

**ORDINANCE ESTABLISHING THE
CITY OF DENTON
UTILITY SYSTEM NODAL MARKET REVENUE NOTES FINANCING PROGRAM
AND AUTHORIZING
UTILITY SYSTEM NODAL MARKET REVENUE NOTES, TAXABLE SERIES A, IN A
MAXIMUM AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED SIXTY
MILLION FIVE THOUSAND DOLLARS (\$60,005,000)
TO SATISFY ERCOT FINANCIAL SECURITY REQUIREMENTS; AND PROVIDING
AN EFFECTIVE DATE**

Adopted: April 2, 2024

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ORDINANCE ESTABLISHING THE CITY OF DENTON UTILITY SYSTEM NODAL MARKET REVENUE FINANCING PROGRAM AND AUTHORIZING UTILITY SYSTEM NODAL MARKET REVENUE NOTES, TAXABLE SERIES A, IN A MAXIMUM AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED SIXTY MILLION FIVE THOUSAND DOLLARS (\$60,005,000) TO SATISFY ERCOT FINANCIAL SECURITY REQUIREMENTS; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City of Denton, Texas (the “City” or the “Issuer”) is a home-rule municipality, acting as such under the Constitution and laws of the State of Texas, has a population in excess of 50,000, and has outstanding long-term indebtedness that is rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations; and

WHEREAS, capitalized terms used herein shall have the meanings given to them in Section 1.01 hereof; and

WHEREAS, the Outstanding Senior Lien Obligations and the Outstanding Subordinate Lien Obligations are payable from Pledged Revenues; and

WHEREAS, the Senior Lien Obligation Ordinances for the Outstanding Senior Lien Obligations and the Subordinate Lien Obligation Ordinance for the Outstanding Subordinate Lien Obligations permit the Issuer to encumber the Pledged Revenues with additional Senior Lien Obligations or additional Subordinate Lien Obligations or other bonds or obligations payable from a subordinate lien on the Pledged Revenues; and

WHEREAS, on December 1, 2010, a nodal wholesale electric market design was implemented within ERCOT's service area, and various electric market participants, including the Issuer, are required to comply with the ERCOT Nodal Protocols adopted by ERCOT; and

WHEREAS, pursuant to Section 16.11.1 of such ERCOT Nodal Protocols, the Issuer has previously provided and currently has in place with ERCOT additional financial security sufficient to satisfy the requirements of such ERCOT Nodal Protocols; and

WHEREAS, the City Council finds that it is necessary for the Issuer to establish a note program in an amount not to exceed \$60,005,000 to provide financial security to ERCOT and, in furtherance thereof, the City Council hereby authorizes the Notes and their installment deliveries to the Note Purchaser, to induce the Note Purchaser to enter into the Note Purchase Agreement and deliver the Financial Security to ERCOT as is necessary for the Issuer to participate in the ERCOT electric nodal market at the levels it deems prudent; and

WHEREAS, the City Council finds and determines that it should issue the Notes, in a principal amount not to exceed \$60,005,000, as a series of Subordinate Lien Obligations pursuant to this Ordinance to finance Project Costs of Eligible Projects, all in accordance with and subject to Chapter 1371, Texas Government Code, as amended, and the terms, conditions, and limitations

contained herein; and

WHEREAS, the City Council finds, determines and represents that (i) the proceeds of any draw upon the Financial Security by ERCOT are for the payment, on behalf or for the benefit of the Issuer, of Project Costs of Eligible Projects, (ii) such proceeds and the drawing upon such Financial Security shall constitute and shall be the payment of the purchase price of the corresponding Authorized Installment pursuant to the provisions of this Ordinance and (iii) the Note Purchaser's delivery of the Financial Security to ERCOT is additional and sufficient consideration for the transactions and agreements contemplated in this Ordinance; and

WHEREAS, this Ordinance constitutes an "obligation authorization," as defined in Chapter 1371; and

WHEREAS, the Notes are issued pursuant to Texas law, including the Acts; and

WHEREAS, the City Council further finds and determines that all terms and conditions for the issuance of the Notes herein authorized as Subordinate Lien Obligations have been or can be met and satisfied; and

WHEREAS, the City Council intends to refinance the Notes with refunding bonds issued under Chapter 1207, Texas Government Code, as amended, on parity with or subordinate to Issuer's Outstanding Senior Lien Obligations and, therefore (in accordance with Section 1371.057(c) of Chapter 1371), the Issuer will treat the Notes as having the intended term and payment schedule of such refunding bonds, as determined by the City Authorized Representative.

WHEREAS, the meeting was open to the public and public notice of the time, place and purpose of said meeting was given pursuant to Chapter 551, Texas Government Code; NOW, THEREFORE,

THE COUNCIL OF THE CITY OF DENTON HEREBY ORDAINS:

ARTICLE I DEFINITIONS AND CONSTRUCTION OF TERMS

Section 1.01. Definitions.

“Accountant” means an independent certified public accountant or accountants or a firm of independent certified public accountants, in either case, with demonstrated expertise and competence in public accountancy.

“Acts” means Chapter 1371 and Chapter 1502, Texas Government Code, as amended.

“Amended Ordinance” means any ordinance amending or amending and restating this Ordinance entered into as provided in Article VI of this Ordinance.

“Authorized Installment” means on the Original Issue Date, an amount determined in the Pricing Certificate and on each Issue Date thereafter, an amount equal to the amount of any draw upon the Financial Security by ERCOT, reflecting payment by the Note Purchaser of the purchase price of such Authorized Installment of the Notes to ERCOT on behalf of the Issuer.

“Authorized Installment Draw Period” means the period commencing on the Original Issue Date and ending immediately following the effective date of the end of the term of the Financial Security, whether by termination, non-renewal or otherwise.

“Bond Counsel” means McCall, Parkhurst & Horton L.L.P. or an attorney or law firm of attorneys of national recognition selected or engaged by the Issuer with knowledge and experience in the field of municipal finance.

“Chapter 1371” means Chapter 1371, Texas Government Code, as amended.

“City Authorized Representative” means one or more of the following officers or employees of the Issuer: the City Manager, the Chief Financial Officer, the Director of Finance (or successors to any such positions), or such other officer or employee of the Issuer authorized by the City Council to act as a City Authorized Representative.

“City Council” means the City Council of the Issuer.

“Defeasance Securities” means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) 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 the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other then authorized securities or obligations under applicable state law in existence at the time of such defeasance that may be used to defease obligations such as the Notes.

“Depository” means such banks or trust companies, or any one of them at any time, selected by the Issuer for the custody of the special funds to be maintained by the Issuer.

“Eligible Projects” means, as permitted by the Acts, including Chapter 1371, the acquisition, purchase, sale of any property, including any contractual obligations related thereto, for which, except with respect to the initial Authorized Installment, ERCOT may draw upon the Financial Security for the payment thereof, on behalf or for the benefit of the Issuer.

“ERCOT” means The Electric Reliability Council of Texas and any successor thereto.

“Financial Security” means the letter of credit of the Note Purchaser provided for in the Note Purchase Agreement (and any extension or amendment of such letter of credit or any substitute or replacement letter of credit of the Note Purchaser) provided to ERCOT for the benefit of the Issuer pursuant to Section 16 of the ERCOT Nodal Protocols.

“Fiscal Year” means the 12-month operational period of the Issuer commencing on October 1 of each year, or such other twelve month period as may in the future be designated as the Fiscal Year of the Issuer.

“Fitch” means Fitch Ratings, Inc or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities ratings services, such other nationally recognized securities rating agency as may be designated in writing by the City Council.

