
TexPool	4,184,032	17.23%
VSR Investments	11,635,683	47.91%
Total	$ 24,287,210	100.00%

As of such date, 52.09% of the City's investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100.00% of its purchase price.

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel to the City, assuming continuing compliance by the City with the tax covenants described below, under existing law, interest on the Bonds will excludable for federal income tax purposes from the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals, or except as hereinafter described, corporations. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of (i) the "adjusted current earnings" of a corporation over (ii) the alternative minimum taxable income determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation's "adjusted current earnings." Accordingly, a portion of any interest on the Bonds received or accrued by corporations other than S Corporations or a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust, that owns the Bonds will be included in computing such corporation's alternative minimum taxable income for such year. In rendering its opinion, Bond Counsel has relied on the City's covenants contained in the Ordinance and the City's covenants contained in the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, relating to, *inter alia*, the use and operation of the Project and the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue of the Bonds. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date of issuance of the Bonds that may affect the tax-exempt status of the interest. Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of result and is not binding on the Internal Revenue Service (the "Service"); rather, such opinion represents Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Registered Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCE . . . Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, holders who may be deemed to have incurred or continued indebtedness to acquire or carry tax-exempt obligations, holders of certain interests in a financial asset securitization investment trust, Subchapter S corporations, controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and individuals who otherwise qualify for the earned income credit. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that for years beginning after December 31, 2010, the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income. In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than designated "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year. However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Underwriters of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides two exceptions to this interest disallowance rule for financial institutions. First, the disallowance does not apply to interest expense allocable to tax-exempt obligations issued in 2009 or 2010 (other than to refund, directly or in a series of refundings, a bond originally issued before 2009) to the extent the amount of such obligations owned by a financial institution does not exceed 2% of the average adjusted bases for all its assets. Second, the disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified

501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000 ($30,000,000 for obligations issued in 2009 or 2010).

The City has designated the Bonds as "qualified tax-exempt obligations" and has certified its expectation that the above-described $30,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 4 and 6 through 9 and in APPENDIX B. The City will update and provide this information within 6 months after the end of each fiscal year ending in and after 2009.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinion or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Ordinance make any reserve fund provisions or provision for credit or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION . . . All filings and notices that the City is required to make or give in satisfaction of its continuing disclosure undertaking set forth in the Ordinance will be made solely to the MSRB, and such filings and notices will be made or given electronically in such format as determined by the MSRB. To make such continuing disclosure information available to investors free of charge, the MSRB has established the EMMA System, which may be accessed at www.emma.msrb.org.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings . . . The City became obligated to make annual disclosure of certain financial information by filing with the state information depository ("SID") in an offering that took place in 2000. Due to an administrative oversight, the fiscal years ending 2002 and 2004, 2005, 2007 and 2009 audited financial statements were not timely filed with the NRMSIR and SID. Certain required financial information was not timely filed for fiscal years ending 2002 through 2005 with the NRMSIR and SID. All financial information has since been filed, including notices of late filing. The City and its financial advisor have implemented procedures to ensure timely filing of all future financial information.

OTHER INFORMATION

Rating . . . The Bonds are expected to be assigned a rating of "AAA" (negative outlook) by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P") by virtue of a financial guaranty insurance policy to be issued by Assured Guaranty Corp. ("AGC"). The outstanding debt of the City is rated "A+" by S&P without regard to credit enhancement. The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds for Sale . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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

Legal Opinion . . . Issuance of the Bonds are subject to the approving legal opinion of the Attorney General of Texas to the effect that the Initial Bond is a valid and binding obligation of the City payable from the proceeds of an annual ad valorem tax levied, within the legal limits prescribed by law, upon all taxable property within the City. Issuance of the Bonds is also subject to the legal opinion of Bickerstaff Heath Delgado Acosta LLP ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described above under "TAX MATTERS." Such opinion will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. The form of Bond Counsel's opinion is attached hereto as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel to the Underwriters, whose legal fees are contingent on the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions "PLAN OF FINANCING", "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance With Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Opinion" (except for the last sentence of the first paragraph thereof) under the caption "OTHER INFORMATION", and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance.

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

The City is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the City, would have a material adverse effect on the financial statements of the City.

No Material Adverse Change . . . The obligations of the Underwriters to take and pay for the Bonds, and of the City to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

Financial Advisor . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Forward-Looking Statements... The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

Verification of Arithmetical and Mathematical Computations . . .The arithmetical accuracy of certain computations included in the schedules provided by Specialized Public Finance Inc. on behalf of the City relating to computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to pay the 2000 Refunded Obligations were verified by Grant Thornton LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by Specialized Public Finance Inc. on behalf of the City. Grant Thornton LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITERS . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of $109,393.30. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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

Reference is made to original documents in all respects. The Ordinance authorizing the issuance of the Bonds will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Bonds to the Underwriters at closing, unless extended by the Underwriters. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Underwriters.

This Official Statement will be approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ MIGUEL GONZALEZ
Mayor
City of Kyle, Texas

ATTEST:

/s/ AMELIA SANCHEZ
City Secretary
City of Kyle, Texas

SCHEDULE OF REFUNDED OBLIGATIONS

State Infrastructure Bank Loan, Series 2005

Amount	Maturity	Coupon
$ 643,702.10	3/17/2010	4.55%
672,990.55	3/17/2011	4.55%
703,611.62	3/17/2012	4.55%
735,625.94	3/17/2013	4.55%
769,096.92	3/17/2014	4.55%
804,090.83	3/17/2015	4.55%
840,676.97	3/17/2016	4.55%
878,927.77	3/17/2017	4.55%
918,918.98	3/17/2018	4.55%
960,729.80	3/17/2019	4.55%
1,004,443.00	3/17/2020	4.55%
1,050,145.16	3/17/2021	4.55%
1,097,926.76	3/17/2022	4.55%
1,147,882.43	3/17/2023	4.55%
1,200,111.08	3/17/2024	4.55%
192,814.37	3/17/2025	4.55%
$ 13,621,694.28		

Redemption Date: 12/15/2009
Redemption Price: 100%

Combination Tax and Revenue
Certificates of Obligation, Series 2000

Amount	Maturity	Coupon
$ 80,000	8/15/2011	4.85%
85,000	8/15/2012	4.90%
90,000	8/15/2013	5.00%
95,000	8/15/2014	5.10%
105,000	8/15/2015	5.20%
110,000	8/15/2016	5.30%
115,000	8/15/2017	5.50%
120,000	8/15/2018	5.50%
130,000	8/15/2019	5.50%
135,000	8/15/2020	5.50%
$ 1,065,000		

Redemption Date: 8/15/2010
Redemption Price: 100%

APPENDIX A

General Information Regarding the City

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THE CITY

The City of Kyle is located approximately 15 miles south of the Austin city limits on Interstate Highway 35. The City is primarily a residential community supported by employment in the greater Austin metropolitan area. Access to transportation was recently enhanced with the 1999 opening of Austin-Bergstrom International Airport which is located in southeast Austin, approximately 15 minutes from downtown Kyle.

THE COUNTY

Hays County was created in 1843 from Travis County in south central Texas. The County is a component of the Austin Metropolitan Statistical Area and is traversed by Interstate Highway 35, U.S. Highway 290, State Highways 21 and 123 and ten farm-to-market roads. Hays County is the 34th largest county in the State and the 4th fastest growing county. The City of San Marcos is the county seat. Other towns include Buda, Dripping Springs, Hays, Kyle, and Wimberley.

LABOR MARKET PROFILE

	Hays County	
	September 2009	September 2008
Total Civilian Labor Force	78,114	75,686
Total Unemployment	5,325	3,459
Percent Unemployed	6.8%	4.6%
Total Employment	72,789	72,227

	State of Texas	
	September 2009	September 2008
Total Civilian Labor Force	12,069,432	11,773,054
Total Unemployment	995,995	605,345
Percent Unemployed	8.3%	5.1%
Total Employment	11,073,437	11,167,709

Source: Texas Workforce Commission, Austin, Texas

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APPENDIX B

**Excerpts from the
City of Kyle, Texas
Annual Financial Report
For the Year Ended September 30, 2008**

The information contained in this APPENDIX consists of excerpts from the City of Kyle, Texas Annual Financial Report for the Year Ended September 30, 2008, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information

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RSM McGladrey Network
An Independently Owned Member

Lockart, Atchley & Associates, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

James E. Lockart, CPA
Karen E. Atchley, CPA
Nancy E. Boyd, CPA
Dan A. Shaner, CPA
Evonne G. Jones, CPA
Joyce J. Smith, CPA
Harold F. Ingersoll, CPA
Ronny Armstrong, CPA

Independent Auditors' Report

Honorable Mayor and Members of the City Council
City of Kyle, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not recorded certain infrastructure assets in governmental activities, business-type activities and the Water and Wastewater Fund and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those infrastructure assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities, business type activities and Water and Wastewater Fund. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities, business type activities and Water and Wastewater Fund is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the preceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, General Fund and Water and Wastewater Fund of the City of Kyle, Texas as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Road Improvement Fund, the 2008 Certificates of Obligation Fund, the Debt Service Fund and the aggregate remaining fund information of the City of Kyle, Texas as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

6850 Austin Center Boulevard, Suite 180 • Austin, Texas 78731-3129
512-346-2086 • Toll Free 877-977-6850 • Fax 512-338-9883 • www.lockartatchley.com

In accordance with *Governmental Auditing Standards,* we have also issued our report dated March 27, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Kyle, Texas's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 27, 2009

City of Kyle, Texas
Management's Discussion and Analysis
of Financial Condition and Results of Operation

As management of the City of Kyle (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Kyle for the fiscal year ended September 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages i-vii of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2008, the assets of the City of Kyle exceeded its liabilities at the close of the most recent fiscal year by $42,680,873 (net assets). Of this amount, $8,956,955 (unrestricted net assets) may be used to meet the government's obligations to its citizens and creditors within each of the City's designated funds.

