

**This document is subject to any comments that bond counsel's tax partner may have upon determination of interest rates and source of funding.**

**CERTIFICATE AS TO TAX EXEMPTION**

The undersigned, being the duly chosen and qualified Chief Financial Officer of the City of Grand Prairie, Texas (the "Issuer"), hereby certifies with respect to CITY OF GRAND PRAIRIE, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE BONDS, NEW SERIES 2019, dated July 1, 2019, in the principal amount of \$3,180,000 (the "Bonds"), as follows.

**A. General.**

1. I, along with other officers of the Issuer, am charged with the responsibility for issuing the Bonds.

2. This certificate is made pursuant to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and Treasury Regulations promulgated thereunder (the "Regulations").

3. This certificate is based on the facts and estimates described herein in existence on this date, which is the date of delivery of the Bonds to and payment for the Bonds by the initial purchasers thereof, and, on the basis of such facts and estimates, the Issuer expects that the future events described herein will occur.

4. Capitalized terms used and not otherwise defined herein shall have the same meaning as that set forth in the Ordinance finally adopted by the City Council of the Issuer on June 18, 2019, authorizing the issuance of the Bonds (the "Ordinance").

**B. Purpose and Size.**

1. The Bonds are being issued pursuant to the Ordinance to provide funds for constructing improvements and extensions to the Issuer's wastewater system (the "Project") and to pay costs of issuance. The Issuer will treat all of the Project as a single project under Section 1.141-6(a)(3) of the Regulations.

2. The Project will be owned, operated, managed and maintained by the Issuer. The Issuer has not contracted with any person or entity to operate and/or maintain the Project or any part of it for and on behalf of the Issuer. The Issuer does not expect to enter into any contract for the operation, maintenance or management of the Project or any part of it.

3. There is not, and as of the date hereof the Issuer does not anticipate entering into, any lease, contract or other understanding or arrangement, such as a take-or-pay contract or output contract, with any person other than a state or local governmental unit pursuant to which the Issuer expects that proceeds of the Bonds, or the facilities financed therewith, will be used in the trade or business of such person (including all activities of such persons who are not individuals).

4. The amounts received from the sale of the Bonds and expected earnings thereon do not exceed the amounts required to pay the capital costs of the Project and issuing the Bonds.

5. No receipt from the sale of the Bonds or amounts received from the investment thereof will be used to pay the principal of or interest on any presently outstanding issue of bonds or other similar obligations of the Issuer other than the Bonds.

C. Source and Disbursement of Funds.

1. The Bonds are being issued and delivered to the Texas Water Development Board (the "Purchaser") on the date hereof upon payment of the aggregate agreed purchase price of \$3,180,000 (no accrued interest). The source of funding for the Bonds are [cash proceeds of the Texas Water Development Board, which are not the proceeds of tax-exempt bonds] [the Texas Water Development Board's Series \_\_\_\_\_ Bonds issued on \_\_\_\_\_, 20\_\_ and having a yield of \_\_\_\_\_% (the "Water Development Board Bonds")].

2. The Issuer has received as a result of the sale of the Bonds an amount equal to \$3,180,000, representing the principal amount of the Bonds (no accrued interest).

3. Costs of issuance relating to the Bonds are estimated to be \$\_\_\_\_\_ and [will be paid by the Issuer from cash on hand]. All of the proceeds of sale will be credited to the Construction Fund, will be accounted for separately from all other funds on the books of account of the Issuer, and will be used to pay costs of the Project. The Issuer estimates that \$\_\_\_\_\_ in income and profit will be received from the investment of the amounts deposited to the Construction Fund pending the disbursement of such amounts for the governmental purposes for which the Bonds are being issued. All of such income and profit are expected to be used to pay costs of the Project, and if not needed for such purpose, will be deposited to the Interest and Sinking Fund and used to pay principal of and interest on the Bonds within one year of receipt.

D. Temporary Periods and Time for Expenditures.

1. Within six months from the date hereof, the Issuer will have incurred binding obligations or commitments to third parties for the Project in the amount of at least 5% of the net sales proceeds of the Bonds.

2. After entering into said contracts, completion of the Project and the allocation of net sales proceeds of the Bonds to expenditures will proceed with due diligence.

3. The Issuer expects that all of the net sales proceeds of the Bonds will be spent within thirty-six months from the date hereof, and that all investment proceeds of the Bonds will be spent within one year from the date of receipt.