“Gross Revenues” mean all revenues, income and receipts of every nature derived or received by the Issuer from the operation and ownership of the System, including the interest income from investment or deposit of money in any fund or account created by any Senior Lien Obligation Ordinance or Subordinate Lien Obligation Ordinance or maintained by the Issuer in connection with the System.

“Initial Note” means the non-interest bearing Note, numbered T-1, delivered to and held by the Paying Agent/Registrar in accordance with Section 2.02 hereof.

“Issue Date” means the date of delivery of an Authorized Installment of the Notes..

“Issuer” means the City of Denton, Texas.

“Latest Draw Date” shall mean the last date a draw may be made under the Financial Security pursuant to the Note Purchase Agreement.

“Maximum Available Amount” means the maximum amount that is available to be drawn on the Financial Security on any particular day.

“Maximum Maturity Date” means the ninetieth day after the Latest Draw Date, as may be extended in accordance with the Note Purchase Agreement.

“Maximum Rate” means the lesser of the (i) maximum net effective interest rate (as defined in and calculated in accordance with the provisions of Chapter 1204, Texas Government Code, as amended) and (ii) maximum non-usurious lawful rate of interest permitted by applicable law.

“Moody’s” means Moody’s Investors Service, Inc., or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Issuer.

“Net Revenues” mean all Gross Revenues remaining after deducting Operating Expenses.

“Note Purchase Agreement” means the Note Purchase Agreement between the Issuer and the Note Purchaser, including any amendment, supplement, restatement or extension of such Note Purchase Agreement pursuant to the terms thereof.

“Note Purchaser” means Wells Fargo Bank, National Association, and its successors and assigns under the Note Purchase Agreement.

“Notes” means the “City of Denton Utility System Nodal Market Revenue Notes, Taxable Series A”, including any Authorized Installments, issued pursuant to the provisions of this Ordinance, having the terms and characteristics specified in Section 2.02 and in the form described in Exhibit A hereto.

“Operating Expenses” means the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the Issuer, are necessary to keep the System in operation and render adequate service or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Senior Lien Obligations or Subordinate Lien Obligations), and all payments under contracts for materials and services (including water supply contracts) provided to the Issuer that are required to enable the Issuer to render efficient service. The following shall never be considered as an Operating Expense: (1) depreciation, (2) franchise fees paid to the Issuer or transferred to the general fund or other fund of the Issuer, and (3) return on investment payments made to the Issuer or transferred to the general fund or other fund of the Issuer.

“Ordinance” means this Ordinance establishing the City of Denton Utility System Nodal Protocols Financing Program and Authorizing Utility System Nodal Market Revenue Notes, Taxable Series A, adopted by the City Council on April 2, 2024 and as it may be amended or supplemented from time to time by an Amended Ordinance.

“Original Issue Date” means the date of delivery of the initial Authorized Installment, the Note Purchase Agreement and the Financial Security.

“Outstanding”, when used with respect to Notes, shall mean all Notes which have been authenticated and delivered under this Ordinance, except: (a) Notes cancelled or purchased by the Paying Agent/Registrar for cancellation or delivered to or acquired by the Paying Agent/Registrar for cancellation and, in all cases, with the intent to extinguish the debt represented thereby (including Notes surrendered pursuant to Section 2.10 hereof); (b) Notes in lieu of which other Notes have been authenticated; (c) Notes that have become due (at maturity or on redemption or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Paying Agent/Registrar; (d) Notes which, under the terms of this Ordinance, are deemed to be no longer Outstanding; and (e) for purposes of any consent or other action to be taken by the Registered Owners of a specified percentage of Notes under this Ordinance, Notes held by or for the account of the Issuer or by any person controlling, controlled by or under common control with the Issuer.

“Outstanding”, when used with reference to Senior Lien Obligations or Subordinate Lien Obligations other than the Notes, shall mean all such bonds or other obligations theretofore delivered except: (i) any such obligations canceled by or on behalf of the Issuer at or before said date; (ii) any such obligations defeased pursuant to the defeasance provisions of the Senior Lien Obligation Ordinance or Subordinate Lien Obligation Ordinance authorizing their issuance, or otherwise defeased as permitted by applicable law; and (iii) any such obligations in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligations.

“Paying Agent/Registrar” means such entity or entities acting as such which are appointed by the City Authorized Representative pursuant to Section 2.03 hereof and have executed and delivered a Paying Agent/Registrar Agreement as approved and executed by a City Authorized Representative. When there is a co-Paying Agent/Registrar, either may perform the functions and duties of the Paying Agent/Registrar hereunder and under the Paying Agent/Registrar Agreement.

“Paying Agent/Registrar Agreement” means any paying agent and registrar agreement authorized to be entered into by Section 2.03 hereof, and any and all modifications, alterations, amendments and supplements thereto, or any other Paying Agent/Registrar Agreement entered into by the Issuer and the Paying Agent/Registrar with respect to the Notes.

“Payment Fund” means that fund created pursuant to Section 4.01 hereof.

“Permitted Investments” means any investment permitted by the Public Funds Investment Act, Chapter 2256, Texas Government Code, and the investment policy of the Issuer.

“Pledged Revenues” means

(a) the Net Revenues, plus

(b) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Issuer to the payment of the Senior Lien Obligations and Subordinate Lien Obligations,

and excluding those revenues excluded from Gross Revenues or excluded from Net Revenues.

“Project Costs” means all costs and expenses defined as "project costs" under Chapter 1371 incurred in relation to Eligible Projects and permitted by law to be paid with the proceeds of the Notes.

“Rating Agency” means, any of the following: (i) Moody’s, (ii) Standard & Poor’s, (iii) Fitch or (iv) any other nationally recognized credit rating agency specified in an Amended Ordinance that maintains a rating on the Notes at the request of the Issuer.

“Registered Owner” means the person or entity in whose name any Note is registered in the Security Register.

“Security Register” means the books and records kept and maintained by the Paying Agent/Registrar relating to the registration and payment of the Notes and the interest thereon.

“Senior Lien Obligations” means any Outstanding “City of Denton Utility System Revenue Bonds, Series 2017” and “City of Denton Utility System Revenue Refunding Bonds, Taxable Series 2021” of the Issuer, and any other obligations issued or incurred by the Issuer from time to time that are specified to be on parity with such Senior Lien Obligations pursuant to any ordinance authorizing Senior Lien Obligations. The Senior Lien Obligations, and the interest thereon, are payable from and secured by a first lien on and pledge of Pledged Revenues.

“Senior Lien Obligation Ordinance” or “Senior Lien Obligation Ordinances” shall mean, individually or collectively, as appropriate, the Issuer’s Ordinance adopted June 21, 2016 authorizing the issuance of the “City of Denton Utility System Revenue Bonds, Series 2017”, as may be amended, the Issuer’s Ordinance adopted January 12, 2021 authorizing the issuance of the “City of Denton Utility System Revenue Refunding Bonds, Taxable Series 2021”, as amended to date and as may be further amended, and all other ordinances, as amended, authorizing the issuance of the Senior Lien Obligations.

“Special Project” means any water, wastewater, electric, drainage or other facilities of any kind or other public improvement declared by the Issuer not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of Special Project Bonds, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

“Special Project Bonds” means special revenue obligations of the Issuer which are not secured by the Pledged Revenues, but which are secured by and payable solely from liens on and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues or payments received from the System, any other legal entity, or any combination thereof, in connection with a Special Project; and such revenues, sources or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such Special Project Bonds.

“Standard & Poor’s” means S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Issuer.

“State” means the State of Texas.