- The government's total net assets increased overall by a total of $656,139 or 1.56% above the previous year. Current and Other Assets increased by a net amount of approximately $5.8 million and capital assets increased by approximately $18.5 million for a total increase of $24.3 million. Total liabilities increased by $23.6 million which when subtracted from the net increase in assets of $24.3 million shows an increase of $656,139 in net assets.

Fund Based

- At the close of the fiscal year being reported, the City of Kyle's governmental funds reported combined ending fund balances of $18,179,526, which represents an increase of $5,984,318 in comparison with the prior year. Net proceeds from the sale of $22,800,000 Certificate of Obligation Bond accounts for the increase from the prior year.

- At the end of fiscal year 2007-08, the fund balance for the General Fund was $3,117,139 or 17.2% of total fund balance. This is an increase of approximately 9% from the prior year.

- At the close of fiscal year 2007-08, the General Fund "budget to actual" report shows an increase in the amount of revenue received versus the amount in the original budget by $465,521. There are three categories of revenue that exceeded both the original and final budget amount: Sales Tax, Charges for Services, and Fines.

- For the year ending 2007-08, the City's Utility Fund had an operating surplus of $1,488,004. The surplus is due to the following three main factors:
  - The Central Texas area has been under an extreme drought for most of this time period. Due to this drier weather, the volume of water sales increased.
  - The City has continued to add new water/sewer customers, both residential and commercial.
  - The remaining water rate increases (which are the result of the water rate study conducted during the 2006-07 fiscal year) were implemented in January 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City of Kyle's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Kyle's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Kyle's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Kyle is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related *cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Kyle that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Kyle include general government, public safety, public works and culture and recreation. The business-type activities of the City of Kyle include the water/wastewater system.

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund financial statements

The fund financial statements are intended to provide information about the City's most significant funds. They represent the more familiar types of reporting for those users of governmental financial statements. The City of Kyle, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kyle can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of available resources,* as well as on *balances of resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Kyle maintains four major governmental funds and nine non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund.

Data from each of the major governmental funds is presented separately in these statements. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget and is presented as required supplementary information beginning on page 53. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds - The City of Kyle maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Kyle uses one enterprise fund to account for its water/wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility system which is considered to be a major fund of the City of Kyle. The basic proprietary fund financial statements can be found on pages 26 through 29 of this report.

Fiduciary Funds – The City of Kyle created a fiduciary fund in FY 07-08. The purpose of a *fiduciary fund* is to report assets that are held in a trust or agency capacity; these funds cannot be used to support governmental activities. The City of Kyle uses one Other Post Employment Benefit Trust Fund to account for and report resources that are required to be held in trust for members of the city-paid retiree heath insurance benefit plan. The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 52 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements.

Combining statements for non-major governmental funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 54 through 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City of Kyle, for the period ending September 30, 2008, assets exceeded liabilities by $42,680,873.

The largest portion of the City of Kyle's net assets (61.5%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Kyle uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kyle's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets $7,477,662 (17.5%) represents sources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets representing 21% of the total may be used to meet ongoing financial obligations of the City.

The following Table reflects a condensed Statement of Net Assets:

City of Kyle's Net Assets

	Governmental activities		Business-type activities		Totals	
	2008	2007	2008	2007	2008	2007
Current & other assets	$22,160,540	$14,523,237	$13,277,696	$15,119,063	$35,438,236	$29,642,300
Capital assets	42,683,090	28,487,560	25,672,110	21,381,269	68,355,200	49,868,829
Total assets	64,843,630	43,010,797	38,949,806	36,500,332	103,793,436	79,511,129
Liabilities	2,679,410	1,947,577	521,173	950,926	3,200,583	2,898,503
Non-current liabilities	54,048,354	32,285,180	3,863,626	2,302,712	57,911,980	34,587,892
Total liabilities	56,727,764	34,232,757	4,384,799	3,253,638	61,112,563	37,486,395
Net assets:						
Invested in capital assets, net of related debt	4,424,922	5,517,430	21,821,334	19,086,953	26,246,256	24,604,383
Restricted	1,164,038	1,412,099	6,313,624	11,461,408	7,477,662	12,873,507
Unrestricted	2,526,906	1,848,511	6,430,049	2,698,333	8,956,955	4,546,844
Total Net Assets	$8,115,866	$8,778,040	$34,565,007	$33,246,694	$42,680,873	$42,024,734

Governmental activity's Current and Other Assets increased 52.6% mostly based on sale of Certificate of Obligation Bonds in the amount of $22,800,000 in April 2008. There was a corresponding increase in Non-Current Liabilities of 67.4% that amounted to $21,763,174 which represents the amount of principal owed on the bonds. Business-type activity's Current and Other Assets decreased by 12.2% with a corresponding increase of 20.1% in Capital Assets. These changes were a result of payments for capital projects (reduction in current assets) and their ultimate capitalization as fixed assets (capital assets).

Statement of Activities

The statement of activities shows how the City's net assets changed during the fiscal year 2007-08. Provided on the following page is a chart showing changes in net assets.

The City's net assets increased overall by $656,139 during the fiscal year 2007-08. These changes are explained in the governmental and business-type activities discussions as follows.

City of Kyle's Changes in Net Assets – Statement of Activities

	Governmental activities		Business-type activities		Total	
Revenues:	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Program revenues:						
Charges for services	$3,223,129	$ 2,527,463	$6,263,208	$ 4,482,197	$9,486,337	$7,009,660
Operating grants and contributions	112,761	68,617	0	0	112,761	68,617
Capital grants and contributions	0	1,482,413	1,256,918	1,647,156	1,256,918	3,129,569
General revenues:						
Property taxes	3,065,374	2,672,547	0	0	3,065,374	2,672,547
Sales tax	2,274,877	1,916,203	0	0	2,274,877	1,916,203
Franchise tax	454,106	382,440	0	0	454,106	382,440
Occupancy Tax	86,994	82,172	0	0	86,994	82,172
Investment earnings	523,678	619,830	345,849	641,310	869,527	1,261,140
Miscellaneous	244,432	57,883	0	0	244,432	57,883
Total Revenues	9,985,351	9,809,568	7,865,975	6,770,663	17,851,326	16,580,231
Expenses:						
General government	4,403,797	3,955,568	0	0	4,403,797	3,955,568
Public safety	2,980,223	2,105,733	0	0	2,980,223	2,105,733
Public works	1,176,879	988,707	0	0	1,176,879	988,707
Culture/Recreation	1,537,534	1,621,687	0	0	1,537,534	1,621,687
Interest on long term debt	1,363,409	687,860	0	0	1,363,409	687,860
Other Debt Service Expenses	23,672	0	0	0	23,672	0
Water/ wastewater	0	0	4,775,204	4,689,867	4,775,204	4,689,867
Total Expenses	11,485,514	9,359,555	4,775,204	4,689,867	16,260,718	14,049,422
Increases in net assets before transfers	(1,500,163)	450,013	3,090,771	2,080,796	1,590,608	2,530,809
Transfers	1,873,950	1,354,860	(1,873,950)	(1,354,860)	0	0
Change in net assets	373,787	1,804,873	1,216,821	725,936	1,590,608	2,530,809
Net assets - beginning	8,778,040	6,882,515	33,246,694	32,520,758	42,024,734	39,403,273
Prior period adjustment	(1,035,961)	90,652	101,492	0	(934,469)	90,652
Net assets - ending	$8,115,866	$8,778,040	$34,565,007	$33,246,694	$42,680,873	$42,024,734

Governmental activities decreased the City's net assets by $662,174. Key elements of this change in net assets are explained as follows:

Program Revenues. Total program revenues, which are charges for services, operating grants/contributions and capital grants/contributions actually fell approximately $742 thousand from the prior year almost entirely due to a reduction in recorded capital contributions from developers.

General Revenues. Property taxes, sales taxes and franchise fees increased 15%, 19% and 19% respectively over the prior fiscal year. Investment earnings decreased by 16% over the previous year due to lower interest rates that resulted from the declining economy.