4. Approximately \$\_\_\_\_\_ of the proceeds of the Bonds will be used to reimburse the Issuer for Project expenditures made by it from its own funds prior to the date hereof. With respect to such reimbursement, if any, the Issuer adopted an official intent for the original expenditures (except for expenditures meeting the preliminary expenditures exception set forth in section 1.150-2(f)(2) of the Regulations) not later than 60 days after payment of the original expenditures, and a copy of such official intent is attached to this Certificate As To Tax Exemption. Except for expenditures meeting the preliminary expenditures exception set forth in section 1.150-2(f)(2) of the Regulations, the Bonds are being issued and the reimbursement allocation is hereby being made not later than 18 months after the later of (i) the date the original expenditures were paid, or (ii) the date the Project is placed in service or abandoned, but in no event more than 3 years after the original expenditures were paid. The original expenditures were capital expenditures, and in connection with this allocation, the Issuer has not employed any abusive arbitrage device

under section 1.148-10 of the Regulations to avoid the arbitrage restrictions or to avoid restrictions under section 142 through 147 of the Code.

5. The Issuer will account for the allocation of Bond proceeds to an expenditure not later than 18 months after the later of the date the expenditure is paid or the date the Project is placed in service; but in all events within 60 days after the earlier of the fifth anniversary of the date hereof or the retirement of the Bonds.

E. Reserve Fund.

1. The Issuer is required by the Ordinance to maintain a Water and Wastewater System Reserve Fund (the "Reserve Fund") during the term of the Bonds for the purpose of accumulating and maintaining funds as a reserve for the payment of the Bonds Similarly Secured in an amount (the "Required Reserve Fund Amount") equal to the average annual debt service requirements for all outstanding Bonds Similarly Secured.

2. The Required Reserve, after issuance of the Bonds, is \$\_\_\_\_\_, which [is the current balance in the Reserve Fund].

3. Hilltop Securities Inc. has advised the Issuer that a reserve fund balance of the Required Reserve amount was required in order to market the Bonds to the Purchaser at the interest rates set forth in the Ordinance and for the purchase price set forth in the Issue Price Certificate, and that funding a reserve fund for a lesser amount would have resulted in the sale of the Bonds at materially higher interest rates.

4. The amount on deposit in the Reserve Fund and allocated to the Bonds at all times will be an amount not in excess of the least of (i) the maximum annual debt service requirement on the Bonds, (ii) 125% of the average annual debt service requirements on the Bonds, or (iii) 10% of the stated principal amount of the Bonds.

5. The Ordinance provides that any amounts held for the credit of the Reserve Fund in excess of the Required Reserve Fund Amount may be withdrawn and transferred by the Issuer to the Revenue Fund to be disbursed as provided therein. The Issuer expects that all amounts received from investment of the Reserve Fund will, within one year of receipt, either be expended to pay principal of or interest on the Bonds or be commingled with other substantial revenues of the Issuer for the governmental purposes of the Issuer.

F. Interest and Sinking Fund and Revenue Fund.

1. The Bonds are payable solely from amounts held for the credit of the Interest and Sinking Fund and the Reserve Fund and are secured solely by a pledge of the Net Revenues of the System. The Issuer may credit against its required deposits to the Interest and Sinking Fund and the Reserve Fund all amounts received from the investment of funds held therein.

2. The Ordinance requires that all Net Revenues of the System are to be deposited as received in the Revenue Fund, where they are to be disbursed in the following order of priority:

a. To the payment of all necessary and reasonable maintenance and operation expenses of the System as said expenses are defined by law.

b. To the payment of the amounts required to be deposited in the special Funds or accounts created and established for the payment and security of the Priority Bonds in accordance with the ordinances authorizing the issuance thereof;

c. To the payment, equally and ratably, of the amounts required to be deposited in the Interest and Sinking Fund created and established for the payment of principal of and interest on the Bonds Similarly Secured as the same becomes due and payable;

d. To the payment of the amounts required to be deposited in the Reserve Fund created and to be maintained for the benefit and security of the Bonds Similarly Secured in accordance with the provisions of the Ordinance or any other ordinance relating to the issuance of Bonds Similarly Secured;

e. To the payment of any other indebtedness payable from and secured, in whole or in part, by a lien on and claim against the Net Revenues of the System; and

f. For any other lawful purpose.

3. The Interest and Sinking Fund will be maintained by the Issuer primarily to achieve a proper matching of revenues and debt service within each bond year. The Issuer expects that the following will occur with respect to the money in the Interest and Sinking Fund:

a. Such fund will be depleted at least once each bond year except possibly for a carryover amount not to exceed the greater of the previous bond year's earnings on the Interest and Sinking Fund or one-twelfth of the previous bond year's debt service requirements on the Bonds;

b. All amounts deposited to such fund to pay debt service on the Bonds will be spent within 13 months of deposit; and

c. All amounts received from the investment of such fund will be deposited therein and will be expended within twelve months of receipt.

4. Except for the funds identified above, no other funds of the Issuer have been or will be pledged to payment of principal or interest on the Bonds or otherwise restricted so as to give reasonable assurance of the availability of such funds for such purpose.

G. Yield and Nonpurpose Investments.

1. The Bonds were neither publicly offered nor issued for property but were issued and sold to the Texas Water Development Board in evidence of a loan from such state agency and the yield on the Bonds, calculated on the basis that the present worth of all payments of principal and interest to be paid on the Bonds produces an amount equal to the "Issue Price" (i.e., the price paid by said first buyer of the Bonds), is \_\_\_\_\_. In determining the price paid by the first buyer of the Bonds, the Issuer has relied on a Certificate of Purchaser of the Texas Water Development Board, which is the entity that purchased the Bonds and such Certificate of Purchaser is attached hereto as **Exhibit A**.

2. No other obligations of the Issuer which are reasonably expected to be paid from substantially the same source of funds as the Bonds were sold within 15 days from the date the Bonds were sold.

3. Except as otherwise provided in Section 148(f) of the Code, the Issuer will account for proceeds of the Bonds separately from other funds of the Issuer and will compute and pay to the United States Treasury the Rebate Amount due with respect to the Bonds no less frequently than every five years, in the installments, to the place, in the manner and accompanied by such forms or other information as is or may be required by Section 148(f) of the Code and the regulations and rulings thereunder. For purposes of determining whether the Bonds qualify as a "construction issue", the Issuer elects to use actual facts as set forth in Treas. Reg. § 1.148-7(f)(2).

#### H. No Abusive Arbitrage Device.

1. In connection with the issuance of the Bonds, the Issuer has not employed any action which has the effect of overburdening the market for tax-exempt obligations by issuing more bonds, issuing bonds earlier, or allowing bonds to remain outstanding longer than is reasonably necessary to accomplish the governmental purposes of the Bonds.

2. In connection with the issuance of the Bonds, the Issuer has not employed any action which has the effect of enabling the Issuer to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage.

#### I. Written Procedures.

1. The representations and covenants contained in this Certificate as to Tax Exemption and the Ordinance are hereby adopted by the Issuer to be written procedures to ensure compliance, including post-issuance compliance and record retention practices, with the rules applicable to tax-exempt obligations issued under Section 103 of the Code. The Issuer will maintain records that show compliance with the covenants and representations contained in this Certificate and the Ordinance, and with the requirements contained in the Code and Regulations related to tax-exempt obligations, while the applicable tax-exempt obligations remain outstanding and for a period of three years after redemption of the tax-exempt obligations.

2. The Issuer designates its Chief Financial Officer to have primary responsibility for monitoring post-issuance tax compliance with the covenants and representations contained in this Certificate and the Ordinance and with the requirements contained in the Code and regulations relating to tax-exempt obligations, including requirements relating to the maintenance and retention of records. The Chief Financial Officer may assign and delegate responsibilities as he or she deems necessary or appropriate. These officers will receive the following training with regard to their compliance monitoring responsibilities: consultations with professional advisors, review of written alerts and materials and attendance at professional meetings and seminars.

3. The Issuer will conduct compliance checks for its tax-exempt obligations at least annually. If the Issuer discovers a potential violation of a federal tax requirement, it will promptly take appropriate action, as needed, to maintain the tax-exemption of the applicable debt obligations, including consultation with professional advisors and taking remedial action as described in the Treasury Regulations, and/or other corrective action, such as through the Tax Exempt Bonds Voluntary Closing Agreement Program.

EXECUTED AND DELIVERED, July 18, 2019.

CITY OF GRAND PRAIRIE, TEXAS

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Chief Financial Officer

The undersigned has read the foregoing Certificate as to Tax Exemption, has made the representation to the Issuer attributed to it in paragraph E.3, believes such representation to be true, correct and complete as of the date hereof, and is not aware of any facts or circumstances that would make such representation untrue, inaccurate or incomplete.

HILLTOP SECURITIES INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT A

EXECUTED CERTIFICATE OF PURCHASER