“Subordinate Lien Obligations” means any Outstanding “City of Denton Utility System

Revenue Extendable Commercial Paper Notes, Series A” and “City of Denton Utility System Nodal Market Revenue Notes, Taxable Series A” of the Issuer, and any other bonds, notes, contractual obligations or other debt issued or incurred by the Issuer that are payable from or reasonably expected to be payable in whole from, and equally and ratably secured by a lien on and pledge of the Pledged Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Pledged Revenues that are or will be pledged to the payment of any Senior Lien Obligations issued by the Issuer.

“Subordinate Lien Obligation Ordinance” or “Subordinate Lien Obligation Ordinances” shall mean, individually or collectively, as appropriate, the Issuer’s Ordinance adopted January 12, 2021 authorizing the issuance of the “City of Denton Utility System Revenue Extendable Commercial Paper Notes, Series A”, as may be amended, this Ordinance authorizing the issuance of the “City of Denton Utility System Nodal Market Revenue Notes, Taxable Series A”, as may be amended, and all other ordinances, as amended, authorizing the issuance of the Subordinate Lien Obligations.

“System” means the Issuer's entire existing waterworks system, the Issuer's entire existing wastewater system, the Issuer's entire existing electric light and power system, and the Issuer's entire existing drainage system, together with all future extensions, improvements, enlargements, and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not include any Special Projects which are hereafter acquired or constructed by the Issuer with the proceeds of Special Project Bonds.

Section 1.02. Construction of Terms. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine, or neuter gender shall be considered to include the other genders.

Section 1.03. Interpretation. All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Ordinance, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Ordinance as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II NOTE AUTHORIZATION AND SPECIFICATIONS

Section 2.01. Amount, Purposes and Designation of the Notes. Under and pursuant to the authority granted hereby and subject to the limitations contained herein, the City Council hereby authorizes the issuance of a series of notes designated "CITY OF DENTON UTILITY SYSTEM NODAL MARKET REVENUE NOTES, TAXABLE SERIES A" (the "Notes") in a maximum aggregate principal amount not to exceed SIXTY MILLION FIVE THOUSAND DOLLARS (\$60,005,000) for the purpose to finance Project Costs of Eligible Projects, all in accordance with the Acts and the terms, conditions, and limitations contained in this Ordinance. The authority to issue Notes from time to time under the provisions of this Ordinance and the Note

Purchase Agreement shall exist until the end of the Authorized Installment Draw Period regardless of whether at any time prior to the end of the Authorized Installment Draw Period there are any Notes outstanding.

Section 2.02. Date, Denominations, Numbers, Maturities, and Terms of the Notes.

(a) *Terms of Notes.* There initially shall be issued, sold and delivered fully registered notes reflecting Authorized Installments (except for the Initial Note), without interest coupons, numbered consecutively from R-1 upward (except the Initial Note provided to the Attorney General of the State of Texas which shall be numbered T-1), payable to the Note Purchaser, maturing not later than the Maximum Maturity Date, in the manner, on the dates, in the years and in the principal amounts, respectively, and dated, all as set forth in this Ordinance, the Pricing Certificate to be executed and delivered by the City Authorized Representative pursuant to subsection (b) of this Section and the Note Purchase Agreement. The Pricing Certificate is hereby incorporated in and made a part of this Ordinance.

An Initial Note bearing interest at zero percent (0%) in the aggregate principal amount determined in the Pricing Certificate will be issued on the Original Issue Date and will be dated as set forth in the Pricing Certificate. The Initial Note shall, after approval by the Attorney General of the State of Texas and registration by the Comptroller of Public Account of the State of Texas, be provided to the Paying Agent/Registrar, and concurrently with the delivery of the Initial Note, the initial Authorized Installment of the Notes, in the aggregate principal amount determined in the Pricing Certificate, will be issued, in accordance with the terms of the Note Purchase Agreement executed by the Issuer and Wells Fargo Bank, National Association, as the Note Purchaser.

The initial Authorized Installment of the Notes delivered on the Original Issue Date shall be dated as determined in the Pricing Certificate. An Authorized Installment of the Notes delivered after the Original Issue Date shall be dated as of its Issue Date. The Authorized Installments of the Notes shall bear interest as determined in the Pricing Certificate and the Note Purchase Agreement from the Issue Date of an Authorized Installment of the Notes until payment of the principal amount thereof at maturity or prior redemption or prepayment.

Subject to applicable terms, limitations, and procedures contained herein, after the delivery of the initial Authorized Installment, Authorized Installments of the Notes may be sold and delivered pursuant to the terms of the Note Purchase Agreement in consideration of and in the amount of, any draw upon the Financial Security by ERCOT, reflecting payment by the Note Purchaser of the purchase price of such Notes concurrently upon payment to ERCOT, on behalf of the Issuer, pursuant to such draw upon the Financial Security. No Authorized Installments may be issued and delivered after the end of the Authorized Installment Draw Period, and no Authorized Installment may be issued and delivered in an amount that exceeds the Maximum Available Amount in effect as of the date of the applicable draw on the Financial Security; provided that the aggregate principal amount of all Authorized Installments issued and delivered under this Ordinance may at times exceed the then applicable Maximum Available Amount due to a reduction in such amount subsequent to the issuance of Authorized Installments pursuant to the

terms of the Financial Security, if provided for by the Financial Security, but in no case may the aggregate principal amount of all Authorized Installments issued and delivered under this Ordinance exceed the amount of Notes authorized by the Pricing Certificate. The Issuer shall promptly notify the Paying Agent/Registrar of any changes to the Maximum Available Amount made pursuant to the Note Purchase Agreement and of the end of the Authorized Installment Draw Period, provided that the Paying Agent/Registrar may alternatively receive actual notice of such events from the Note Purchaser.

The Note Purchaser shall give written notice to the Issuer and the Paying Agent/Registrar of any draw upon the Financial Security by ERCOT, provided such notice is not required for the delivery of an Authorized Installment. The Paying Agent/Registrar shall issue and deliver an Authorized Installment in the principal amount of any draw on the Financial Security to the Note Purchaser pursuant to the terms of this Ordinance and the Note Purchase Agreement; provided, however, in consideration of the delivery of the Financial Security and the unconditional obligation of the Note Purchaser thereunder, any particular Authorized Installment corresponding to the related draw on the Financial Security is deemed issued and delivered to the Note Purchaser on the date of any such drawing.

In the event the Pricing Certificate and the Note Purchase Agreement as provided in Section 2.05 shall not be executed on or before 5:00 p.m. on October 2, 2024, the delegation to the City Authorized Representatives pursuant to this Ordinance shall cease to be effective unless the City Council shall act to extend such delegation.

(b) *Selling and Delivering Notes.* As authorized by Chapter 1371, Texas Government Code, as amended and this Ordinance, a City Authorized Representative is hereby authorized to act on behalf of the Issuer in selling and delivering the Notes, including the Authorized Installments, and carrying out the other procedures specified in this Ordinance, including determining and fixing (i) the Original Issue Date of the Notes, (ii) the principal amount of the initial Authorized Installment, (iii) the price at which the Notes will be sold, (iv) the date or dates in which the Notes will mature, (v) the aggregate principal amount to mature on any such date or dates, (vi) the aggregate principal amount of Notes, (vii) the fixed or variable rate of interest to be borne by the Notes, (viii) the interest payment periods, (ix) the dates, price, and terms, if any, upon and at which the Notes shall be subject to redemption or prepayment prior to maturity at the option of the Issuer, (x) the dated dates of the Initial Note and the initial Authorized Installment of the Notes delivered on the Original Issue Date and (xi) all other matters relating to the issuance, sale, and delivery of the Notes and the delivery of the Note Purchase Agreement (as provided in Section 2.05 hereof), all of which shall be specified in the Pricing Certificate; provided that (A) the price to be paid for the Notes shall not be less than 100% of the aggregate original principal amount thereof plus accrued interest thereon from their date to their delivery and (B) none of the Notes shall bear interest at a rate greater than the Maximum Rate. It is further provided, however, that, notwithstanding the foregoing provisions, the Initial Note shall not be delivered unless prior to delivery, the Notes have been rated by a nationally recognized rating agency for municipal securities (I) in one of the four highest rating categories for long-term obligations or (II) in one of the three highest rating categories for short-term obligations, as required by Chapter 1371.