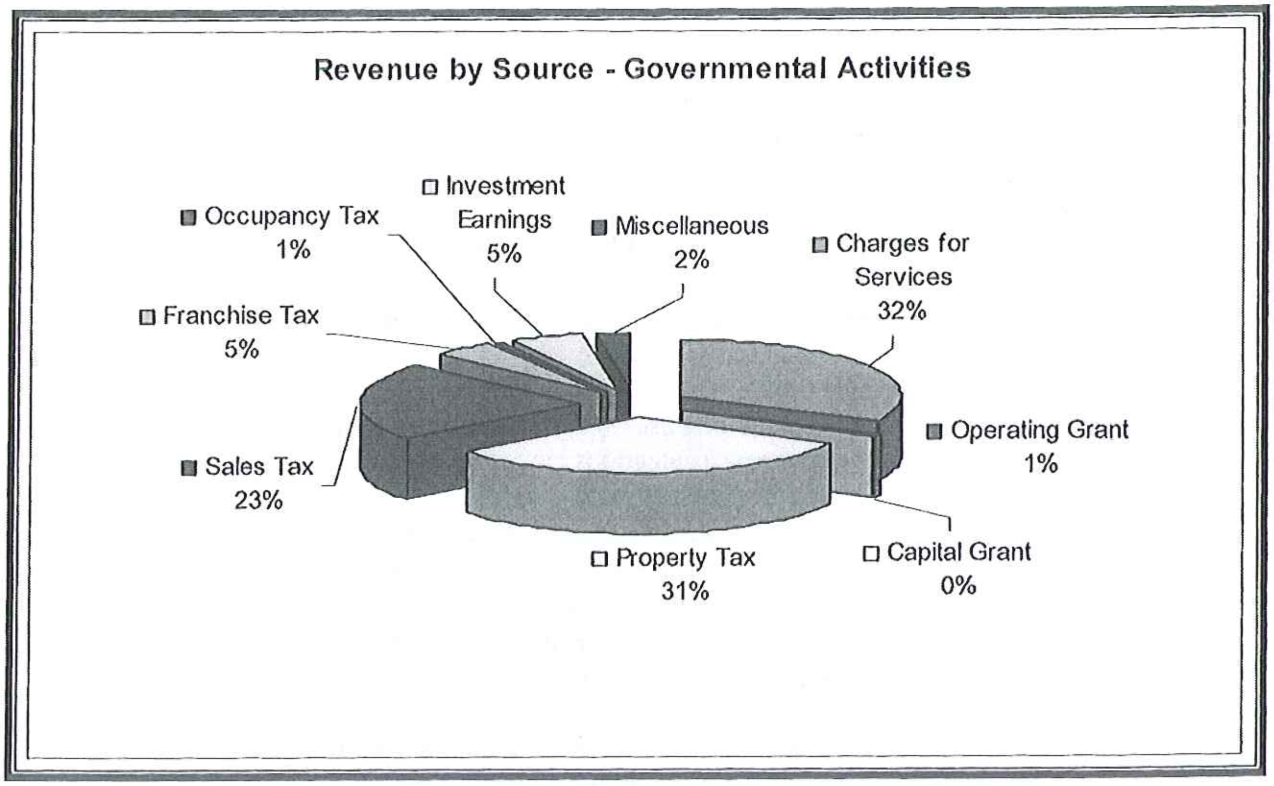
Expenses. Governmental expenses showed an overall increase of $2,125,959 or 23%. Following are the main reasons for the increase in expenditures:

- Bond interest payments increased 99%.
- Public Safety increased by 42% which is mainly due to the addition of new officers and equipment for those officers.
- General Government increased by 11% mainly due to increased staffing and some construction projects.
- Public Works increased by 19% due to an increase in construction costs.

Budget Variances. Despite the fact that revenue and other financing sources exceeded total expenses by $487,009, **actual** expenses are shown to exceed **budgeted** expenses by $543,929. The most common expense categories exceeding their budgets were capital outlay, contracted services, utilities and salaries.

- Almost all of the $203,961 excess capital outlay expense ($199,090) was the result of budgeting for police vehicles in one account and actually paying for them out of another capital outlay account.
- Under-budgeted utility expenses were a result of extraordinary increases during the year in electric and gas utility rates that were not totally accounted for in the final amended budget.
- The largest difference in contracted services was under-estimating the increase in trash collection services ($85,135). Actual expenses were $920,887 but revenue generated to pay for this expense was $963,985 leaving a net profit of $43,098. Several other contracted services exceeded budgeted amounts such as $46,674 for implementation and training for new billing software, additional costs of the quarterly newsletter ($21,657), legal services for assistance in the planning process ($15,075), higher than quoted fees paid to the Central Appraisal District ($8,011), etc.
- Finally, an amount of $87,472 was expensed to salaries in Parks and Recreation Programs above the amounts found in the final budget amendment. The majority of these funds were for summer recreation workers. While most of the expenses were recovered in fees for summer programs, moving this activity into its own fund in 2008-09 should facilitate better control over these expenses. Base salaries in Facilities Maintenance exceeded the budget by $15,135. This was mostly due to switching from contracted services to in-house. Two other salary categories exceeding their budgets were overtime in street maintenance and utility billing.

The following two charts illustrate a breakdown of **general governmental activity** revenues by source and a comparison of program revenues by function and corresponding revenues by source.

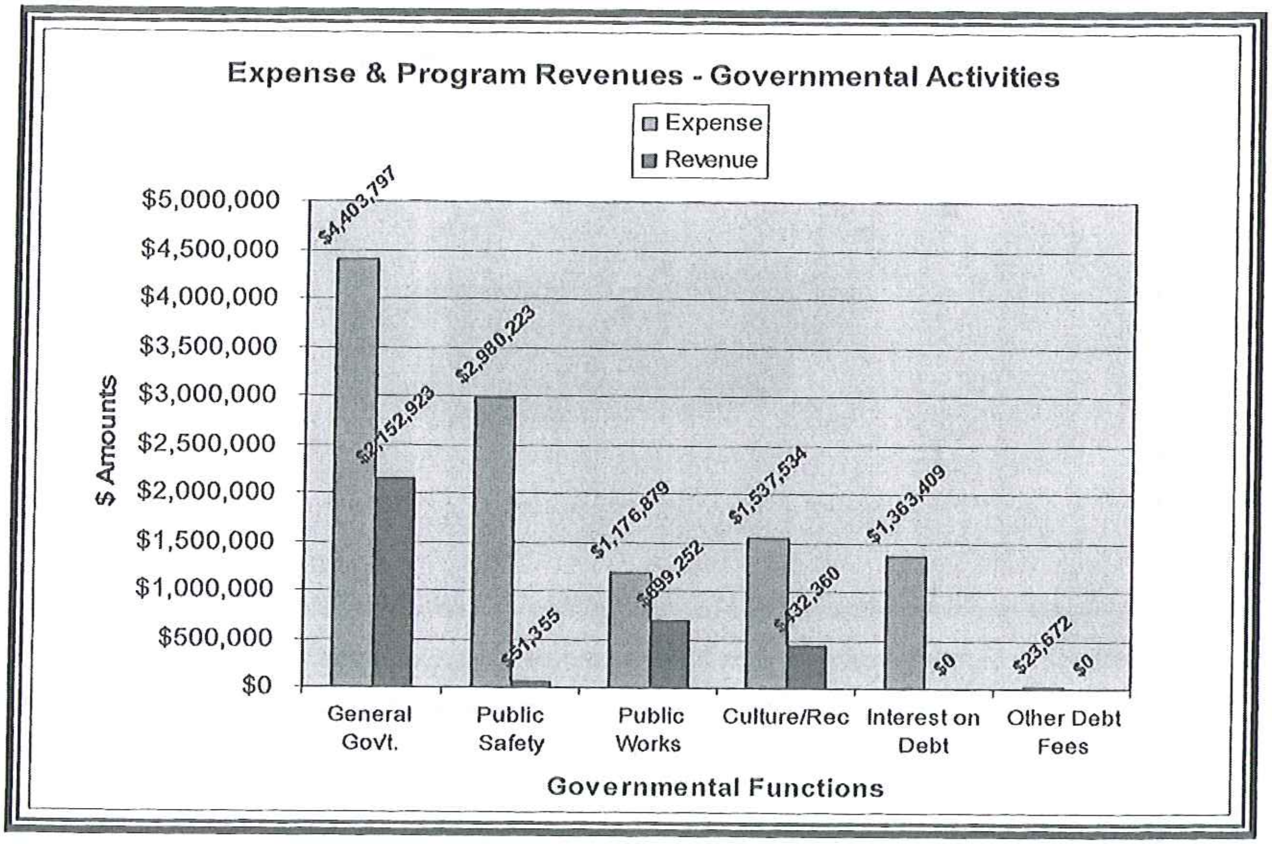


- As shown on the above chart, the bulk of revenue for governmental activities comes from property taxes, sales taxes and charges for services (86%). The two highest percentages of revenue comes about equally from charges for services (32%) and property taxes (31%).

- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.

- Revenue from property taxes increased by 15% between 2007 and 2008. This increase was a reflection of an increase in the net taxable assessed value of property from $931,815,544 in 2007 to $1,098,385,146 in 2008. The property tax rate for 2008 was reduced from the prior year by $0.0017 per $100 of assessed valuation.

- Sales taxes which represented 23% of total revenues for governmental activities also increased significantly over the prior year. Sales tax revenue increased by 19% between 2007 and 2008. This rate of increase from year-to-year reflects an increase in the market base (more shoppers) as well as the addition of numerous new commercial outlets over the last several years.