(c) *General.* The Notes (i) may be redeemed or prepaid prior to the respective scheduled maturity dates, (ii) shall have the characteristics, and (iii) shall be signed and sealed and the principal of and interest on the Notes shall be payable, all as provided, and in the manner required or indicated, in this Ordinance, including the FORM OF NOTES set forth in Exhibit A to this Ordinance, as may be modified in the Pricing Certificate, and in the Note Purchase Agreement.

(d) *Payments on Holidays.* In the event that any date for payment of the principal of or interest on the Notes is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close, and such extended period of time shall be included in the computation of interest; provided, however, that the payment of interest on the Notes on such extended date shall have the same force and effect as if made on the original payment date.

Section 2.03. Payment of Notes; Paying Agent/Registrar. The principal of, premium, if any, and the interest on the Notes shall be payable in immediately available funds, without exchange or collection charges to the Note Purchaser, in any coin or currency of the United States of America that at the time of payment is legal tender for the payment of public and private debts. Payments of principal of and interest on the Notes may be made by wire transfer of immediately available funds at no cost to the Note Purchaser.

The City Authorized Representative shall designate in the Pricing Certificate a bank to act as the Paying Agent/Registrar for the Notes. In the Note Purchase Agreement, the Note Purchaser, by accepting the appointment as Paying Agent/Registrar, will acknowledge receipt of copies of this Ordinance, and is deemed to have agreed to the provisions hereof. The Issuer agrees and covenants to cause to be kept and maintained at the office of the Paying Agent/Registrar a Security Register, all as provided herein, in accordance with the terms and provisions of the Paying Agent/Registrar Agreement and such reasonable rules and regulations as the Paying Agent/Registrar and the Issuer may prescribe. In addition, to the extent required by law, the Issuer covenants to cause to be kept and maintained the Security Register or a copy thereof in the State of Texas. The Issuer covenants to maintain and provide a Paying Agent/Registrar at all times until the Notes are paid and discharged, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Notes. The Issuer will not, without the prior written consent of the Note Purchaser (such consent not to be unreasonably withheld), appoint or permit the appointment of a successor Paying Agent/Registrar.

The principal of, premium, if any, and interest on the Notes due and payable by reason of maturity, redemption, or otherwise, shall be payable only to the owner thereof appearing on the Security Register, and, to the extent permitted by law, neither the Issuer nor the Paying Agent/Registrar, nor any agent of either, shall be affected by notice to the contrary.

Section 2.04. Redemption. The Notes shall be subject to redemption or prepayment prior to scheduled maturity at such times and with such provisions as provided in the Pricing Certificate

and the Note Purchase Agreement.

Section 2.05. Note Purchase Agreement. The draft of the Note Purchase Agreement relating to the Notes, in substantially the form presented to the City Council, is hereby approved pursuant to the terms of this Ordinance, including the prepayment, redemption, term and interest rates applicable to any Notes purchased thereunder. Subject to the provisions of this Ordinance, the City Authorized Representative may determine the final terms of the Note Purchase Agreement consistent with Section 1371.056(c) of Chapter 1371. The Note Purchase Agreement shall constitute a "credit agreement" under Chapter 1371. Any City Authorized Representative and the Issuer's Bond Counsel are each hereby authorized to complete, amend and modify the Note Purchase Agreement and the Mayor and Mayor Pro Tem, and any City Authorized Representative are each hereby authorized to execute and deliver such Note Purchase Agreement, in the form so amended, completed and modified, and to take such other actions as shall be required under the Note Purchase Agreement in connection with the issuance of the Financial Security. The Note Purchase Agreement and the obligation of the Issuer to make certain payments thereunder, including certain fees, will constitute a Subordinate Lien Obligation. Any City Authorized Representative may enter into transactions under the Note Purchase Agreement and execute any instruments in connection therewith, including requesting any increases or decreases to the stated amount of the Financial Security in accordance with the provisions of the Note Purchase Agreement but in no case may the stated amount of the Financial Security exceed (i) the amount of Notes authorized by the Pricing Certificate minus (ii) the amount of the initial Authorized Installment of the Notes delivered on the Original Issue Date.

Section 2.06. Registration and Ownership.

(a) *Registration of Notes.* The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of each owner of any Note issued under and pursuant to the provisions of this Ordinance.

(b) *Ownership of Notes.* The entity in whose name any Note shall be registered in the Security Register at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Ordinance, whether or not such Note shall be overdue, and, to the extent permitted by law, the City Council and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such Note shall be made only to such Registered Owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid.

Section 2.07. Form of Notes. The Notes and the Authentication Certificate of the Paying Agent/Registrar to appear on each of the Notes, shall be substantially in the form set forth in Exhibit A to this Ordinance with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and may have such letters, numbers or other marks of identification and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may be established by the Issuer or determined by the officers executing such Notes as evidenced by their execution thereof. Any portion of the text of any Notes

may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The Notes shall be typewritten, photocopied, printed, lithographed, engraved, or produced in any other similar manner, all as determined by the officers executing such Notes as evidenced by their execution thereof.

Section 2.08. Execution and Registration. Notes shall be executed on behalf of the Issuer by the Mayor and City Secretary under its seal reproduced or impressed thereon. The signature of said officers on the Notes may be manual or facsimile. Notes bearing the manual or facsimile signatures of individuals who are or were the proper officers of the Issuer as of their authorization shall be deemed to be duly executed on behalf of the Issuer, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of delivery of the Notes to the Note Purchaser, all as authorized and provided in Chapter 1201, Texas Government Code.

Subject to Section 2.02(a) hereof, no Note shall be entitled to any right or benefit under this Ordinance, or be valid or obligatory for any purpose, unless there appears on such Note the Authentication Certificate of the Paying Agent/Registrar substantially in the form provided in Exhibit A to this Ordinance, executed by the manual signature of an authorized officer or employee of the Paying Agent/Registrar, and either such certificate duly signed upon any Note shall be conclusive evidence that such Note has been duly certified, registered, and delivered.

Section 2.09. Control and Custody of Notes. The City Authorized Representative shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, including the printing and supply of printed Notes.

Furthermore, any one or more of the Mayor and Mayor Pro Tem, and the City Authorized Representative are each hereby authorized and directed to furnish and execute such documents relating to the Issuer and its financial affairs as may be necessary for the issuance of Notes, the approval of the Attorney General of the State of Texas of Notes and, together with the Issuer's bond counsel and the Paying Agent/Registrar, make the necessary arrangements for the delivery of Notes to the Note Purchaser thereof.

Section 2.10. Mutilated, Destroyed, Lost, and Stolen Notes. If (1) any mutilated Note is surrendered to the Paying Agent/Registrar, or the Issuer and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss or theft of any Note, and (2) there is delivered to the Issuer and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the Issuer or the Paying Agent/Registrar that such Note has been acquired by a bona fide purchaser, the Issuer shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a new Note of the same maturity date and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Note has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Note, pay such Note and the interest due thereon to the date of payment.

Upon the issuance of any new Note under this Section, the Issuer may require payment by the Note Purchaser of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses (including the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Note issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Note shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other outstanding Notes.

ARTICLE III ESTABLISHMENT OF NODAL MARKET REVENUE NOTE PROGRAM AND SECURITY THEREFOR

Section 3.01. Establishment of Program. This Ordinance is intended to establish a master plan for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of the Notes.

Section 3.02. Security; Subordinate Lien; and Pledge.

(a) The Notes and the other obligations under the Note Purchase Agreement are special obligations of the Issuer, and the payment of the principal of and interest on the Notes and the other obligations under the Note Purchase Agreement are and shall be secured by and payable only from a lien on and pledge of (i) the Pledged Revenues, and the Pledged Revenues are further pledged to the establishment and maintenance of the Payment Fund; provided that the pledge of Pledged Revenues securing the Notes and the other obligations under the Note Purchase Agreement is expressly made subordinate and inferior to the lien on and pledge of Pledged Revenues securing Senior Lien Obligations, and the Notes and the other obligations under the Note Purchase Agreement shall constitute Subordinate Lien Obligations, as provided in the Senior Lien Obligation Ordinances, payable on a parity with all Subordinate Lien Obligations, and (ii) all amounts in the Payment Fund created and maintained pursuant to this Ordinance, and such amounts constitute funds held for that purpose, subject only to the provisions of this Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein. The pledge herein made shall be irrevocable until the Notes and the other obligations under the Note Purchase Agreement have been paid and retired. The granting of this pledge by the Issuer does not limit in any manner the rights of the Issuer to issue any additional debt or incur any other obligations, except as otherwise set forth in the Note Purchase Agreement. The Notes are not secured by or payable from any funds raised or to be raised by the levy of taxes by the Issuer nor a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the System or otherwise, nor from any source other than as specified in this Ordinance.

(b) The Issuer shall not issue Notes on a parity with the Senior Lien Obligations.

(c) The Issuer covenants to pay the principal of, premium, if any, and the interest on the Notes when due, whether by reason of maturity or redemption.

(d) Chapter 1208, Texas Government Code, applies to the issuance of the Notes and the pledge of the proceeds of the sale of Notes and the Pledged Revenues granted by the Issuer under this section, and such pledge is therefore valid, effective, and perfected. If State law is amended at any time while the Notes are outstanding such that the pledge granted by the Issuer under this section is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the Note Purchaser the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

ARTICLE IV CREATION OF FUNDS; PAYMENT

Section 4.01. Payment Fund. (a) A City Authorized Representative may create and establish a separate and special fund to be designated as the "City of Denton Utility System Nodal Market Revenue Notes, Taxable Series A Payment Fund" (the "Payment Fund"). Moneys on deposit in the Payment Fund shall be used to pay principal of and interest on Notes hereafter issued at the respective interest payment, maturity or redemption dates (if any) of each issue of such Notes as provided herein and the repayment of any amounts owing under a Note Purchase Agreement.

(b) Pending the expenditure of moneys in the Payment Fund, if created and established, for authorized purposes, moneys deposited in said fund may be invested and reinvested by a City Authorized Representative in Permitted Investments, as directed in writing by a City Authorized Representative. Funds in the Payment Fund shall be held by a Depository.

Section 4.02. Disposition of Note Proceeds. Proceeds from the initial Authorized Installment of the Notes shall, as determined in the Pricing Certificate, promptly upon receipt thereof, be applied by the City Authorized Representative to pay a portion of the costs of issuance of the Notes.

Proceeds relating to any other Authorized Installments of the Notes corresponding to a drawing upon the Financial Security by ERCOT will be for the payment, on behalf or for the benefit of the Issuer, of Project Costs of Eligible Projects.

Section 4.03. Defeasance of Notes. Notes shall not be deemed to have been paid in full unless payment of the principal of and interest on the Notes either (a) shall have been made or caused to be made in accordance with the terms of the Notes, the Note Purchase Agreement and this Ordinance, or (b) shall have been provided for on or before such due date by irrevocably

depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other instrument for such payment (i) lawful money of the United States of America sufficient to make such payment or (ii) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability of sufficient money to provide for such payment.

ARTICLE V COVENANTS OF THE ISSUER

Section 5.01. Limitation on Issuance. Unless this Ordinance is amended and modified by the Issuer in accordance with the provisions of Article VI, the Issuer covenants that there will not be issued and Outstanding at any time more than the maximum aggregate principal amount of Notes as provided in Section 2.01 of this Ordinance. The Issuer, however, does reserve the right to increase said amount by an amendment to this Ordinance duly adopted by the City Council.

Section 5.02. Tax Exemption. The Issuer does not intend to issue the Notes in a manner such that the Notes would constitute obligations described in section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and all applicable temporary, proposed, and final regulations and procedures promulgated thereunder (the "Regulations"). The Issuer covenants that it will not file an Internal Revenue Form 8038 or an Internal Revenue Form 8038-G with respect to the Notes.

Section 5.03. Federal Tax Information Reporting. To the extent required by the Code and the Regulations it shall be the duty of the Paying Agent/Registrar to report to the Registered Owners and the Internal Revenue Service (i) the amount of "reportable payments," if any, subject to back up withholding during each year and the amount of tax withheld, if any, with respect to the payments on the Notes and (ii) the amount of interest or amount treated as interest, such as original issue discount, on the Notes required to be included in the gross income of the owners thereof for federal income tax purposes.

Section 5.04. Performance. The Issuer will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions authorizing the issuance of the Notes, and in each and every Note; promptly pay or cause to be paid the principal of and interest on every Note, on the dates and in the places and manner prescribed, and will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Payment Fund, and any Registered Owner of Notes may require the Issuer, its City Council, and its officials and employees, to carry out, respect, or enforce the covenants and obligations of this Ordinance, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its City Council, and its officials and employees.

Section 5.05. Legal Authority. The Issuer represents that it is a municipal corporation, a political subdivision of the State and a body politic and corporate, duly created, organized, and existing, under the Constitution and general laws of the State, and is duly authorized under the

laws of the State to create and issue the Notes; that all action on its part for the creation and issuance of the Notes has been duly and effectively taken, and that the Notes in the hands of the Registered Owners thereof are and will be valid and enforceable special obligations of the Issuer in accordance with their terms.

Section 5.06. Operation of System. The Issuer will, while any Notes are Outstanding, continuously and efficiently operate the System, and shall maintain the System in good condition, repair and working order, all at reasonable cost. No free service of the System shall be allowed, and should the Issuer or any of its agencies, instrumentalities, lessors, or concessionaires make use of the services and facilities of the System, payment monthly of the standard retail price of the services provided shall be made by the Issuer or any of its agencies, instrumentalities, lessors, or concessionaires out of funds from sources other than the revenues of the System, unless made from surplus Pledged Revenues.

Section 5.07. Further Encumbrance. While the Notes are Outstanding, the Issuer shall not, except with respect to the issuance of Senior Lien Obligations, additionally encumber the Pledged Revenues, unless said encumbrance is made on a parity with, or junior and subordinate in all respects to the liens, pledges, covenants and agreements hereof; but the right of the Issuer to issue obligations subordinate to the Notes for any lawful purpose payable from a lien on the Pledged Revenues that is subordinate to the Notes is specifically recognized and retained. This Ordinance does not and is not intended to affect, limit, or prohibit the issuance of bonds payable wholly or in part from ad valorem taxes.

Section 5.08. Sale or Disposal of Property. While any Notes are Outstanding, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of, the System, or any significant or substantial part thereof, except as follows:

(a) To the extent permitted by law, the Issuer may sell, exchange or otherwise dispose of at any time and from time to time any property or facilities constituting part of the System only if (i) it shall determine such property or facilities are not useful in the operation of the System, (ii) the proceeds of such sale are \$500,000 or less, or it shall have received a certificate of a City Authorized Representative stating in the opinion of the signer, that the fair market value of the property or facilities exchanged is \$500,000 or less, or (iii) if such proceeds or fair market value exceeds \$500,000 it shall have received a certificate of a City Authorized Representative stating, in the opinion of the signer, that the sale or exchange of such property or facilities will not impair the ability of the Issuer to comply during the current or any future year with the provisions of Section 5.10 of this Ordinance. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall forthwith, at the option of the Issuer (i) be used to redeem or purchase Senior Lien Obligations, (ii) otherwise be used to provide for the payment of Senior Lien Obligations, or (iii) be used for any other lawful purpose; and

(b) To the extent permitted by law, the Issuer may lease or make contracts or grant licenses for the operation of or make arrangements for the use of or grant easements or

other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the Issuer of the System and (ii) does not in any manner impair or adversely affect the rights or security of the Registered Owners under this Ordinance; and provided, further, that if the depreciated cost of the property to be covered by any such lease, contract, license, arrangement, easement or other right is in excess of \$1,000,000, the Issuer shall have received a certificate of a City Authorized Representative that the action of the Issuer with respect thereto does not result in a breach of the conditions under this clause (b). Any payments received by the Issuer under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the System or any part thereof shall constitute Gross Revenues.

Section 5.09. Insurance. (a) The Issuer shall insure such parts of the System as would usually be insured by corporations operating like properties, with responsible insurance companies, or through self-insurance with adequate stop-loss reinsurance, against loss to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, insurance against the perils of fire, extended coverage and flooding and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the Issuer's attorney gives a written opinion to the effect that the Issuer is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the Issuer shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Registered Owners and their agents and representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the Issuer shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the Issuer. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the Issuer for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at a Depository, to be designated the Insurance Account. The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first; provided that the Issuer may, in its discretion, use funds in the Insurance Account for the redemption or purchase of Senior Lien Obligations.

(b) The foregoing provisions of clause (a) above notwithstanding, the Issuer shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the Issuer.

(c) The annual audit hereinafter required may contain a section commenting on whether or not the Issuer has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

Section 5.10. Rate Covenant. The Issuer will fix, establish, maintain and collect such rates, charges and fees for the use and availability of the System at all times as are necessary to produce Gross Revenues, together with any other Pledged Revenues, sufficient (1) to pay all current Operating Expenses, and (2) to produce Pledged Revenues for each Fiscal Year at least equal to 1.00 times the Annual Debt Service Requirements (as defined and determined in accordance with the Senior Lien Obligation Ordinances) of all then Outstanding Senior Lien Obligations for that Fiscal Year, and (3) to make all payments and deposits required to be made into the Payment Fund for the Notes (including any obligations due and owing under a Note Purchase Agreement) and produce amounts required to pay all other obligations of the System reasonably anticipated to be paid from Pledged Revenues during the current Fiscal Year. For purposes of calculating Annual Debt Service Requirements on the Notes, the City shall assume the Maximum Available Amount is fully drawn and amortized over a period of up to thirty (30) years at the Assumed Rate (as defined in the Note Purchase Agreement).

Section 5.11. Governmental Agencies. The Issuer will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the Issuer has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

Section 5.12. Title. The Issuer has or will obtain lawful title to the lands, buildings, structures and facilities constituting the System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of the holders and owners of the Senior Lien Obligations and Notes, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Senior Lien Obligations and the Notes in the manner prescribed herein, and has lawfully exercised such rights.

Section 5.13. Liens. The Issuer will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Issuer.

Section 5.14. No Competition. So far as it legally may, the Issuer will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which

might be used as a substitute for the System's facilities and, to the extent that it legally may, the Issuer will prohibit any such competing facilities.

Section 5.15. Records. The Issuer will keep proper books of record and account in which full, true and correct entries will be made of all dealings, activities and transactions relating to the System, the Pledged Revenues, and the funds created pursuant to this Ordinance and Senior Lien Ordinances, and all books, documents and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of a Registered Owner; provided, that all books, documents, and vouchers relating to the Issuer's electric system shall be made available for inspection only to the extent required by law, including, without limitation, the provisions of Section 552.133 of the Texas Government Code.

Section 5.16. Audits. After the close of each Fiscal Year while any Note is Outstanding, it will cause an audit to be made of the books and accounts relating to the Issuer, including the System and the Pledged Revenues by an Accountant. Such annual audit reports shall be open to the inspection of the Registered Owners and their agents and representatives at all reasonable times.

ARTICLE VI AMENDMENTS

Section 6.01. Amendments or Modifications with Consent of Note Purchaser. Any amendment to this Ordinance shall be subject to the prior written approval of the Note Purchaser as provided in the Note Purchase Agreement.

Section 6.02. Effect of Amendments. Upon the adoption by the City Council of any ordinance to amend this Ordinance pursuant to the provisions of this Article VI, this Ordinance shall be deemed to be amended in accordance with the Amended Ordinance, and the respective rights, duties, and obligations of the Issuer and all the owners of then Outstanding Notes and all future Notes shall thereafter be determined, exercised, and enforced under this Ordinance.

Section 6.03. Additional Amendments. Subject to the provisions of Section 6.01 hereof, the Issuer may, from time to time and at any time, adopt an Amended Ordinance which amends the provisions of an earlier Amended Ordinance.

ARTICLE VII MISCELLANEOUS

Section 7.01. Ordinance to Constitute a Contract; Equal Security. In consideration of the acceptance of the Notes by those who shall hold the same from time to time, this Ordinance shall be deemed to be and shall constitute a contract between the Issuer and the Registered Owners and the Note Purchaser and the pledge made in this Ordinance by the Issuer and the covenants and agreements set forth in this Ordinance to be performed by the Issuer shall be for the equal and

proportionate benefit, security, and protection of all owners of the Notes and the Note Purchaser, without preference, priority, or distinction as to security or otherwise of any of the Notes over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Ordinance or with respect to the Notes, the Note Purchase Agreement.

Section 7.02. Individuals Not Liable. All covenants, stipulations, obligations, and agreements of the Issuer contained in this Ordinance shall be deemed to be covenants, stipulations, obligations, and agreements of the Issuer and the City Council to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the City Council or agent or employee of the Issuer in his or her individual capacity and neither the members of the City Council nor any officer of the Issuer shall be liable personally on the Notes or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 7.03. Additional Actions; Recitals.

(a) The Mayor and Mayor Pro Tem, the City Authorized Representatives and the City Secretary, and all other officers, employees and agents of the Issuer are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Notes and otherwise to effectuate the purposes of this Ordinance, the Note Purchase Agreement, and the Paying Agent/Registrar Agreement. In addition, the Mayor and Mayor Pro Tem, the City Secretary, the City Authorized Representatives, and Bond Counsel are hereby authorized to approve, subsequent to the date of adoption of this Ordinance, any amendments or supplements to the above named documents, and any technical amendments to this Ordinance as may be required by a Rating Agency as a condition to the granting or maintaining of a rating on the Notes acceptable to a City Authorized Representative, or as may be required by the Office of the Attorney General of the State in connection with the approval of this Ordinance or to correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance. In addition, the statements, findings, representations, and determinations set forth in the recitals to this Ordinance are hereby incorporated into and made a part of this Ordinance for all purposes.

(b) The obligation of the Note Purchaser to accept delivery of the Initial Note is subject to the Note Purchaser being furnished with the final, approving opinion of Bond Counsel, which opinion shall be dated as of and delivered on the date of initial delivery of the Initial Note.

(c) A City Authorized Representative shall promptly give written notice to each Rating Agency then rating the Notes, as appropriate, of any changes or amendments to this Ordinance, or any other operative document used in connection with the issuance from time to time of the Notes.

Section 7.04. Severability of Invalid Provisions. If any one or more of the covenants, agreements, or provisions herein contained shall be held contrary to any express provisions of law

or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Notes issued hereunder.

Section 7.05. Performance on Business Days. Except as set forth in Section 2.02(d) hereof, whenever under the terms of this Ordinance or the Notes, the performance date of any provision hereof or thereof shall occur on a day other than a business day, then the performance thereof need not be made on such day but may be performed on the next succeeding business day with the same force and effect as if made on the date of performance is scheduled.

Section 7.06. Limitation of Benefits With Respect to the Ordinance. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Ordinance or the Notes is intended or should be construed to confer upon or give to any person other than the Issuer, the Note Purchaser, and the Paying Agent/Registrar, any legal or equitable right, remedy, or claim under or by reason of or in respect to this Ordinance or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Ordinance and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the Issuer, the Note Purchaser, and the Paying Agent/Registrar as herein and in the Paying Agent/Registrar Agreement and the Note Purchase Agreement provided.

Section 7.07. Approval of Attorney General. No Notes herein authorized to be issued shall be sold or delivered by a City Authorized Representative until the Attorney General of the State shall have approved the Notes authorized by this Ordinance and the proceedings related thereto and the Note Purchase Agreement, and other agreements and proceedings as may be required in connection therewith, and the Comptroller of Public Accounts of the State of Texas has registered the record of proceedings relating to this Ordinance and the Notes, all as is required by the Acts.

Section 7.08. Notices. (a) The City Authorized Representative shall provide the Rating Agencies with written notice of the occurrence of the following events: (i) the appointment of a successor Paying Agent/Registrar, (ii) amendments or supplements to the Ordinance or the Paying Agent/Registrar Agreement, (iii) the defeasance of all Outstanding Notes and (iv) the termination of the Note program. Any notice under this paragraph (a) shall be sent to the Rating Agencies at the following addresses, as applicable:

Standard & Poor's: Attention: Muni Structured Finance
55 Water Street, 38th Floor
New York, New York 10041
phone: 212-438-2000
fax: 212-438-2157
email: pubfin_structured@sandp.com

Moody's: Attention: Public Finance Department – Rating Desk/CP
Moody's Investors Service, Inc.
99 Church Street
New York, New York 10007
phone: 212-553-0300
fax: 212-964-5082

Fitch Ratings: Fitch Ratings - U.S. Public Finance
33 Whitehall Street
New York, New York 10004
phone: 212-908-0889

(b) Except as otherwise required herein, all notices required or authorized to be given to the Issuer or the Paying Agent/Registrar pursuant to this Ordinance shall be in writing and shall be sent by registered or certified mail, postage prepaid, to the following addresses or otherwise given in a manner deemed, in writing, acceptable to the party to receive the notice:

1. to the Issuer, to:
 215 E. McKinney Street.
 Denton, Texas 76201
 Attn: Jessica Williams, Chief Financial Officer
 Telephone: (940) 349-8244
2. to the Paying Agent/Registrar, to:
 (as provided in the Paying Agent/Registrar Agreement)
3. to the Note Purchaser, to:
 (as provided in the Note Purchase Agreement)

or to such other addresses as may from time to time be furnished to the parties, effective upon the receipt of notice thereof given as set forth above.

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES

Section 8.01. Events of Default. Each of the following events shall constitute and is referred to in this Ordinance as an "Event of Default":

(a) a failure by the Issuer to pay principal of or interest on any Note when the same shall have become due and payable;

(b) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision contained in the Notes or in this Ordinance on the part of the Issuer to be observed or performed, which materially, adversely affects the rights of the owners of the Notes, including,

but not limited to, their prospect or ability to be repaid in accordance with this Ordinance and which failure shall continue for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Issuer by the Paying Agent/Registrar or any owner of the Notes;

(c) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including, without limitation, proceedings under the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or State bankruptcy law or similar law for the relief of debtors are instituted by the Issuer;

(d) an “Event of Default” shall have occurred and be continuing under the Note Purchase Agreement; or

(e) the occurrence of any other Event of Default as is provided in an Amended Ordinance.

If any Event of Default has occurred, but is subsequently cured or waived, then such Event of Default shall no longer constitute an Event of Default hereunder.

Section 8.02. Remedies for Default.

(a) Upon the happening of any Event of Default, any Registered Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefore, may proceed against the Issuer or the City Council, as appropriate, for the purpose of protecting and enforcing the rights of the owners of Notes under this Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the owners of Notes hereunder or any combination of such remedies. It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all owners of Notes then Outstanding.

(b) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Notes or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Notes shall not be available as a remedy under this Ordinance.

(c) By accepting the delivery of an Note authorized under this Ordinance, a Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this Ordinance do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers or employees of the Issuer or the City Council.

The motion to approve this Ordinance was made by [_____] and seconded by [_____]. This Ordinance was passed and approved by the following vote [__ - __]:

	Aye	Nay	Abstain	Absent
Mayor Gerard Hudspeth:	_____	_____	_____	_____
Vicki Byrd, District 1:	_____	_____	_____	_____
Brian Beck, District 2:	_____	_____	_____	_____
Paul Meltzer, District 3:	_____	_____	_____	_____
Joe Holland, District 4:	_____	_____	_____	_____
Brandon Chase McGee, At Large Place 5:	_____	_____	_____	_____
Chris Watts, At Large Place 6:	_____	_____	_____	_____

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PASSED, APPROVED AND EFFECTIVE this 2nd day of April, 2024.

GERARD HUDSPETH, MAYOR

ATTEST:
JESUS SALAZAR, CITY SECRETARY

BY: _____

APPROVED AS TO LEGAL FORM:
MACK REINWAND, CITY ATTORNEY

BY: _____

EXHIBIT A

FORM OF NOTES

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF DENTON
UTILITY SYSTEM NODAL MARKET REVENUE NOTE
SERIES A

NO.: ____ Issue Date: _____

Principal Amount: \$_____ Maturity Date: _____

Dated Date: _____

Interest Rate or Interest Rate Formula (%): _____¹

THE CITY OF DENTON, IN DENTON COUNTY, TEXAS (the "Issuer") being a political subdivision of the State of Texas, hereby promises to pay, solely from the sources hereinafter identified and as hereinafter stated, to the order of

WELLS FARGO BANK, NATIONAL ASSOCIATION (the "Bank")

on the Maturity Date specified above [or date of prior redemption]², the Principal Amount set forth above, and to pay interest on said Principal Amount, if any, on the dates provided in the Note Purchase Agreement at said Maturity Date [or date of prior redemption]², from the above specified Issue Date to said Maturity Date [or date of prior redemption]² at the rate of interest calculated as shown above (computed on the basis of actual days elapsed and a 360 day year) and as provided for in the Note Purchase Agreement (as defined herein); both principal and interest on this Note being payable in lawful money of the United States of America in freely transferable and immediately available funds at the principal corporate office of the Paying Agent/Registrar executing the "Certificate of Authentication" endorsed hereon and appearing below.

This Note is one of a duly authorized issue of notes of the Issuer (the "Notes") issued in the aggregate principal amount of \$_____,000, pursuant to the laws of the State of Texas, including specifically Chapter 1371 and Chapter 1502, Texas Government Code, as amended (the "Acts"), and under and pursuant to an ordinance of the City Council of the Issuer adopted April 2,

¹ As provided for in the Pricing Certificate.

² If the Notes are subject to redemption as provided in the Pricing Certificate.

2024 (the "Ordinance") for the purpose of financing Project Costs of Eligible Projects. The Notes are secured by the Ordinance, on a parity with all other Subordinate Lien Obligations and subject only to the payment of Senior Lien Obligations, if any. Terms used herein and not otherwise defined shall have the meanings given in the Ordinance and in the Note Purchase Agreement dated _____, 2024 between the Issuer and the Bank relating to the Notes (the "Note Purchase Agreement").

The initial Authorized Installment of the Notes issued on the Original Issue Date is in the principal amount of \$_____,000. Thereafter, additional Authorized Installments of the Notes in a principal amount not to exceed \$_____,000 may be issued on any date so long as the total aggregate principal amount of Notes issued does not exceed \$_____,000, as reflected in the Schedule of Authorized Installment Deliveries attached to the Initial Note. The foregoing notwithstanding, in no event shall an Authorized Installment of the Notes be issued after the end of the Authorized Installment Draw Period, and in no event shall an Authorized Installment be issued and delivered in an amount that exceeds the Maximum Available Amount in effect as of the date of the applicable draw on the Financial Security; provided that the aggregate principal amount of all Authorized Installments issued and delivered under the Ordinance may at times exceed the then applicable Maximum Available Amount due to a reduction in such amount subsequent to the issuance of Authorized Installments pursuant to the terms of the Financial Security but in no case shall the aggregate principal amount of all Authorized Installments issued and delivered under the Ordinance exceed \$_____,000.

Anything contained herein to the contrary notwithstanding, if the rate of interest payable under any Authorized Installment shall exceed the Maximum Interest Rate (as defined in the Note Purchase Agreement) for any period for which interest is payable, then (i) interest at the Maximum Interest Rate shall be due and payable with respect to such interest period and (ii) interest at the rate equal to the difference between (A) the rate of interest calculated in accordance with the terms hereof without regard to the Maximum Interest Rate and (B) the Maximum Interest Rate (the "Excess Interest"), shall be deferred until such date as the rate of interest calculated in accordance with the terms hereof ceases to exceed the Maximum Interest Rate, at which time the Issuer shall pay to the Bank, with respect to amounts then payable to the Bank that are required to accrue interest hereunder, such portion of the deferred Excess Interest as will cause the rate of interest then paid to the Bank to equal the Maximum Interest Rate, which payments of deferred Excess Interest shall continue to apply to such unpaid amounts hereunder until all deferred Excess Interest is fully paid to the Bank, not to exceed the Maturity Date.

The Notes are special obligations of the Issuer, and the payment of the principal of and interest on the Notes is and shall be secured by and payable only from a lien on and pledge of the Pledged Revenues; provided that the pledge of Pledged Revenues securing the Notes is expressly made subordinate and inferior to the lien on and pledge of Pledged Revenues securing Senior Lien Obligations, and the Notes shall constitute Subordinate Lien Obligations, payable, together with all Outstanding Subordinate Lien Obligations and any additional Subordinate Lien Obligations hereafter, solely from and equally secured by a lien on and pledge of the Pledged Revenues. The Notes are not secured by or payable from any funds raised or to be raised by the levy of taxes by

the Issuer nor a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the System or otherwise, nor from any source other than as specified in the Ordinance.

[INSERT ADDITIONAL PROVISIONS, IF ANY, PROVIDED FOR IN THE PRICING CERTIFICATE AND THE NOTE PURCHASE AGREEMENT DEEMED NECESSARY BY THE AUTHORIZED REPRESENTATIVE, INCLUDING ANY PREPAYMENT AND/OR REDEMPTION PROVISIONS, ALL PURSUANT TO SECTIONS 2.02 AND 2.04 OF THE ORDINANCE.]

The pledge of Pledged Revenues under the Ordinance may be discharged at or prior to the maturity of the Notes upon the making of provision for their payment on the terms and conditions set forth in the Ordinance.

Subject to satisfying the terms and conditions stated in the Ordinance, the Issuer has reserved the right to issue additional Subordinate Lien Obligations payable solely from and equally and ratably secured by a parity lien on and pledge of the Pledged Revenues and other moneys and securities pledged under the Ordinance to the payment of the Notes.

Reference is hereby made to the Ordinance, copies of which may be obtained upon request to the Issuer, and to all of the provisions of which any owner of this Note by its acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the security for the Notes; the Pledged Revenues; the nature and extent and manner of enforcement of the pledge; the terms and conditions for the issuance of additional Subordinate Lien Obligations; the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Registered Owners; the rights and remedies of the owner hereof with respect hereto and thereto; the rights, duties and obligations of the Issuer; the terms and provisions upon which the liens, pledges, charges, and covenants made therein may be discharged at or prior to the maturity or redemption of this Note and this Note thereafter no longer to be secured by the Ordinance or be deemed to be outstanding thereunder; and for the other terms and provisions thereof.

It is hereby certified, recited, represented, and declared that the Issuer is a duly organized and legally existing political subdivision of the State of Texas, organized under and by virtue of the Constitution and laws of the State of Texas; that the issuance of this Note and the series of which it is a part are duly authorized by law; that all acts, conditions, and things required to exist and be done precedent to and in the issuance of this Note to render the same lawful and valid have been properly done, have happened and have been performed in regular and due time, form, and manner as required by the Constitution and laws of the State of Texas and the Ordinance; that this series of Notes does not exceed any Constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on this Note and the series of which it is a part as aforesaid. In case any provision in this Note shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The terms and provisions of this Note and the Ordinance shall be construed in accordance with and shall be governed by the laws of the State of Texas.

This Note has been issued pursuant to proceedings approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Except as provided in Section 2.02(a) of the Ordinance, this Note shall not be entitled to any benefit under the Ordinance or be valid or become obligatory for any purpose until this Note shall have been authenticated by the execution by the Paying Agent/Registrar or the Comptroller of Public Accounts, as applicable, of the Certificate of Authentication hereon.

IN WITNESS WHEREOF, the Issuer has authorized and caused this Note to be executed and attested on its behalf by the manual or facsimile signatures of the Mayor of the Issuer (or in the Mayor's absence, of the Mayor Pro-Tem) and countersigned with the manual or facsimile signature of the City Secretary of said Issuer and its official seal impressed or a facsimile thereof to be printed hereon.

City Secretary

Mayor

(SEAL)

Form of Registration Certificate of Comptroller of Public Accounts to Appear on Initial Note only.

**REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS**

**OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS
THE STATE OF TEXAS**

'
'
' **REGISTER NO.** _____

I HEREBY CERTIFY that this Note has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

Form of Authentication Certificate of Paying Agent/Registrar.

**AUTHENTICATION CERTIFICATE OF
PAYING AGENT/REGISTRAR**

This Note has been duly issued and registered under the provisions of the within-mentioned Resolution; the note or notes of the above titled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

[_____]
as Paying Agent/Registrar

Registered this date:

By: _____
Authorized Signature

Form of Schedule of Authorized Installments Deliveries to appear on Initial Note only.

SCHEDULE OF AUTHORIZED INSTALLMENT DELIVERIES

<u>Issue Date</u>	<u>No.</u>	<u>Principal Amount</u>	<u>Remaining Available Principal Balance</u>	<u>Extended Maturity Date</u>	<u>Date Paid</u>	<u>Principal and Interest Paid</u>
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____