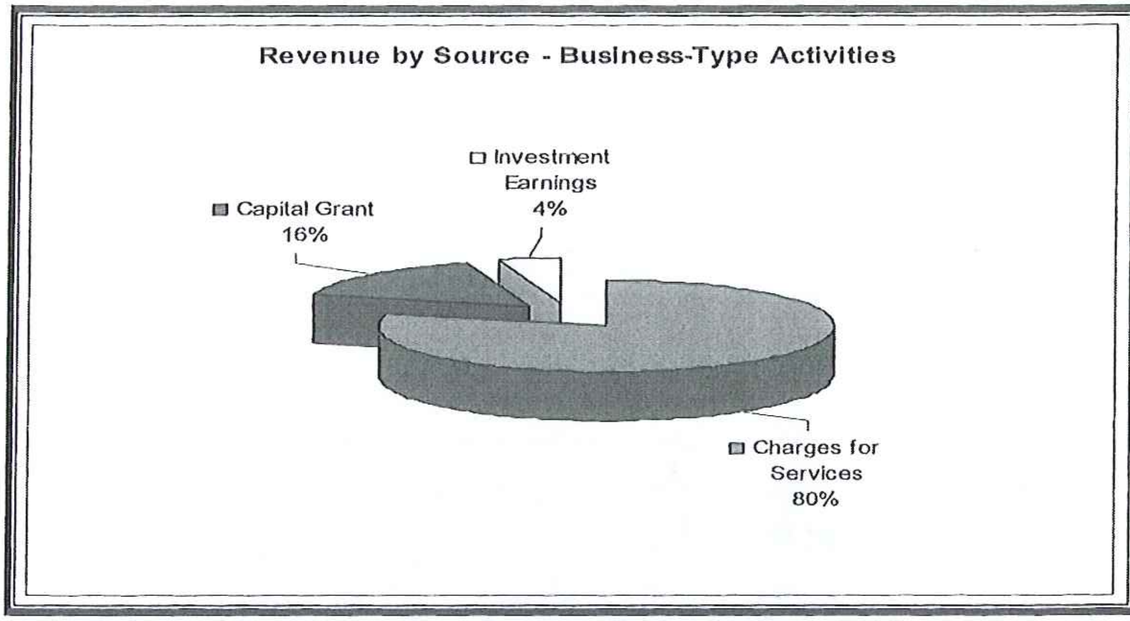


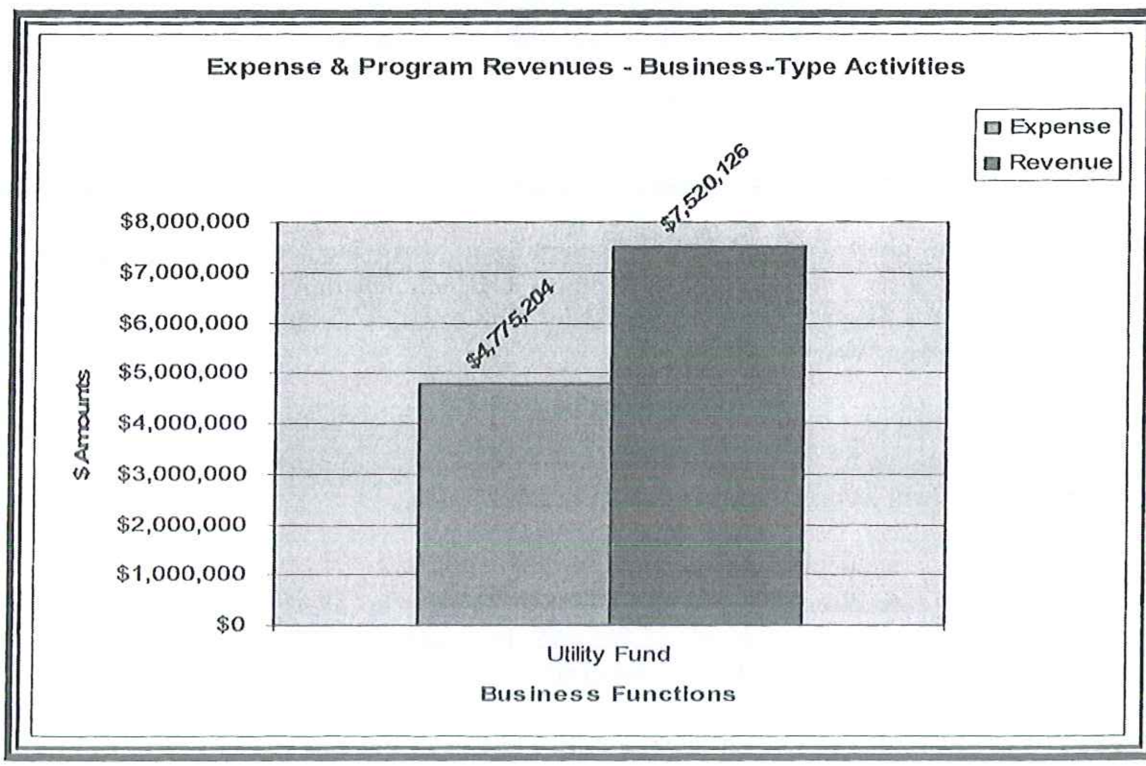
- Based on the chart above, General Government, which includes all administrative offices as well as Community Development and non-departmental expenses, is the largest expense function (38%) followed by Public Safety (26%), Culture/Recreation (13%) and Public Works (10%).

- Interest on Debt and Other Debt Fees do not have a source of program revenue. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-type activities increased the City's net assets by $1,318,315 in fiscal year 2007-08. This was the result of $7,865,975 in revenues, $4,775,204 in expenses, $1,873,950 in transfers out, and prior period adjustments of $101,492.

The two charts on the following page provide similar information as shown previously, only for business-type activities instead of governmental activities.





"Charges for services" revenue for business-type activities (Utilities) had a significant increase from the prior year due to the extreme differences in weather conditions between 2007 and 2008. Weather during 2007 experienced a decent amount of rainfall which depressed water sales considerably, but that changed in 2008 when a drought began. Due to the drier weather, there was a positive impact on water sales.

General Revenues. Revenue from charges for services increased almost 40% from the prior year. As noted earlier this was due to changes in weather conditions that increased water sales, increase in customer base and the increased water rate. Contributions for capital grants were reduced by almost 24% compared to the previous year. Investment earnings decreased by 46% due to the declining economy.

Expenses. Business-type expenses showed an overall increase of less than 2% to \$4,775,204. This increase was less than the inflation rate over a comparable period.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and the balance of fiscal resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available at the end of the fiscal year.

As of September 30, 2008, the city's governmental funds reported combined ending fund balances of \$18,179,526. Approximately 96.1% of this total amount, \$17,462,828 constitutes unreserved fund balance. The remaining fund balance of \$716,698 is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service.

General Fund – The General Fund is the chief operating fund of the City. On September 30, 2008 the unreserved fund balance was \$3,117,139. The unreserved General Fund Balance increased by \$252,761 between 2007 and 2008 due to transfers from Other Funds. All major operating revenue continued to increase over the previous year. The property tax base increased \$166,569,602, due to construction of new residences and some new businesses. The current year tax collection rate was 98.8% of the levy.

Overall, general fund expenditures increased approximately 6.2% between 2007 and 2008. General government functions, which serves as a catchall for non-specific activities, increased by approximately 19.0% over the prior year. Investments in Police Services, Public Works and Culture/Recreation increased 23.1%, 12.6% and 11.8% respectively. A total of 9 new positions were added – 4 Public Safety, 2 Management, 2 Clerical/Laborer, and 1 Human Resources Director.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Operating revenue for the Utility Fund showed a significant increase over the prior year. The volume of water sold in 2008 was 24.2% more than in 2007, mainly due to the decreased rainfall that occurred during the year. The volume of rain received and the volume of water sold have an inverse relationship. When there is less rainfall, the volume of water sold will increase. The addition of new residential and commercial customers plus the increase in water sold accounts for the significant increase in revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The City of Kyle's investment in capital assets for its governmental and business type activities as of September 30, 2008, amounts to $68,355,200 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City of Kyle's investment in capital assets for the current fiscal year was $18,486,371 or 37.1%. Additional information on the City's capital assets can be found on pages 42 and 43.

The following chart summarizes the City of Kyle's Capital Assets:

CITY OF KYLE'S CAPITAL ASSETS AT YEAR-END
(net of depreciation)

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$2,317,867	$ 1,539,632	$467,400	$ 467,400	$2,785,267	$ 2,007,032
Easement	-0-	-0-	224,535	224,535	224,535	224,535
Buildings	7,055,139	7,029,444	5,320,819	-0-	12,375,958	7,029,444
Improvements other than buildings	896,536	377,171	20,641,657	22,123,828	21,538,193	22,500,999
Machinery and equipment	1,280,332	1,009,479	828,520	666,610	2,108,852	1,676,089
Infrastructure	19,395,909	17,854,534	-0-	-0-	19,395,909	17,854,534
Construction in progress	13,846,327	2,026,180	3,516,379	2,260,692	17,362,706	4,286,872
Less: accumulated depreciation	(2,109,020)	(1,348,880)	(5,327,200)	(4,361,796)	(7,436,220)	(5,710,676)
Total	$42,683,090	$ 28,487,560	$25,672,110	$ 21,381,269	$68,355,200	$ 49,868,829

Major capital asset events occurring during the fiscal year included the following:

- Road, water line and sewer line improvements to FM 1626 totaled $8,646,550. These improvements were made to facilitate the Seton Hospital and commercial development in that area.

- Improvements to Kohler's Crossing totaled $5,303,469.

Long-term debt

At the end of the current fiscal year, the City of Kyle had total debt outstanding of $57,911,980. Of this amount $39,520,000 comprises debt backed by the full faith and credit of the government. The increase of approximately $23.3 million in additional debt was due mainly to the sale of $22,800,000 in certificate of obligation bonds in 2008. The remaining increase is due to imputing interest on the Capital Lease the City is now recording for the AquaSource Treatment Facility (previously recorded as a Note Payable).

The City has no special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

The chart shown below summarizes the status of the City's outstanding debt as of September 30, 2008, with a comparison of outstanding debt the prior year.

Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Certificates of obligation	$39,520,000	$ 17,200,000	$ -0-	$ -0-	$39,520,000	$17,200,000
Premium on Bond	108,882	87,661	-0-	-0-	108,882	87,661
Refunding bonds	30,000	55,000	-0-	-0-	30,000	55,000
State infrastructure loan	13,446,441	14,000,000	-0-	-0-	13,446,441	14,000,000
Deferred interest payable	790,941	826,276	-0-	-0-	790,941	826,276
Compensated absences	152,090	116,243	12,851	8,396	164,941	124,639
Note payable	-0-	-0-	-0-	2,294,316	-0-	2,294,316
Capital Lease	-0-	-0-	3,850,775	-0-	3,850,775	-0-
Total	$54,048,354	$ 32,285,180	$3,863,626	$ 2,302,712	$57,911,980	$ 34,587,892

The City of Kyle and its Water/Wastewater Utility continues to have a bond rating of "A+" from Standard & Poor's for Certificate of Obligation Bond debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the focus of this annual report is the economic condition of the City, as of September 30, 2008, there are always state and local issues that require some consideration because of their future economic impact on the City. These factors always play a role in preparation of the budget for next fiscal year.

Preparation of the 2008-09 budget was done considering only a modest increase in revenue over the previous year. Initiation of multiple large commercial developments, one in conjunction with construction of a 210 bed regional hospital should drive the local economy in a positive direction irrespective of problems occurring elsewhere.

The 2008-09 operating budget for the City provided for an additional 26 full-time positions bringing the total authorized full time positions to 156.5. Please see below for a breakdown of the new positions:

- 3 Assistants
- 3 Management
- 9 Public Safety
- 10 Clerical/Labor
- 1 Public Works Inspector

Revenue for local government purposes is mostly a function of established rates, fees or charges applied to specific items such as real or personal property owned (property tax), goods purchased (sales tax), types of services provided (inspections), penalties for unlawful conduct (fines), quantities of goods sold (water sales), etc. For the Adopted 2008-09 Fiscal Year Budget, the only change in rates, fees or charges for the City was an increase of $.1024 from the existing *ad valorem* property tax rate. This increase brought the property tax rate to $.3731 per $100 valuation and was the first property tax rate increase after eleven straight years of property tax rate decreases.

The impact of rates changed in 2007 plus projections of continued dry weather conditions should generate additional revenue for the Utility Fund and should allow for an increase in the transfer to the general fund to cover administrative costs expended in support of the utilities by general fund personnel.

Requests for Information

This financial report is designed to provide a general overview of the City of Kyle's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Kyle Finance Director, P.O. Box 40, 100 W. Center St., Kyle, Texas 78640.

EXHIBIT A-1

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 19,342,528	$ 6,295,869	$ 25,638,397
Receivables (net of allowance for uncollectibles)	1,527,815	657,287	2,185,102
Capitalized Debt Issuance Costs	1,290,197	-	1,290,197
Restricted Assets:			
Temporarily Restricted:			
Restricted Cash	-	6,324,540	6,324,540
Capital Assets:			
Non-depreciable Assets	16,164,194	4,208,314	20,372,508
Depreciable Assets	26,518,896	21,463,796	47,982,692
Total Assets	64,843,630	38,949,806	103,793,436
LIABILITIES			
Accounts Payable	2,353,598	51,444	2,405,042
Accrued Expenses	165,140	23,348	188,488
Due to Fiduciary Funds	61,714	12,992	74,706
Customer Deposits	-	433,389	433,389
Accrued Interest Payable	98,958	-	98,958
Noncurrent Liabilities			
Due Within One Year	1,611,094	146,747	1,757,841
Due in More Than One Year	52,437,260	3,716,879	56,154,139
Total Liabilities	56,727,764	4,384,799	61,112,563
NET ASSETS			
Restricted for:			
Restricted for Capital Improvements	361,032	6,313,624	6,674,656
Restricted for Debt Service	716,698	-	716,698
Restricted for Other Purposes	86,308	-	86,308
Invested in Capital Assets Net of Related Debt	4,424,922	21,821,334	26,246,256
Unrestricted Net Assets	2,526,906	6,430,049	8,956,955
Total Net Assets	$ 8,115,866	$ 34,565,007	$ 42,680,873

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 4,403,797	$ 2,152,923	$ -	$ -
Public Safety	2,980,223	3,844	47,511	-
Public Works	1,176,879	699,252	-	-
Culture and Recreation	1,537,534	367,110	65,250	-
Bond Interest	1,363,409	-	-	-
Other Debt Service Fees	23,672	-	-	-
Total Governmental Activities:	11,485,514	3,223,129	112,761	-
BUSINESS-TYPE ACTIVITIES:				
Water & Sewer	4,775,204	6,263,208	-	1,256,918
Total Business-Type Activities:	4,775,204	6,263,208	-	1,256,918
TOTAL PRIMARY GOVERNMENT:	$ 16,260,718	$ 9,486,337	$ 112,761	$ 1,256,918

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Sales Taxes
Occupancy Tax
Franchise Taxes
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning
Prior Period Adjustment
Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Governmental Activities	Business-type Activities	Total
Net (Expense) Revenue and Changes in Net Assets — Primary Government		
$ (2,250,874)	$ -	$ (2,250,874)
(2,928,868)	-	(2,928,868)
(477,627)	-	(477,627)
(1,105,174)	-	(1,105,174)
(1,363,409)	-	(1,363,409)
(23,672)	-	(23,672)
(8,149,624)	-	(8,149,624)
-	2,744,922	2,744,922
-	2,744,922	2,744,922
(8,149,624)	2,744,922	(5,404,702)
1,263,758	-	1,263,758
1,801,616	-	1,801,616
2,274,877	-	2,274,877
86,994	-	86,994
454,106	-	454,106
244,432	-	244,432
523,678	345,849	869,527
1,873,950	(1,873,950)	-
8,523,411	(1,528,101)	6,995,310
373,787	1,216,821	1,590,608
8,778,040	33,246,694	42,024,734
(1,035,961)	101,492	(934,469)
$ 8,115,866	$ 34,565,007	$ 42,680,873

CITY OF KYLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Debt Service	Road Improvements
ASSETS			
Cash and Cash Equivalents	$ 2,392,996	$ 705,678	$ 2,815,438
Taxes Receivable	523,582	60,881	-
Accounts Receivable (Net)	625,110	-	-
Developer Receivable	271,370	-	-
Other Receivables	25,500	-	-
Total Assets	$ 3,838,558	$ 766,559	$ 2,815,438
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	$ 288,726	$ -	$ 747,339
Developer Deposits	126,460	-	1,058,711
Accrued Expenses	165,140	-	-
Due to Other Funds	61,714	-	-
Customer Deposits	18,875	-	-
Deferred Revenues	60,504	49,861	-
Total Liabilities	721,419	49,861	1,806,050
Fund Balances:			
Reserved For:			
Debt Service	-	716,698	-
Unreserved and Undesignated:			
Reported in the General Fund	3,117,139	-	-
Reported in the Special Revenue Fund	-	-	-
Reported in the Capital Projects Fund	-	-	1,009,388
Total Fund Balances	3,117,139	716,698	1,009,388
Total Liabilities and Fund Balances	$ 3,838,558	$ 766,559	$ 2,815,438

The notes to the Financial Statements are an integral part of this statement.

2008 Certificates of Obligation	Other Funds	Total Governmental Funds
$ 12,901,043	$ 527,373	$ 19,342,528
-	21,372	605,835
-	-	625,110
-	-	271,370
-	-	25,500
$ 12,901,043	$ 548,745	$ 20,870,343
$ 12,082	$ 101,405	$ 1,149,552
-	-	1,185,171
-	-	165,140
-	-	61,714
-	-	18,875
-	-	110,365
12,082	101,405	2,690,817
-	-	716,698
-	-	3,117,139
-	617,224	617,224
12,888,961	(169,884)	13,728,465
12,888,961	447,340	18,179,526
$ 12,901,043	$ 548,745	$ 20,870,343

CITY OF KYLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	$	18,179,526
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $29,836,440 and the accumulated depreciation was $1,348,880. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		(3,560,308)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		16,049,564
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(760,140)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(21,792,776)
Net Assets of Governmental Activities	$	8,115,866

The notes to the Financial Statements are an integral part of this statement.

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CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service	Road Improvements
REVENUES:			
Taxes:			
Property Taxes	$ 1,296,533	$ 1,801,616	$ -
Sales Taxes	2,274,877	-	-
Occupancy Tax	-	-	-
Franchise Tax	454,106	-	-
Licenses and Permits	661,828	-	-
Intergovernmental	75,414	-	-
Charges for Services	1,600,513	-	-
Fines	923,763	-	-
Impact Fees	-	-	37,424
Investment Earnings	83,769	1,185	223,064
Other Revenue	112,850	-	3,913
Total Revenues	7,483,653	1,802,801	264,401
EXPENDITURES:			
Current:			
General Government	4,208,003	-	-
Public Safety	2,455,281	-	-
Public Works	465,125	-	711,754
Culture and Recreation	1,308,249	-	-
Debt Service:			
Principal Payments on Debt	-	1,093,894	-
Interest and Fiscal Charges	-	1,556,971	-
Other Fees	-	1,728	400
Capital Outlay:			
Capital Outlay	342,356	-	5,859,783
Total Expenditures	8,779,014	2,652,593	6,571,937
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,295,361)	(849,792)	(6,307,536)
OTHER FINANCING SOURCES (USES):			
Issuance of Long-term Debt	-	-	-
Transfers In	1,550,000	1,005,929	250,577
Premium or Discount on Issuance of Bonds	-	-	-
Transfers Out	(1,878)	-	(665,625)
Total Other Financing Sources (Uses)	1,548,122	1,005,929	(415,048)
Net Change in Fund Balances	252,761	156,137	(6,722,584)
Fund Balance - October 1 (Beginning)	2,864,378	560,561	8,767,933
Prior Period Adjustment	-	-	(1,035,961)
Fund Balance - September 30 (Ending)	$ 3,117,139	$ 716,698	$ 1,009,388

The notes to the Financial Statements are an integral part of this statement.

2008 Certificates of Obligation	Other Funds	Total Governmental Funds
$ -	$ -	$ 3,098,149
-	-	2,274,877
-	86,994	86,994
-	-	454,106
-	-	661,828
-	37,347	112,761
-	-	1,600,513
-	140	923,903
-	-	37,424
249,018	61,217	618,253
-	127,130	243,893
249,018	312,828	10,112,701
23,701	5,600	4,237,304
-	5,000	2,460,281
-	-	1,176,879
-	119,733	1,427,982
-	-	1,093,894
-	-	1,556,971
880,867	-	882,995
8,227,424	526,107	14,955,670
9,131,992	656,440	27,791,976
(8,882,974)	(343,612)	(17,679,275)
22,800,000	-	22,800,000
-	-	2,806,506
25,604	-	25,604
(14,475)	(250,578)	(932,556)
22,811,129	(250,578)	24,699,554
13,928,155	(594,190)	7,020,279
(1,039,194)	1,041,530	12,195,208
-	-	(1,035,961)
$ 12,888,961	$ 447,340	$ 18,179,526

CITY OF KYLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	$	7,020,279
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		16,049,564
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(760,140)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(21,935,916)
Change in Net Assets of Governmental Activities	$	373,787

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business Type Activities Water & Sewer
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 6,295,869
Restricted Assets - Current:	
Restricted Cash	6,324,540
Accounts Receivable-Net of Uncollectible Allowance	657,287
Total Current Assets	13,277,696
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Assets	4,208,314
Depreciable Assets	21,463,796
Total Noncurrent Assets	25,672,110
Total Assets	38,949,806
LIABILITIES	
Current Liabilities:	
Accounts Payable	51,444
Accrued Liabilities	23,348
Due to Fiduciary Funds	12,992
Customer Deposits	433,389
Capital Leases Payable - Current	146,747
Total Current Liabilities	667,920
NonCurrent Liabilities:	
Notes Payable - Noncurrent	3,704,029
Compensated Absences	12,850
Total Noncurrent Liabilities	3,716,879
Total Liabilities	4,384,799
NET ASSETS	
Restricted for Capital Improvements	6,313,624
Invested in Capital Assets Net of Related Debt	21,821,334
Unrestricted Net Assets	6,430,049
Total Net Assets	$ 34,565,007

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
OPERATING REVENUES:	
Charges for Water Services	$ 3,446,049
Charges for Wastewater Service	2,292,051
Tap and Collections Fees	447,644
Other Service Charges	77,464
Total Operating Revenues	6,263,208
OPERATING EXPENSES:	
Water Costs	2,408,404
Wastewater Costs	1,234,720
Depreciation	895,254
Interest Expense	236,826
Total Operating Expenses	4,775,204
Operating Income	1,488,004
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	345,849
Total Non-operating Revenue (Expenses)	345,849
Income Before Contributions & Transfers	1,833,853
Capital Contributions	1,256,918
Non-Operating Transfer In	450,000
Transfers Out	(2,323,950)
Change in Net Assets	1,216,821
Total Net Assets - October 1 (Beginning)	33,246,694
Prior Period Adjustment	101,492
Total Net Assets - September 30 (Ending)	$ 34,565,007

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
Cash Flows from Operating Activities:	
Cash Received from User Charges	$ 6,474,460
Cash Payments to Employees for Services	(273,841)
Cash Payments for Suppliers	(4,096,861)
Cash Payments for Other Operating Expenses	(271,582)
Net Cash Provided by Operating Activities	1,832,176
Cash Flows from Non-Capital Financing Activities:	
Increase(decrease) in Long-term Debt	(140,992)
Operating Transfers (Net)	(1,873,950)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(2,014,942)
Cash Flows from Capital & Related Financing Activities:	
Acquisition of Capital Assets	(3,387,151)
Capital Contributed by Other Funds	1,256,918
Net Cash Provided by (Used for) Capital & Related Financing Activities	(2,130,233)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	345,849
Net Increase(Decrease) in Cash and Cash Equivalents	(1,967,150)
Cash and Cash Equivalents at Beginning of the Year:	14,587,559
Cash and Cash Equivalents at the End of the Year:	$ 12,620,409

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities Water & Sewer
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Income:	$ 1,488,004
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	895,254
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	158,791
Increase (decrease) in Accounts Payable	(508,171)
Increase (decrease) in Payroll Deductions	17,419
Increase (decrease) in Due to Other Funds	(271,582)
Increase (decrease) in Customer Deposits	52,461
Net Cash Provided by Operating Activities	$ 1,832,176
Reconciliation of Total Cash and Cash Equivalents:	
Cash & Cash Equivalents - Statement of Net Assets	$ 6,295,869
Restricted Cash - Statement of Net Assets	6,324,540
Total Cash and Cash Equivalents	$ 12,620,409

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2008

		Agency Fund
ASSETS		
Due from Other Funds	$	74,706
Total Assets	$	74,706
LIABILITIES		
Due to Others	$	74,706
Total Liabilities	$	74,706

The accompanying notes are an integral part of this statement.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kyle, Texas (the City) adopted a City Charter in October 2000. As a home rule form of government, the City Council determines policy. The City Manager is the Chief Administrator of the City and is appointed by the City Council. The City provides the following services: Public Safety, Street Maintenance, Refuse Collection, Recreation Programs, Municipal Court, Community Development, Public Improvements, Water and Sewer Services and General Administrative Services.

A. Reporting Entity

The accompanying financial statements comply with the provisions of GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental and fiduciary funds and between proprietary funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses.

The modified accrual basis of accounting recognizes revenues as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Revenues from local sources consist primarily of property taxes and sales taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Council pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. Fund Accounting

The City reports the following major governmental funds:

The ***General Fund*** - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The ***Debt Service Fund*** - is used to account for debt service on bonded obligations of the city.

The ***Road Improvements Fund*** - is used to account for the accumulation of impact fees for road improvements and expenditures from these resources.

The ***2008 Certificates of Obligation Fund*** - is used to account for purchase and renovation of public facilities that are funded by issuance of 2008 Certificates of Obligation.

The City reports the following major proprietary fund:

The ***Water and Wastewater Fund*** - is used to account for the activities necessary for the provisions of water and wastewater services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

In addition, the City reports the following fund types:

Governmental Funds:
Special Revenue Funds - are used to account for restricted to, or designated for, special purposes by the city or a grantor.

Capital Projects Funds - are used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Fiduciary Funds:
Agency Funds - are used to account for resources held for others in a custodial capacity. The City's agency fund is the Retiree Health Insurance Fund.

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or, (b) secured by obligations that are described by (1) - (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with a third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets

Certain assets of the Enterprise Fund are classified as restricted assets because their use is restricted for capital improvements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

General infrastructure assets acquired prior to October 1, 2004, are not reported in the basic statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	25 to 40
Waterworks and sanitation systems	10 to 20
Infrastructure	20
Machinery and equipment	5 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees have carried forward unused sick leave benefits. Unused sick leave shall be paid upon termination of employment, except as specifically provided as follows:

1. an employee that terminates employment for any reason other than death, or being granted a retirement or disability allowance by the Texas Municipal Retirement System (TMRS) or the Social Security Administration (SSA), shall not be paid for unused sick leave;

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Compensated Absences (Continued)

2. an employee having at least 10 years of service with the City who is granted a retirement or a disability allowance by TMRS or SSA, or who dies, is entitled to a partial payment for up to 480 hours of unused sick leave accrued to such employee. The partial payment to the employee or the employee's beneficiary shall be as follows: (A) an amount equal to thirty percent (30%) of the value of such accrued, unused sick leave will be paid for 10 years of service; and (B) the amount to be paid for such unused sick leave shall increase by 2% for each year of service as an employee of the City, if any, in excess of 10 years.

No liability is reported for unpaid accumulated sick leave for the remaining employees. Vacation pay and certain sick leave benefits are accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental units.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Statement of Net Assets

Exhibit C-2 provides the reconciliation between the *fund balance for total governmental funds* on the governmental fund balance sheet and the *net assets for governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

	Historic Cost	Accumulated Depreciation	Net Value Beginning of Year	Change in Net Assets
Capitalized Debt Issuance Costs			$ 430,874	$ 430,874
Capital Assets - Beginning of Year				
Non-Depreciable Assets	$ 3,565,812	$ -	$ 3,565,812	
Depreciable Assets	26,270,628	1,348,880	24,921,748	
Change in Net Assets	$ 29,836,440	$ 1,348,880	$ 28,487,560	28,487,560
Accrued Interest Payable			$ 193,562	(193,562)
Long-term Debt - Beginning of Year				
Bonds Payable			$ 17,342,661	
SIB Loan Payable			14,826,276	
Compensated Absences			116,243	
Change in Net Assets			$ 32,285,180	(32,285,180)
Net Adjustment to Net Assets				$ (3,560,308)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Depreciable Assets	$ 2,357,288		
Non Depreciable Assets	12,598,383		
Total Capital Outlay	$ 14,955,671	$ 14,955,671	$ 14,955,671
Debt Principal Payments			
Bond Principal	$ 505,000		
Loan Principal	588,893		
Total Principal Payments	$ 1,093,893	1,093,893	1,093,893
Total Adjustment to Net Assets		$ 16,049,564	$ 16,049,564

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Adjustments to Revenue and Deferred Revenue			
Uncollected taxes(assumed collectible) From Current Year Levy	$ 110,365	$ 110,365	$ 110,365
Uncollected taxes(assumed collectible) From Prior Year Levy	143,140	(143,140)	-
Reclassify Proceeds of Bonds Payable			
New Bond Issue	22,800,000	(22,800,000)	(22,800,000)
Premium on Debt Issuance	25,604	(25,604)	(25,604)
Capitalized Bond Issue Costs	880,867	880,867	880,867
Accrued Interest Payable	98,958	(98,958)	(98,958)
Adjustment to Accrued Annual Leave	35,847	(35,847)	(35,847)
Reclass Interest Expense from Payable	193,562	193,562	193,562
Record Amortization of Bond Issuance Costs	21,544	(21,544)	(21,544)
Record Amortization of Bond Premium	4,383	4,383	4,383
		$ (21,935,916)	$ (21,792,776)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

The Combined Other Funds had a deficit fund balance of $169,884 in amounts reported in Capital Projects as of September 30, 2008. The fund incurred expenditures for the purchase of a building. The City plans to issue bonds to cover the expenditures.

B. Budgetary Data

The Council adopts an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Sixty days prior to October 1st, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

3. Prior to the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

At September 30, 2008, the City's expenditures exceeded its budget appropriation in the general fund by $482,215.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2008, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity
TexPool	$ 5,883,938	NA
TexStar	14,127,409	NA
MBIA Municipal Investors	20,307	NA
Federal National Mortgage	412,902	4/1/2013
Federal Home Loan Mortgage	7,701,735	81 Months
Federal Home Loan Bank	984,050	10/24/2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolio to a maximum of 180 days.

Custodial Credit Risk In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2008, $4,180,431 of the City's $4,430,431 deposit balance was collateralized with securities held by the pledging financial institution in the City's name. The remaining balance, $250,000, was covered by FDIC insurance.

Credit Risk It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investment pools were rated AAAm by Standard & Poor's Investors Service and government securities were rated AAA by Standard & Poor's Investors Service.

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Enterprise Fund	
	General	Other	Water and Wastewater	Total
Receivables:				
Accounts:				
Customers	$ 186,451	$ -	$ 777,972	$ 964,423
Court warrants receivable	601,731	-	-	601,731
Developers	271,370	-	-	271,370
Other	25,500	-	-	25,500
Taxes:				
Property	71,673	62,089	-	133,762
Sales	446,186	-	-	446,186
Franchise	6,268	-	-	6,268
Mixed Beverage	1,121	-	-	1,121
Occupancy	-	21,372	-	21,372
Gross Receivables	1,610,300	83,461	777,972	2,471,733
Less: allowance for uncollectibles	(164,738)	(1,208)	(120,685)	(286,631)
Net Total Receivables	$ 1,445,562	$ 82,253	$ 657,287	$ 2,185,102

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue and unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	$ 60,504	$ -
Delinquent property taxes receivable (debt service)	49,861	-
Total Governmental Funds	$ 110,365	$ -

C. Property Taxes

Property taxes are levied on October 1 on assessed values as of January 1 for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal of property within the City is the responsibility of the Hays County Appraisal District. The Appraisal District is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on city property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008
Governmental Activities:				
Capital assets not being depreciated				
Land	$ 1,539,632	$ 778,235	$ -	$ 2,317,867
Construction in Progress	2,026,180	12,816,833	996,686	13,846,327
Total capital assets not being depreciated	3,565,812	13,595,068	996,686	16,164,194
Capital assets being depreciated				
Buildings	7,029,444	25,695	-	7,055,139
Improvements other than buildings	377,171	519,365	-	896,536
Infrastructures	17,854,534	1,541,375	-	19,395,909
Machinery and equipment	1,009,479	270,853	-	1,280,332
Total capital assets being depreciated	26,270,628	2,357,288	-	28,627,916
Accumulated depreciation				
Buildings	(331,351)	(168,987)	-	(500,338)
Improvements other than buildings	(70,509)	(51,072)	-	(121,581)
Infrastructures	(596,770)	(365,854)	-	(962,624)
Machinery and equipment	(350,250)	(174,227)	-	(524,477)
Total accumulated depreciation	(1,348,880)	(760,140)	-	(2,109,020)
Total capital assets being depreciated, net	24,921,748	1,597,148	-	26,518,896
Governmental activities capital assets, net	$ 28,487,560	$ 15,192,216	$ 996,686	$ 42,683,090

	Balance 10/1/2007		Additions	Reduction	Balance 9/30/2008
Business Type Activities:					
Capital assets not being depreciated					
Land	$ 467,400		$ -	$ -	$ 467,400
Easements	224,535		-	-	224,535
Construction in Progress	2,291,292		2,582,900	1,357,813	3,516,379
Total capital assets not being depreciated	2,983,227		2,582,900	1,357,813	4,208,314
Capital assets being depreciated					
Buildings	1,838,122	*	3,482,697	-	5,320,819
Improvements other than buildings	22,123,828	*	1,686,243	3,168,414	20,641,657
Machinery and equipment	666,610		161,910	-	828,520
Total capital assets being depreciated	24,628,560		5,330,850	3,168,414	26,790,996
Accumulated depreciation					
Buildings	(712,323)	*	(167,126)	-	(879,449)
Improvements other than buildings	(3,270,424)	*	(673,641)	-	(3,944,065)
Machinery and equipment	(449,199)		(54,487)	-	(503,686)
Total accumulated depreciation	(4,431,946)		(895,254)	-	(5,327,200)
Total capital assets being depreciated, net	20,196,614		4,435,596	3,168,414	21,463,796
Business type activities capital assets, net	$ 23,179,841		$ 7,018,496	$ 4,526,227	$ 25,672,110

* These balances differ from previously reported balances. See Note V. D. Prior Period Adjustments.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:		
General government	$	130,646
Public safety		108,458
Public works		411,484
Culture and recreation		109,552
Total depreciation expense - governmental activities	$	760,140
Business-type activities:		
Water and wastewater	$	895,254
Total depreciation expense - business-type activities	$	895,254

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2008, is as follows:

Receivable Fund	Payable Fund		Amount
Retiree Health Insurance	General	$	61,714
Retiree Health Insurance	Water and wastewater		12,992
		$	74,706

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenses occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2008, are as follows:

Transfers in	Transfers out		Amount
General	Water and wastewater	$	1,550,000
Debt service	Road improvements		215,625
Debt service	Water and wastewater		790,304
Road improvements	Nonmajor governmental		250,577
		$	2,806,506

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008	Due within One Year
Governmental Activities:					
Certificates of Obligation	$ 17,200,000	$ 22,800,000	$ 480,000	$ 39,520,000	$ 960,000
Premium on Bond Issuance	87,661	25,604	4,383	108,882	5,407
Refunding Bonds	55,000	-	25,000	30,000	30,000
State Infrastructure Loan	14,000,000	-	553,559	13,446,441	578,747
Deferred Interest Payable	826,276	-	35,335	790,941	36,940
Compensated Absences	116,243	35,847	-	152,090	-
Total Governmental Activities	$ 32,285,180	$ 22,861,451	$ 1,098,277	$ 54,048,354	$ 1,611,094

	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008	Due within One Year
Business Type Activities:					
Capital Lease Obligation	$ 3,991,768 *	$ -	$ 140,993	$ 3,850,775	$ 146,747
Compensated Absences	8,396	4,455	-	12,851	-
Total Business Type Activities	$ 4,000,164	$ 4,455	$ 140,993	$ 3,863,626	$ 146,747

The General Fund is generally used to liquidate compensated absences for governmental activities.

* These balances differ from previously reported balances. See Note V. D. Prior Period Adjustments.

State Infrastructure Bank Loan

On February 28, 2005, the City entered into an agreement with the State of Texas, acting by and through the Texas Department of Transportation to construct, maintain, or finance a highway improvement project. On November 16, 2004, the City designated an area within the City known as "Reinvestment Zone Number One" for the purpose of financing the state infrastructure bank loan through collections of property taxes in the reinvestment zone. A state infrastructure bank loan in the amount of $14,000,000 is due in annual principal and interest installments of $1,202,932 through March 17, 2024 at an interest rate of 4.55%. As of September 30, 2008, deferred interest payable in the amount of $790,941 is reported as a long-term liability.

Capital Lease Obligation

On February 15, 1999, the City entered an agreement with AquaSource Services and Technologies, Inc. to finance, design, construct, operate, maintain and manage a new wastewater collection and treatment facility. The City would bear the cost of right-of-way acquisitions for the transmission lines and 50 percent of the costs to secure the necessary permits from the TNRCC. AquaSource's compensation consists of a monthly fee ranging from $20,758 to $56,150. This fee will be determined by multiplying the number of 1,000 gallon units of wastewater effluent treated during the calendar month by the applicable costs per 1,000 gallons. At the end of 23 years of payments, the facilities will become the property of the City without any additional payments. The City will recoup its costs through user charges. The City is treating the agreement as a capital lease and has imputed interest of 6%. The City had previously reported this obligation as a note payable. During 2008, the obligation was reclassified as a capital lease obligation to more accurately reflect the nature of the transaction.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities and to refund previous issues. Certificates of obligation of the City are as follows:

Governmental Activities:

$245,000 Combination Tax and Revenue Refunding Bonds - Series 1989, principal due annually in series through 2009, interest due semi-annually at 9.95% to 10.50%.	$ 30,000
$1,385,000 Combination Tax and Revenue Certificates of Obligation - Series 2000, principal due annually in series through 2024, interest due semi-annually at 4.85% to 6.75%.	1,180,000
$5,135,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2020, interest due semi-annually at 3.00% to 4.75%.	4,235,000
$2,340,000 Combination Tax and Revenue Certificates of Obligation - Series 2003, principal due annually in series through 2013, interest due semi-annually at 3.68%.	1,395,000
$9,910,000 Combination Tax and Revenue Certificates of Obligation - Series 2007, principal due annually in series through 2027, interest due semi-annually at 4.00%.	9,910,000
$22,800,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 3.50% to 5.00%.	22,800,000
	$ 39,550,000

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of September 30, 2008, the City does not have any debt considered defeased and still outstanding.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

Annual debt service requirements for the State Infrastructure Bank Loan are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	$ 615,688	$ 647,801	$ 1,263,489
2010	$ 643,702	$ 619,787	$ 1,263,489
2011	$ 672,991	$ 590,499	$ 1,263,490
2012	703,612	559,878	1,263,490
2013	735,626	527,863	1,263,489
2014-2018	4,211,712	2,105,733	6,317,445
2019-2023	5,261,127	1,056,318	6,317,445
2024-2027	1,392,925	71,261	1,464,186
	$ 14,237,383	$ 6,179,140	$ 20,416,523

Annual debt service requirements to maturity for capital lease are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	$ 146,747	$ 227,055	$ 373,802
2010	155,798	218,004	373,802
2011	165,407	208,394	373,801
2012	175,609	198,192	373,801
2013	186,440	187,361	373,801
2014-2018	1,119,546	749,459	1,869,005
2019-2023	1,510,102	358,906	1,869,008
2024-2027	391,126	13,826	404,952
	$ 3,850,775	$ 2,161,197	$ 6,011,972

Annual debt service requirements to maturity for certificates of obligation and refunding bonds are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	$ 990,000	$ 2,091,721	$ 3,081,721
2010	1,410,000	1,674,142	3,084,142
2011	1,465,000	1,621,313	3,086,313
2012	1,520,000	1,566,698	3,086,698
2013	1,580,000	1,334,436	2,914,436
2014-2018	7,510,000	7,015,048	14,525,048
2019-2023	9,190,000	5,003,356	14,193,356
2024-2028	10,230,000	2,766,528	12,996,528
2028-2033	5,655,000	858,076	6,513,076
	$ 39,550,000	$ 23,931,318	$ 63,481,318

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Contingent Arbitrage Liabilities

The City has invested a portion of revenue bond proceeds as a reserve for the retirement of the bonds. Any excess of interest revenue earned on invested proceeds over interest paid on the bonds must be rebated to the federal government every five years.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. The City has not had any significant reductions in insurance coverage, nor have insurance settlements for the last three fiscal years exceeded insurance coverage. Any losses reported, but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

B. Commitments and Contingencies

The City is a defendant in lawsuits occurring in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of the City's attorney, their resolution will not have a material adverse effect on the financial condition of the City. Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Benefit Plans

1. Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system.

All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Plan Description (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007, valuation is effective for rates beginning January 2009).

C. **Benefit Plans (Continued)**

1. Retirement Plan (Continued)

Changes in Actuarial Cost Method and Assumptions

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the city's unfunded actuarial accrued liability would have been $3,084,227 and the funded ratio would have been 78%.

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions

	2007	2006	2005
Total # of Participating Entities	827	821	811
Employee Deposit Rate	7.00%	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	10	10	10
Service Retirement eligibility			
(Expressed as age/years of service)	60/10,0/20	60/10,0/20	60/10,0/20
Updated service credit	100%	100%	100%
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%
Annually repeating (Y/N)	Y	Y	Y

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress (Continued)

B. Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective - for example, the January 1, 2007 contribution rate is based on the 12/31/2005 valuation results; if a change in plan provisions is elected by the city, this rate can change. The actuary determines contribution rates on a calendar-year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the city's fiscal year.

C. Actuarial Information

	2007	2006	2005
Actuarial Cost Method	Projected Unit Credit	Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization	25 Years-Closed Period	25 Years-Open Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Investment Rate of Return	7%	7%	7%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1% (3.0% CPI)	2.1% (3.0% CPI)	2.1% (3.0% CPI)
City Specific Assumptions			
Payroll Growth Assumption	3.00%	3.00%	3.00%
Withdrawal Rates for Male/Female	Mid/Low	Mid/Low	Mid/Low

D. Schedule of Funding Information

Actuarial Valuation Date	2007	2006	2005
Actuarial Value of Assets	$ 2,404,457	$ 2,423,903	$ 2,026,094
Actuarial Accrued Liabilities	3,738,617	2,989,877	2,580,546
Percentage Funded	64.3%	81.1%	78.5%
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	1,334,160	565,974	554,452
Annual Covered Payroll	3,030,448	2,536,750	1,902,879
UAAL as a Percentage of Covered Payroll	44.0%	22.3%	29.1%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	245,201	179,591	183,831
Contributions Made	245,201	179,591	183,831
NPO at the End of the Period	$ -	$ -	$ -

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

2. Supplemental Death Benefits Fund

Plan Description

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the SDBF. The City elected to provide group-term life insurance coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2008, 2007, and 2006 were $5,236, $4,235, and $3,871, respectively, which equaled the required contributions each year.

TMRS issues a publicly available Comprehensive Annual Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

3. Post Retirement Health Insurance Plan

The City maintains a single-employer defined benefit health insurance plan for retirees through the Texas Municipal League Intergovernmental Employee Benefits Pool (TML). The City elected to provide health insurance coverage to certain retired employees. Former full time employees who have retired after 25 years of service and all full time employees who have completed 5 years or more of continuous service by April 1, 2009, and who complete a total of 25 years or more of continuous service are entitled to the same group health insurance coverage provided to active employees. This coverage is completely paid by the City. Employees who have completed less than 5 years of continuous service as of April 1, 2009, and who complete 25 years or more of continuous service are entitled to the same group health insurance coverage provided to active employees. The City will pay $300 (adjusted annually based on the CPI) toward this coverage. The employee is responsible for the balance. Any employee hired after April 1, 2009, is not entitled to group health insurance coverage. This plan is an "other postemployment benefit," or OPEB.

The City contributes to the plan at a actuarially determined rate. The rate is equal to the cost of providing health insurance coverage under the terms indicated in the preceding paragraph. The funding policy for the plan is to assure that adequate resources are available to meet all health insurance payments for the upcoming year; the intent is not to prefund retiree health insurance during employees' entire careers. The City's contribution to the plan for the year ended September 30, 2008, was $74,706 which equaled the required contribution for that year.

The City accounts for the liability associated with the plan and the assets accumulated to pay benefits under the accrual basis of accounting in the Retiree Health Insurance Fund.

V. OTHER INFORMATION (Continued)

D. Prior Period Adjustment

In the current year, the City discovered certain prior year errors which required adjustments to fund and net asset opening balances as follows:

Adjustments related to Aquasource capital lease	$	70,522
Amounts received from developers recorded as revenue		(1,035,961)
Prior year fixed assets not recorded		30,970
Net effect on beginning fund balance/net assets balances	$	(934,469)

APPENDIX C

Form of Bond Counsel's Opinion

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$15,315,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2009

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the City of Kyle, Texas (the "City") of its $15,315,000 aggregate original principal amount of General Obligation Refunding Bonds, Series 2009, dated November 15, 2009 (the "Bonds").

IN OUR CAPACITY AS BOND COUNSEL, we have examined the Bonds for the sole purpose of rendering an opinion with respect to the legality and validity of the Ordinance (as defined below) and the Bonds under the Constitution and laws of the State of Texas, and with respect to the excludability of the interest on the Bonds from gross income for federal income tax purposes. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas; a transcript of certified proceedings of the City and other pertinent instruments authorizing and relating to the issuance of the Bonds and the obligations being refunded, including (1) the Ordinance authorizing the issuance of the Bonds, (2) the Escrow Agreement, dated as of November 17, 2009 between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, (3) a special report of Grant Thornton LLP, certified public accountants, (4) the registered Initial Bond numbered T-1, and (5) the Federal Tax Certificate of the City.

BASED ON OUR EXAMINATION, we are of the opinion that:

1. The Bonds are valid and legally binding obligations of the City enforceable in accordance with their terms, except as their enforceability may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally and as may be affected by matters involving the exercise of equitable or judicial discretion.

2. The Bonds are secured by and payable from the levy of a direct annual ad valorem tax upon all taxable property within the City, within limits prescribed by law, sufficient for said purposes.

3. Interest on the Bonds will be excludable for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum taxable income on individuals, or except as hereinafter described, corporations. Interest on Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income on such corporations other than S Corporations or a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the 1986 Code will be computed.

4. Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to the Ordinance, and that therefore such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Ordinance.

Although the adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income, interest on certain tax-exempt obligations issued in 2009 or 2010 is excluded from the calculation of adjusted current earnings. The Bonds are refund obligations issued prior to 2009 and therefore for this purpose are not treated as obligations issued in 2009.

The adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation's "adjusted current earnings." Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation's alternative minimum taxable income for such year.

In addition, the City has designated the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code dealing with financial institutions and has represented that the total amount of tax-exempt obligations (including the "Bonds") issued by it during calendar year 2009 is not reasonably anticipated to exceed $30,000,000 in "qualified tax-exempt obligations" during calendar year 2009.

In rendering this opinion, we have assumed continuing compliance by the City with the covenants contained in the Ordinance and the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, including requirements relating to, *inter alia*, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Bonds.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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APPENDIX D

Specimen Financial Guaranty Insurance Policy

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ASSURED
GUARANTY®
CORP.

Financial Guaranty Insurance Policy

Issuer: | **Policy No.:**

Obligations: | **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**AGC**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

AGC will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which AGC shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by AGC is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and AGC shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in AGC. Upon and to the extent of such disbursement, AGC shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by AGC to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of AGC under this Policy to the extent of such payment.

This Policy is non-cancelable by AGC for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of AGC, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or AGC are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless AGC in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to AGC may be mailed by registered mail or personally delivered or telecopied to it at 31 West 52nd Street, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel at the same address and at generalcounsel@assuredguaranty.com or at the following Facsimile Number: (212) 445-8705, or to such other address as shall be specified by AGC to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by AGC on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, AGC may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to AGC pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to AGC. All payments required to be made by AGC under this Policy may be made directly by AGC or by the Fiscal Agent on behalf of AGC. The Fiscal Agent is the agent of AGC only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of AGC to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGC hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to AGC to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and AGC expressly reserves, AGC's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by AGC of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of AGC with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, AGC has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon AGC by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:______________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

____
Counsel

SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES