

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$9,295,000
CITY OF KELLER, TEXAS
(Tarrant County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011

Dated Date: September 15, 2011

Due: February 15, as shown below

Interest Accrues from Delivery Date

PAYMENT TERMS . . . Interest on the \$9,295,000 City of Keller, Texas General Obligation Refunding Bonds, Series 2011 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2012, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), and are direct obligations of the City of Keller, Texas (the "City"), payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance"). In the Bond Ordinance adopted September 20, 2011, the City Council delegated to the City Manager of the City pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance") (see "The Bonds - Authority for Issuance" and "The Bonds - Security and Source of Payment").

PURPOSE . . . Proceeds of the Bonds are expected to be used to (i) refund a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2003, as described on Schedule I attached hereto (the "Refunded Obligations"); and (ii) pay the costs associated with the issuance of the Bonds.

MATURITY SCHEDULE

CUSIP Prefix ⁽¹⁾: 487684

Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 135,000	2012	2.000%	0.300%	2T8	\$ 1,210,000	2018	3.000%	1.640%	2Z4
35,000	2013	2.000%	0.700%	2U5	1,250,000	2019	3.000%	1.910%	3A8
40,000	2014	1.500%	0.850%	2V3	1,285,000	2020	3.000%	2.130%	3B6
40,000	2015	1.500%	1.050%	2W1	1,325,000	2021	3.000%	2.270%	3C4
40,000	2016	1.500%	1.350%	2X9	1,365,000	2022	3.000%	2.400%	3D2
1,165,000	2017	3.000%	1.420%	2Y7	1,405,000	2023	3.000%	2.570%	3E0

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on October 26, 2011 (the "Delivery Date").

This Official Statement, which includes the cover page and the Schedule and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Keller, Texas is a political subdivision and home rule municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 18.17 square miles (see "Introduction - Description of the City").

- THE BONDS** The \$9,295,000 General Obligation Refunding Bonds, Series 2011 are to mature on February 15 in the years 2012 through 2023 (see "The Bonds - Description of the Bonds").

- PAYMENT OF INTEREST** Interest on the Bonds accrues from the Delivery Date and is payable February 15, 2012, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption").

- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and the ordinance (the "Bond Ordinance") adopted by the City Council (the "Council") of the City in which the Council delegated to the City Manager authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance") (see "The Bonds - Authority for Issuance").

- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the City, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "The Bonds - Security and Source of Payment").

- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").

- REDEMPTION** The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

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

- USE OF PROCEEDS** Proceeds of the Bonds are expected to be used to (i) refund a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2003, as described on Schedule I attached hereto (the "Refunded Obligations"); and (ii) pay the costs associated with the issuance of the Bonds.

- BOND INSURANCE**..... The City has applied for municipal bond insurance on the Bonds and will consider the purchase of such insurance after an analysis of the bids from such companies has been made.

- RATINGS** The Bonds and the presently outstanding general obligation debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P").

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

PAYMENT RECORD The City has never defaulted.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Net Tax Supported Debt Outstanding at End of Year ⁽³⁾	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Assessed Valuation	% of Total Tax Collections
2008	38,402 ⁽¹⁾	\$3,546,432,507	\$92,350	\$ 33,288,015	\$ 867	0.94%	99.74%
2009	39,450 ⁽¹⁾	3,867,487,437	98,035	41,953,599	1,063	1.08%	99.39%
2010	39,627 ⁽²⁾	4,013,291,088	101,277	51,049,994	1,288	1.27%	99.21%
2011	39,920 ⁽¹⁾	3,975,497,032	99,587	48,644,998	1,219	1.22%	99.56% ⁽⁵⁾
2012	41,120 ⁽¹⁾	4,046,869,515	98,416	45,229,998 ⁽⁴⁾	1,100	1.12%	N/A

- (1) Source: North Central Texas Council of Governments.
- (2) Source: U.S. Census Bureau.
- (3) Excludes self-supporting debt.
- (4) Projected, includes the Bonds. Excludes the Refunded Obligations.
- (5) Collections for part year only, through August 15, 2011.

For additional information regarding the City, please contact:

<p>Dan O'Leary City Manager City of Keller P.O. Box 770 Keller, Texas 76244 (817) 743-4010</p>	or	<p>David K. Medanich Nick Bulaich First Southwest Company 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710</p>
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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Pat McGrail Mayor	4 Years	May, 2014	Retired
Tom Cawthra Mayor Pro Tem, Place 3	3 Years	May, 2013	Vice President-Mortgage
Ray Brown Councilmember, Place 1	4 Years	May, 2012	Certified Public Accountant
Gary Reaves Councilmember, Place 2	Newly Elected	May, 2012	Attorney
Jim Thompson Councilmember, Place 4	3 Years	May, 2013	Pilot
VACANT Councilmember, Place 5			
Doug Miller Councilmember, Place 6	Newly Elected	May, 2014	Construction Manager

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Dan O'Leary	City Manager	3 Years ⁽¹⁾
Johnny Phifer	Director of Finance	14 1/2 Years ⁽²⁾
Sheila Stephens	City Secretary	37 1/2 Years
Gregory W. Dickens, P.E.	Director of Public Works	4 1/2 Years ⁽³⁾

- (1) Previously served as City Manager for other cities for 5 years.
- (2) Previously served as Director of Finance for other cities for 14 years.
- (3) Previously served 18 years in similar position for other government entities.

CONSULTANTS AND ADVISORS

Certified Public Accountants Pattillo, Brown & Hill, L.L.P.
Waco, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor First Southwest Company
Fort Worth, Texas

City Attorney Boyle & Lowry, L.L.P.
Irving, Texas

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OFFICIAL STATEMENT

RELATING TO

\$9,295,000

CITY OF KELLER, TEXAS

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$9,295,000 City of Keller, Texas General Obligation Refunding Bonds, Series 2011 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance adopted on September 20, 2011 authorizing the issuance of the Bonds (the "Bond Ordinance") except as otherwise indicated herein. In the Bond Ordinance, as permitted by the provisions of Chapter 1207, Texas Government Code, as amended (the "Act"), the City Council delegated the authority to the City Manager to establish the terms and details of the Bonds and to effect the sale of the Bonds pursuant to a "Pricing Certificate" (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical service), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2010 Census population for the City was 39,627, while the estimated 2012 population is 41,120. The City covers approximately 18.17 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds of the Bonds are expected to be used to (i) refund a portion of the City's Combination Tax Revenue Certificates of Obligation, Series 2003, as described on Schedule I attached hereto (the "Refunded Obligations"); and (ii) pay the costs associated with the issuance of the Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the redemption date of such Refunded Obligations, from funds to be deposited pursuant to an escrow agreement with respect to the Bonds (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, certified public accountants, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "Other Information – Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, certified public accountants, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

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

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

<u>Sources of Funds</u>	
Par Amount	\$ 9,295,000.00
Original Issue Premium	<u>569,794.90</u>
Total Sources of Funds	\$ 9,864,794.90
 <u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 9,702,713.55
Cost of Issuance ⁽¹⁾	<u>162,081.35</u>
Total Uses of Funds	\$ 9,864,794.90

(1) Including Underwriter's Discount.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated September 15, 2011 and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2012, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein.

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

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Texas Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2022 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2021 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Bonds unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled,

such notice will be of no force and effect, the City will not redeem such Bonds and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. IF A BOND (OR ANY PORTION OF ITS PRINCIPAL SUM) SHALL HAVE BEEN DULY CALLED FOR REDEMPTION AND NOTICE OF SUCH REDEMPTION DULY GIVEN, THEN UPON THE REDEMPTION DATE SUCH BOND (OR THE PORTION OF ITS PRINCIPAL SUM TO BE REDEEMED) SHALL BECOME DUE AND PAYABLE, AND, IF MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR AND ALL OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST SHALL CEASE TO ACCRUE AND BE PAYABLE FROM AND AFTER THE REDEMPTION DATE ON THE PRINCIPAL AMOUNT REDEEMED.

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

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

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

Effect of Termination of Book-Entry-Only System In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

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

Principal of the Bonds is payable to the registered holder appearing on the registration books of the Paying Agent/Registrar (the "Registered Owner") at the designated corporate trust office of the Paying Agent/Registrar upon surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. Interest on the Bonds is payable to the Register Owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar by check mailed, first class postage prepaid, to the Register Owner or by such other arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the Registered Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bonds to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Bond. See "The Bonds—Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date.

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

REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner of a Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants in the absence of City action. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the

registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds will be The Depository Trust Company. See "Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, maturing as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the Bonds being defeased. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City 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 (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City 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. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of such Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

AMENDMENTS . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Tarrant Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and are prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value the preceding year plus (b) the property's appraised value in the preceding year plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the appropriate Appraisal Review Board.

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

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

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

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

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

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

As of January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

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

Municipalities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs or promote state or local economic development and to stimulate business and commercial activity in the city. In accordance with a program established pursuant to Chapter 380, a city may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the city. Any agreement into which the City has entered pursuant to Chapter 380 is hereinafter referred to as a "Chapter 380 Agreement".

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

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

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

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

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

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$40,000.

The City grants an exemption of \$10,000 to the market value of the residence homestead of disabled persons.

The City has granted an additional exemption of 1% of the market value of residence homesteads; minimum exemption of \$5,000.

On August 3, 2004, the City Council adopted a resolution to implement the tax freeze for the residence homestead of the disabled and persons sixty-five years of age or older, and their spouses. The freeze was effective with the January 1, 2004 tax roll and the tax levied for the 2005/06 fiscal year.

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

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

The City does not tax nonbusiness personal property; and the Tarrant County Tax Assessor/Collector collects taxes for the City.

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

The City has taken action to tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does tax goods in transit.

The City has created a tax increment financing zone.

The City has adopted a tax abatement policy but has not entered into any tax abatement agreements. Under the policy, a project may qualify for an abatement if it is expected to result in an increase in the appraised value of the property and is expected to prevent the loss of or retain employment or create new employment. Abatements may be granted up to 50% of the additional value generated by the project for a maximum of ten years, with the amount of abatement depending on expected capital investment by the applicant and the number of jobs to be created and applied on a declining scale after the first year.

TAX INCREMENT FINANCING REINVESTMENT ZONE NUMBER ONE, CITY OF KELLER, TEXAS . . . On December 1, 1998, the Keller City Council adopted an ordinance (the "Zone Ordinance") creating Tax Increment Financing Reinvestment Zone Number One, City of Keller, Texas (the "Zone") by designating a contiguous geographic area in the jurisdiction of the City as a reinvestment zone to promote development or redevelopment in the Zone. Pursuant to the Zone Ordinance, the Zone took effect on January 1, 1999, and expires on December 31, 2018, or such earlier date that the City determines that the Zone should be terminated due to insufficient private investment, accelerated private investment or other good cause, or such time as all project costs and obligations secured by tax increments and the interest thereon, have been paid in full. The Zone encompasses approximately 340 acres located generally in the center of the City.

The City has agreed to contribute 100% of its tax increments to the tax increment fund; therefore, taxes collected by the City on the captured appraised value will be paid by the City to the tax increment fund and will not be available for payment of operating expenses or debt payments, except to the extent the tax increment is needed to prevent a default in the payment of the City's tax-supported debt. The City's tax increment base value for the Zone is \$10,891,633, and the captured appraised value of property in the Zone for tax year 2011 is \$133,997,512. The City has issued an aggregate of \$32,655,000 principal amount of obligations ("Zone Obligations"), secured by an annual ad valorem tax levied by the City and a pledge of the tax increments on deposit in the tax increment fund, to fund improvements in the Zone. To the extent funds on deposit in the tax increment fund are not sufficient to pay debt service on the Zone Obligations, the City will be required to levy an ad valorem tax to pay debt service on the Zone Obligations. The sufficiency of the tax increment fund to pay debt service on the Zone Obligations will depend on, among other factors, development in the Zone and corresponding increases in the captured appraised value in the Zone. The City cannot predict whether such development will occur in a timely manner to provide sufficient tax increments to pay debt service on the Zone Obligations or whether a tax levy may be necessary to pay debt service on the Zone Obligations. See Tables 1, 8 and 10 for information regarding the Zone Obligations.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2011/12 Market Valuation Established by Tarrant Appraisal District (includes incomplete and values in arbitration, excludes totally exempt property)		\$ 4,225,217,002
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 54,514,052	
Over 65 Years of Age/Disabled	65,034,681	
Disabled Veterans Exemptions	6,681,785	
Open-Space Land Use Reductions	51,737,093	
Pollution	60,084	
Nominal Value Loss	0	
Lost to Prorated Absolute Exemptions	<u>319,792</u>	<u>178,347,487</u>
2011/12 Taxable Assessed Valuation		\$ 4,046,869,515
2011/12 Incremental Taxable Assessed Value of Real Property within Reinvestment Zone		<u>133,997,512</u>
2011/12 Taxable Assessed Valuation available for General Fund Obligations and Debt of City		<u><u>\$ 3,912,872,003</u></u>
City Funded Debt Payable from Ad Valorem Taxes		
General Obligation Bonds (as of 8/15/11)	\$ 33,248,546	
Tax and System Debt (as of 8/15/11)	55,395,000 ⁽¹⁾	
The Bonds	<u>9,295,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 97,938,546
Less Self-Supporting Debt: ⁽²⁾		
Tax Increment Reinvestment Zone General Obligation Debt	\$ 16,958,546	
Development Corporation General Obligation Debt	13,615,000 ⁽³⁾	
Water and Sewer System General Obligation Debt	<u>18,705,003</u>	<u>49,278,549</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 48,659,998
Interest and Sinking Fund as of 8-15-11		\$ 1,230,610
Ratio Total Funded Debt to Taxable Assessed Valuation (before freeze)		2.42%
Ratio Net Funded Debt to Taxable Assessed Valuation (before freeze)		1.20%

2012 Estimated Population - 41,120
Per Capita Taxable Assessed Valuation - \$98,416
Per Capita Total Funded Debt - \$2,382
Per Capita Net Funded Debt - \$1,183

- (1) Excludes the Refunded Obligations.
(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(3) Includes a portion of the Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ⁽¹⁾⁽²⁾

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$3,449,616,349	81.64%	\$3,374,260,203	81.33%	\$3,344,468,568	79.58%
Real, Residential, Multi-Family	104,680,450	2.48%	91,198,119	2.20%	100,599,639	2.39%
Real, Vacant Lots/Tracts	92,984,420	2.20%	91,598,541	2.21%	90,065,092	2.14%
Real, Acreage (Land Only)	39,621,631	0.94%	44,968,588	1.08%	51,655,438	1.23%
Real, Farm and Ranch Improvements	437,900	0.01%	617,852	0.01%	774,000	0.02%
Real, Commercial and Industrial	334,252,266	7.91%	337,445,325	8.13%	365,812,554	8.70%
Real, Oil, Gas and Mineral Reserve	3,391,480	0.08%	3,843,350	0.09%	9,989,700	0.24%
Real and Tangible Personal, Utilities	52,773,176	1.25%	49,058,296	1.18%	50,150,098	1.19%
Tangible Personal, Commercial	81,937,549	1.94%	85,055,057	2.05%	93,511,081	2.23%
Tangible Personal, Industrial	1,549,898	0.04%	2,049,884	0.05%	2,220,828	0.05%
Tangible Personal, Other	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	73,800	0.00%	58,200	0.00%	108,900	0.00%
Real Property, Inventory	63,898,083	1.51%	68,887,220	1.66%	93,168,840	2.22%
Total Appraised Value Before Exemptions	\$4,225,217,002	100.00%	\$4,149,040,635	100.00%	\$4,202,524,738	100.00%
Adjustments	-		-		(30,861,241)	
Less: Total Exemption/Reductions	(178,347,487)		(173,543,603)		(158,372,409)	
Taxable Assessed Value	<u>\$4,046,869,515</u> ⁽³⁾		<u>\$3,975,497,032</u> ⁽³⁾		<u>\$4,013,291,088</u> ⁽³⁾	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2009		2008	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$3,168,905,513	78.27%	\$2,901,043,525	79.15%
Real, Residential, Multi-Family	105,623,151	2.61%	81,276,942	2.22%
Real, Vacant Lots/Tracts	87,538,531	2.16%	71,848,432	1.96%
Real, Acreage (Land Only)	52,586,310	1.30%	63,679,438	1.74%
Real, Farm and Ranch Improvements	774,000	0.02%	14,608,152	0.40%
Real, Commercial and Industrial	361,803,445	8.94%	318,514,002	8.69%
Real, Oil, Gas and Mineral Reserve	7,441,270	0.18%	2,694,770	0.07%
Real and Tangible Personal, Utilities	57,334,251	1.42%	48,188,242	1.31%
Tangible Personal, Commercial	88,805,036	2.19%	76,462,838	2.09%
Tangible Personal, Industrial	2,650,818	0.07%	2,815,148	0.08%
Tangible Personal, Other	55,000	0.00%	-	0.00%
Tangible Personal, Mobile Homes	114,700	0.00%	230,636	0.01%
Real Property, Inventory	115,097,252	2.84%	83,843,546	2.29%
Total Appraised Value Before Exemptions	\$4,048,729,277	100.00%	\$3,665,205,671	100.00%
Adjustments	(28,808,045)		21,394,265	
Less: Total Exemptions/Reductions	(152,433,795)		(140,167,429)	
Taxable Assessed Value	<u>\$3,867,487,437</u>		<u>\$3,546,432,507</u>	

(1) Valuations shown are certified taxable assessed values reported by the Tarrant Appraisal District to the State Comptroller of Public Accounts.

(2) Includes the Incremental Taxable Assessed Value of real property within the Reinvestment Zone.

(3) Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Includes incomplete values and values in arbitration.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Tax Supported Debt Outstanding at End of Year ⁽³⁾	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2008	38,402 ⁽¹⁾	\$ 3,546,432,507	\$ 92,350	\$ 33,288,015	0.94%	\$ 867
2009	39,450 ⁽¹⁾	3,867,487,437	98,035	41,953,599	1.08%	1,063
2010	39,627 ⁽²⁾	4,013,291,088	101,277	51,049,994	1.27%	1,288
2011	39,920 ⁽¹⁾	3,975,497,032	99,587	48,644,998	1.22%	1,219
2012	41,120 ⁽¹⁾	4,046,869,515	98,416	45,229,998 ⁽⁴⁾	1.12%	1,100

- (1) Source: North Central Texas Council of Governments.
- (2) Source: U.S. Census Bureau.
- (3) Excludes self-supporting debt.
- (4) Projected, includes the Bonds. Excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2008	\$ 0.43219	\$ 0.31247	\$ 0.11972	\$ 15,264,825	99.20%	99.74%
2009	0.43219	0.31175	0.12044	16,716,581	99.14%	99.39%
2010	0.44219	0.31009	0.13210	17,746,372	99.09%	99.21%
2011	0.44219	0.29278	0.14941	17,312,500	99.01% ⁽¹⁾	99.56% ⁽¹⁾
2012	0.44219	0.31355	0.12864	17,696,950	N/A	N/A

- (1) Collections for part year only, through August 15, 2011.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2011/12 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Capri W DTC LLC	Multi-Family Dev./Town Center	\$ 40,215,800	0.99%
Art House	Multi-Use Dev./Town Center	26,000,000	0.64%
KTC Seniors Ltd	Multi-Family Dev./Town Center	15,640,200	0.39%
GTE/Verizon	Telecommunications Utility	15,146,700	0.37%
Meritage Homes of Texas LLC	Residential Development	14,590,400	0.36%
Regency Centers LP	Retail Shopping Center/Town Center	14,033,700	0.35%
Grand Estates at Keller LP	Multi-Family Development	13,459,000	0.33%
T Keller LLC	Retail	12,325,400	0.30%
TXU/Oncor Electric	Electric Utility	12,322,000	0.30%
Lowe's Home Centers Inc.	Retail Store	12,118,600	0.30%
		<u>\$ 175,851,800</u>	<u>4.35%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Bonds – Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2012 Principal and Interest Requirements	\$ 5,036,054
\$0.1301 Tax Rate at 99% Collection Produces	\$ 5,039,740
Average Annual Principal and Interest Requirements, 2012 - 2030	\$ 3,324,628
\$0.0859 Tax Rate at 99% Collection Produces	\$ 3,327,545
Maximum Principal and Interest Requirements, 2012	\$ 5,036,054
\$0.1301 Tax Rate at 99% Collection Produces	\$ 5,039,740

(1) Includes the Bonds. Net of self-supporting debt and Refunded Obligations.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2011/12 Taxable Assessed Value	2011/12 Tax Rate ⁽¹⁾	Total Tax Supported Debt	Estimated % Applicable	City's	Authorized But Unissued Debt As Of 8-15-11
					Overlapping Tax Supported Debt As of 8/15/11	
City of Keller	\$ 3,912,872,003	\$0.442190	\$ 48,659,998	100.00%	\$ 48,659,998 ⁽²⁾	\$ -
Carroll Independent School District	5,312,485,361	1.415000	249,710,039	0.18%	449,478	-
Keller Independent School District	10,750,214,490	1.530600	712,856,753	34.18%	243,654,438	-
Northwest Independent School District	4,342,710,282	1.375000	552,386,901	0.13%	718,103	140,000,000
Tarrant County	118,230,107,063	0.264000	355,470,000	3.27%	11,623,869	136,520,000
Tarrant County College District	118,467,665,116	0.137640	29,780,000	3.27%	973,806	-
Tarrant County Hospital District	118,241,205,855	0.227897	27,160,000	3.27%	888,132	-
Total Direct and Overlapping Tax Supported Debt					\$ 306,967,824	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					7.85%	
Per Capita Overlapping Tax Supported Debt					\$ 7,746.43	

(1) Tax rates for each entity have been or should be set in August or September 2011. Data in Table 7 is based on tax information for the 2010/11 fiscal year.

(2) Includes the Bonds. Net of self-supporting debt and excludes the Refunded Obligations.

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Outstanding Debt	Less: TIF Requirements	Less: Development Corporation Requirements ⁽³⁾	Less: Water and Sewer System Requirements	Total Debt Less Self- Supporting Requirements	% of Total Outstanding Principal Retired
	Principal	Interest	Total	Principal	Interest	Total						
2012	\$ 8,278,527	\$ 3,625,691	\$ 11,904,218	\$ 135,000	\$ 219,695	\$ 354,695	\$ 12,258,913	\$ 3,174,766	\$ 1,502,249	\$ 2,545,844	\$ 5,036,054	
2013	7,813,126	3,365,614	11,178,740	35,000	272,300	307,300	11,486,040	3,178,454	1,335,263	2,329,188	4,643,136	
2014	7,951,893	3,080,428	11,032,321	40,000	271,650	311,650	11,343,971	3,178,654	1,335,600	1,997,153	4,832,564	
2015	7,935,000	2,644,033	10,579,033	40,000	271,050	311,050	10,890,083	3,180,054	1,333,650	1,801,986	4,574,393	
2016	8,260,000	2,332,575	10,592,575	40,000	270,450	310,450	10,903,025	3,173,129	1,337,131	1,805,207	4,587,558	41.38%
2017	7,005,000	2,011,288	9,016,288	1,165,000	252,675	1,417,675	10,433,963	3,173,279	1,331,775	1,812,764	4,116,145	
2018	7,110,000	1,706,628	8,816,628	1,210,000	217,050	1,427,050	10,243,678	3,176,816	1,338,325	1,807,290	3,921,247	
2019	4,285,000	1,394,019	5,679,019	1,250,000	180,150	1,430,150	7,109,169	-	1,338,750	1,808,967	3,961,452	
2020	4,465,000	1,215,157	5,680,157	1,285,000	142,125	1,427,125	7,107,282	-	1,338,125	1,812,280	3,956,877	
2021	3,710,000	1,046,249	4,756,249	1,325,000	102,975	1,427,975	6,184,224	-	1,336,450	1,342,005	3,505,770	74.88%
2022	3,885,000	880,704	4,765,704	1,365,000	62,625	1,427,625	6,193,329	-	1,333,725	1,343,580	3,516,025	
2023	3,400,000	720,055	4,120,055	1,405,000	21,075	1,426,075	5,546,130	-	1,339,800	1,342,508	2,863,822	
2024	3,565,000	564,297	4,129,297	-	-	-	4,129,297	-	-	1,348,555	2,780,742	
2025	2,245,000	437,651	2,682,651	-	-	-	2,682,651	-	-	449,620	2,233,032	
2026	2,335,000	341,776	2,676,776	-	-	-	2,676,776	-	-	446,939	2,229,838	93.47%
2027	2,105,000	248,249	2,353,249	-	-	-	2,353,249	-	-	115,889	2,237,360	
2028	2,195,000	156,256	2,351,256	-	-	-	2,351,256	-	-	116,673	2,234,583	
2029	1,500,000	59,235	1,559,235	-	-	-	1,559,235	-	-	117,198	1,442,038	
2030	600,000	12,750	612,750	-	-	-	612,750	-	-	117,444	495,306	100.00%
	<u>\$ 88,643,546</u>	<u>\$ 25,842,655</u>	<u>\$ 114,486,202</u>	<u>\$ 9,295,000</u>	<u>\$ 2,283,820</u>	<u>\$ 11,578,820</u>	<u>\$ 126,065,022</u>	<u>\$ 22,235,151</u>	<u>\$ 16,200,843</u>	<u>\$ 24,461,087</u>	<u>\$ 63,167,940</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt. Excludes the Refunded Obligations.

(2) Average life of the issue - 8.215 years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.

(3) Includes a portion of the Bonds.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-12		\$ 5,036,054 ⁽¹⁾
Budgeted Interest and Sinking Fund, 9-30-11	\$ 464,229	
Budget Interest and Sinking Fund Tax Levy	5,146,800	
Estimated Investment Income	<u>18,000</u>	<u>5,629,029</u>
Estimated Balance, 9-30-12		<u>\$ 592,975</u>

(1) Net of self-supporting debt.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-10	\$ 6,028,570
Less: Revenue Bonds Requirements, 2011 Fiscal Year	<u>-</u>
Balance Available for Other Purposes	\$ 6,028,570
System General Obligation Bond Requirements, 2011 Fiscal Year	<u>2,545,844</u>
Balance	<u>\$ 3,482,726</u>
Percentage of System General Obligation Bonds, Self-Supporting	100.00%

Budgeted Funds Available for Debt Service from Tax Increment Reinvestment	
Zone Revenue ("TIRZ") collected for Fiscal Year 2010/11	\$ 3,214,469
TIRZ General Obligation Bond Requirements, 2011 Fiscal Year	<u>3,174,766</u>
Balance	<u>\$ 39,703</u>
Percentage of TIRZ General Obligation Bonds, Self-Supporting	100.00%

Budgeted Funds Available for Debt Service from Keller Development Corporation ("KDC") collected for Fiscal Year 2010/11	
	\$ 2,533,484
KDC General Obligation Bond Requirements, 2011 Fiscal Year	<u>1,502,249</u>
Balance	<u>\$ 1,031,235</u>
Percentage of KDC General Obligation Bonds, Self-Supporting	100.00%

(1) It is the City's current policy to provide these payments from the respective revenue sources shown above; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City does not have any authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT The City does not anticipate issuing additional general obligation debt within the next twelve month period.

TABLE 12 - OTHER OBLIGATIONS

The City has entered into certain capital lease agreements. The following is a schedule of future minimum lease payments as of September 30, 2010.

Due Fiscal Year Ending September 30,	Scheduled Annual Payment
2011	\$ 159,275
2012	159,275
2013	159,275
2014	<u>118,600</u>
	\$ 596,425
Less Interest	<u>64,944</u>
	<u>\$ 531,481</u>

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the State-wide Texas Municipal Retirement System (the "TMRS"), one of over 833 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits from the TMRS administered plan depend upon the sum of the employees' contributions to the plan, with interest, and the City-financed monetary credits, with interest.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Employee Deposit Rate	7%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5 Years
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% repeating, transfers
Annuity Increase (to retirees)	70% of CPI repeating

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (the "TMRS CAFR"), which can be obtained from the TMRS website at www.tmr.org. As a result of such change in actuarial assumptions, the City's actuarial accrued liability has increased from \$28,054,723 as of December 31, 2006 to \$49,301,322 as of December 31, 2009. As of such date, the City had actuarial value of assets of \$31,447,480, leaving the City with an unfunded actuarial accrued liability of \$17,853,842 and giving the City a "funded ratio" of 63.8%. For more information concerning the City's actuarial accrued liability with respect to its pension plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note V.C.

The TMRS requires each city in the State to contribute a certain percentage of covered payroll each month, and allows certain cities to contribute a lesser amount by paying a "Phase-in Rate" rather than the "Full Rate". The "Phase-in Rate" period is an eight-year period that began on January 1, 2009. If a city elects to pay the "Phase-in Rate", its required monthly contribution rate will be a lesser amount during such phase-in period. However, each year that a city's actual contribution rate is less than the "Full Rate", the difference generates an actuarial loss in the following year's valuation, and therefore increases the city's required minimum contribution for the next year. Furthermore, cities that pay the "Phase-in Rate" or any rate less than the "Full Rate" are also likely to see their funding ratio decline each year.

Beginning in 2009, the City elected to pay the "Phase-in Rate", thereby "phasing in" higher contributions to TMRS over a period of eight years in order to recognize the change to a projected unit credit cost method in the 2007 actuarial valuation. By doing so, the City's net pension obligation will continue to increase until the full actuarially determined Annual Required Contribution is paid by the City. The phase in period will last eight years from fiscal year 2009 to fiscal year 2016; provided, however, that the City may at any time elect to pay higher than the "Phase-in Rate".

The City has determined that it will continue to contribute the "Phase-in Rate" in calendar year 2011, and the City's TMRS-required minimum monthly contribution rate will be 15.2% of covered payroll during such year. The City expects to fully fund its actuarial accrued liability over the next 27 years with an assumed payroll growth rate of 3%.

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with certain additional post-employment benefits. The City's annual other postemployment benefit ("OPEB") cost (expenses) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 52,437
Interest on Net Pension Obligation	1,836
Adjustment to the ARC	<u>-</u>
Annual Pension Cost	\$ 54,273
Contributions Made	<u>(5,229)</u>
Increase (Decrease) in Net Pension Obligation	\$ 49,044
Net Pension Obligation/(Asset), beginning of year	<u>40,808</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ 89,852</u></u>

In addition to the employer contribution, the retirees paid \$20,507 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization).

Fiscal Year Ended <u>9/30</u>	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$52,437	\$ 11,629	22.8%	\$ 40,808
2010	52,437	5,229	10.0%	89,852

As of December 31, 2008, the actuarial accrued liability for benefits was \$482,084, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,112,589 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7%.

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which rate is equal to the cost of providing one-year term life insurance. The City's funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City has received a letter from TMRS informing the City that its contribution rate for the SDBF for the 2011 calendar year will be 0.16% of covered payroll (which amount is included in the 15.2% contribution rate provided above under "Pension Plan"). The TMRS CAFR includes financial and supplementary information for the SDBF.

For more information concerning the City's other post-employment benefits, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note V.D.

OTHER BENEFITS . . . *Compensated Absences.* It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits up to specified limits. The number of hours an employee may accrue is dependant on each employee's years of service. Regular full-time employees having 5 years of service or less may accrue up to 160 hours; 6 - 10 years of service: 240 hours; 11 - 20 years of service: 320 hours; and over 20 years of service: 400 hours. In addition, directors may accrue up to a maximum of 400 hours. Employees accrue sick leave during employment but, upon termination or retirement, any accumulated sick leave expires. All vacation pay is accrued when incurred, and a liability for these amounts is reported only if they are matured and due within one year. As of September 30, 2010, the City had \$1,500,172 liability for compensated absences, \$224,440 of which was due within one year. Compensated absences are generally liquidated by the General Fund. For more information concerning the City's policy regarding compensated absences, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note I.D.6.

FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
Program Revenues					
Charges for Services	\$ 6,800,180	\$ 6,402,796	\$ 7,247,960	\$ 10,122,119	\$ 10,025,176
Operating Grants and Contributions	2,358,986	2,400,191	2,483,052	241,636	259,871
Capital Grants and Contributions	445,168	497,454	6,297,308	2,640,281	2,904,694
General Revenues					
Property Taxes	20,250,125	19,156,565	17,325,312	16,079,035	14,459,067
Other Taxes	10,789,133	10,621,782	11,286,593	11,531,144	10,673,282
Investment Earnings	232,082	565,181	859,258	1,412,474	934,806
Miscellaneous	292,685	128,425	65,260	-	-
Gain (Loss) of Sale of Assets	-	-	26,973	-	-
Total Revenues	\$ 41,168,359	\$ 39,772,394	\$ 45,591,716	\$ 42,026,689	\$ 39,256,896
Expenses:					
General Government	\$ 7,389,603	\$ 7,413,655	\$ 5,630,782	\$ 5,380,333	\$ 4,814,291
Planning & Community Development	1,100,186	1,161,434	1,291,819	1,231,362	1,251,056
Public Safety	14,258,649	14,740,695	13,969,085	12,162,132	10,627,205
Public Works	7,189,802	8,260,487	9,067,983	7,800,979	7,735,718
Recreation and Leisure	7,546,936	9,483,618	8,592,564	8,449,576	8,089,054
Interest on Long-Term Debt	3,790,680	3,723,887	3,794,400	3,909,308	4,303,912
Non-Departmental	-	-	-	115,376	231,915
Total Expenses	\$ 41,275,856	\$ 44,783,776	\$ 42,346,633	\$ 39,049,066	\$ 37,053,151
Increase in Net Assets					
before Transfers	\$ (107,497)	\$ (5,011,382)	\$ 3,245,083	\$ 2,977,623	\$ 2,203,745
Transfers	3,411,590	3,191,285	3,185,538	1,892,406	2,192,110
Increase (Decrease) in Net Assets	\$ 3,304,093	\$ (1,820,097)	\$ 6,430,621	\$ 4,870,029	\$ 4,395,855
Adjustments	\$ -	\$ -	\$ -	\$ -	\$ (1,461)
Adjustment for Street Infrastructure Assets	-	-	-	-	-
Net Assets - October 1	90,606,819	92,426,916	85,996,296	81,126,267	76,731,872
Net Assets - September 30	\$ 93,910,912	\$ 90,606,819⁽¹⁾	\$ 92,426,917	\$ 85,996,296	\$ 81,126,266

(1) The decrease in net assets in fiscal year 2008-09 resulted in part from a substantial decrease in developer contributions, due to a decrease in development activity.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

Revenues	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
Total Property Tax	\$ 12,337,171	\$ 12,084,761	\$ 11,252,820	\$ 9,807,896	\$ 8,894,456
Sales Tax	4,004,193	4,037,484	4,360,294	4,148,974	3,757,724
Franchise/Other Local Tax	2,849,462	2,576,311	2,631,858	3,236,163	3,138,860
Permits, Licenses and Fees	1,456,765	1,101,177	1,715,127	1,914,637	2,641,279
Intergovernmental Revenue	1,990,769	1,979,193	2,017,712	1,452,871	821,336
Charges for Services	1,171,522	992,021	891,081	738,684	618,299
Fines and Warrants	845,155	887,073	956,146	1,076,532	1,071,737
Interest on Investments	72,794	217,256	371,848	557,136	372,162
Miscellaneous	271,633	286,766	270,838	219,382	211,931
Donations	7,000	47,100	101,010	11,353	11,353
Total Revenues	\$ 25,006,464	\$ 24,209,142	\$ 24,568,734	\$ 23,163,628	\$ 21,539,137
Expenditures					
General Government	\$ 4,455,649	\$ 4,227,027	\$ 3,551,827	\$ 3,481,037	\$ 2,877,303
Community Development	1,082,844	1,148,647	1,265,371	1,208,865	1,216,936
Public Safety	13,053,811	13,253,565	12,700,339	10,977,896	9,561,101
Public Works	2,069,904	2,035,959	2,048,563	1,888,375	1,889,684
Parks and Recreation	3,623,166	3,606,894	3,570,559	3,450,130	3,317,431
Nondepartmental	-	-	-	378,409	166,707
Capital Outlay	585,460	618,369	972,649	851,337	250,866
Total Expenditures	\$ 24,870,834	\$ 24,890,461	\$ 24,109,308	\$ 22,236,049	\$ 19,280,028
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 135,630	\$ (681,319)	\$ 459,426	\$ 927,579	\$ 2,259,109
Sales of Capital Assets	9,039	-	-	-	-
Operating Transfers In	2,340,500	2,213,500	2,330,573	1,203,053	1,237,000
Operating Transfers Out	(751,095)	(757,840)	(1,611,223)	(2,110,308)	(1,624,684)
Note Proceeds	-	11,407	8,250	-	-
Increase (Decrease) in Fund Balance	\$ 1,734,074	\$ 785,748	\$ 1,187,026	\$ 20,324	\$ 1,871,425
Beginning Fund Balance	9,069,964	8,284,216	7,097,190	7,076,866	5,051,319
Adjustments	-	-	-	-	154,122
Ending Fund Balance	\$ 10,804,038	\$ 9,069,964	\$ 8,284,216	\$ 7,097,190	\$ 7,076,866

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1992, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation for the aforementioned purposes. In November, 2001, the voters approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8th of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code. In May 2006, this tax was re-authorized by the voters for an additional fifteen years, and in November 2007, voters authorized a reduction in the rate from 3/8th of 1% to ¼ of 1%. Said sales tax is collected solely for the benefit of the Keller Crime Control and Prevention District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighth of one percent (1/8th of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. In November 2007, this tax was re-authorized by the voters for an additional four years at ¼ of 1%, effective April 1, 2008. Said sales tax is collected solely for the repair, rehabilitation and reconstruction of existing streets and may be pledged to secure payment of sales tax revenue bond issues. **Such sales tax revenues are not pledged to the payment of the Bonds.**

Fiscal Year Ended	1% Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2007	\$ 4,076,297	29.48%	\$0.1270	\$ 108
2008	4,360,294	28.56%	0.1229	114
2009	4,080,795	24.41%	0.1055	103
2010	3,935,364	22.18%	0.0981	99
2011 ⁽²⁾	3,750,550	21.66%	0.0943	94

(1) Excludes the Keller Development Corporation sales tax, the Keller Crime Control Prevention District sales tax, and the street maintenance tax.

(2) Collections for part year only, through July 2011.

The sales tax breakdown for the City is as follows:

Economic and Community Development	0.500¢
City Sales & Use Tax	1.000¢
Crime Control and Prevention	0.250¢
Street Maintenance Tax	0.250¢
State Sales & Use Tax	6.250¢
Total	8.250¢

FINANCIAL POLICIES

Basis of Accounting. . . The City’s accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenues susceptible to accrual are property taxes, franchise taxes and sales taxes and are recognized as revenue when measurable. However, the City has established an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. As a result only ad valorem taxes collected are actually recognized as revenue. Gross receipts of taxes, license, charges for services, fines and miscellaneous revenues are recorded as revenue when received because they are generally not measurable until received.

Proprietary Fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Transfers are recognized in the period in which the interfund receivable and payable arise.

Budgetary Procedures . . . The City adopts an annual appropriated budget for the General Fund, the Water and Sewer Fund, Debt Service Fund and the Drainage Utility Fund. All annual appropriations lapse at fiscal year end. The budget is legally enacted through passage of an ordinance after public hearings are conducted for the purpose of obtaining taxpayer comments. Project lengths financial plans are adopted for capital improvement program funds.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where: (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

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

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

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

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

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

TABLE 15 - CURRENT INVESTMENTS

As of August 15, 2011, the City's investable funds were invested in the following categories:

Description	Book Value as a % of Total	Book Value	Market Value
Certificates of Deposit	56.37%	\$ 30,493,115	\$ 30,493,115
Money Market Mutual Funds	22.39%	12,110,326	12,110,326
Investment Pools	21.25%	11,495,869	11,495,869
	100.00%	\$ 54,099,310	\$ 54,099,310

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

TAX MATTERS

OPINIONS

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with Existing Law, (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C - Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) covenants of the City contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Obligations, respectively, and the property financed or refinanced therewith, and (c) the verification report prepared by Grant Thornton LLP. Failure by the City to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The foregoing opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the projects financed with the proceeds of the Bonds or the Refunded Obligations. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds or as to whether the Internal Revenue Service would agree with any of aforementioned opinions of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Securities"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Security, and (ii) the initial offering price to the public of such Original Issue Discount Security would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Security in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Security equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Security prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Security in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Security was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Security is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Security for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in

prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Security.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Securities which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Securities should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Securities and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Securities.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excessive passive income, foreign corporation subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such obligations; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is an obligation which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of an obligation issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

ALTERNATIVE MINIMUM TAX ON CORPORATIONS

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

FUTURE AND PROPOSED LEGISLATION

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. On September 12, 2011, President Obama submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"). If enacted, as proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

STATE, LOCAL AND FOREIGN TAXES

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

QUALIFIED TAX-EXEMPT BONDS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded,; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement while it remains obligated to advance funds to pay such Bonds. Under the City will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2011.

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

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

EVENT NOTICES . . . The City will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The City will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the

Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person.

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

AVAILABILITY OF INFORMATION . . . Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the nationally recognized municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org. The City will continue to make information filings, including material event notices, with the Texas State Information Depository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

LIMITATIONS AND AMENDMENTS

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

The City's continuing disclosure agreements for the Bonds may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the respective Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreements if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of such Bonds. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax supported debt of the City are rated "Aa2" by Moody's and "AA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending, or to their knowledge threatened, litigation or other proceeding against the City that could have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

The Bonds. Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. Though it may represent the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "Plan of Financing" (except under the subcaption "Sources and Uses of Proceeds"), "The Bonds" (exclusive of the subcaptions "Book-Entry-Only System", "Remedies", and the last sentence in the subcaption "Tax Rate Limitation"), "Tax Matters" and "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (except for the last sentence of the first paragraph thereof), "Registration and Qualification of Bonds for Sale," and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "Other Information" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel to the Underwriter, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the forecasted payments of principal and interest to redeem the Refunded Obligations and (b) computation of the yields of the Bonds and the restricted Federal Securities will be verified by Grant Thornton LLP, certified public accountants. Such computations will be based solely on assumptions and information supplied by First Southwest Company on behalf of the City. Grant Thornton LLP will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Obligations.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$66,117.00. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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

The Underwriter, BOSC, Inc., is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

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

MISCELLANEOUS

The Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter.

PAT MCGRAIL
Mayor
City of Keller, Texas

ATTEST:

SHEILA STEPHENS
City Secretary

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligation, Series 2003

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
5/15/2003	2/15/2017	3.750%	\$ 1,135,000	\$ 1,135,000
	2/15/2018	3.875%	1,185,000	1,185,000
	2/15/2019	4.000%	1,235,000	1,235,000
	2/15/2020	4.000%	1,280,000	1,280,000
	2/15/2021	4.125%	1,335,000	1,335,000
	2/15/2022	4.125%	1,390,000	1,390,000
	2/15/2023	4.250%	<u>1,450,000</u>	<u>1,450,000</u>
			\$ 9,010,000	\$ 9,010,000

The 2017 - 2023 maturities will be redeemed prior to original maturity on August 15, 2013, at par.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION AND HISTORY . . . The City was incorporated on November 16, 1955 under the general laws of the State of Texas, and the current home-rule charter was approved by the voters in 1982. The City operates under the Council-Manager form of government. The City Council is comprised of a mayor and five council members, who enact local legislation, determine overall City policies, pass ordinances, appoint committees, and adopt the City's budget. The Mayor and Council Members are all elected at-large on a non-partisan basis. Council members are elected for a two-year term on a rotating basis, with the Mayor and two council members elected in odd-numbered years, and the remaining three council members elected on even-numbered years. The City Manager is appointed by the Mayor and City Council and is responsible to them for proper administration of the daily affairs of the City, and appointment of heads of the various departments.

The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as the surrounding communities, with an estimated population exceeding 6.1 million. The city limits of Keller currently encompasses approximately 19 square miles.

The City provides a full range of municipal services including general government, public safety (police and fire), streets, parks and recreation, community development, planning and zoning, code enforcement, a public library, and business-type activities, such as water and sewer, and drainage utilities. Sanitation collection services are provided through private contractors; non-residential customers contract with the collection firm of their choice, while all residential customers contract through the City, with collection fees added to their municipal water, sewer, and drainage utility bills.

POPULATION . . . Since 1970, the total population increase exceeds 39,000. This increasing population trend is anticipated to continue for several years, although at a more reasonable pace. The City's estimated population by 2012 is 41,120. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,809,034 in 2010. According to the North Central Texas Council of Governments population projections, the population of Tarrant County in 2011 is 1,817,840.

ECONOMICS . . . The City of Keller has a staff of approximately 344 full-time employees, including 83 police department personnel and 59 fire/EMS department employees. There are currently 17 local banks serving the City. These banks include, American National Bank, BBVA Compass Bank, Bank of America, N.A. (3), Bank of Texas, N.A., Capital One Bank, N.A., First Financial Bank, N.A., Frost Bank, JP Morgan Chase Bank, N.A. (2), Prosperity Bank, Regions Bank, Wells Fargo Bank, N.A. (2), and Woodforest National Bank (2).

Keller is a part of the Dallas/Fort Worth Metroplex which has maintained a very strong economy and is ranked as one of the fastest growing cities in the Metroplex. The City is located mid-way between the Dallas/Fort Worth International Airport and Alliance Airport. A favorable personal and corporate tax climate, excellent schools, favorable right to work laws and a strong continuing commitment to business have made the City and State positive areas in which businesses can locate.

In order to keep pace with the rapid residential growth and expanding commercial areas, infrastructure improvements have continued to be a high priority. A 1.4-mile section of Rufe Snow Drive, a primary arterial roadway extending from IH-820 in North Richland Hills northward to the center of Keller at Keller Parkway (F.M. 1709), is currently under review for an expansion to become either a 4-lane divided or 6-lane divided road. This expansion of Rufe Snow Drive between Rapp Road and Bear Creek Parkway is scheduled to begin in the winter of 2010, with an expected completion date in 2011. Major commercial and residential projects along Rufe Snow Drive include: North Hills Family Practice, a 22,932 sq. ft. medical office development; Cobblestone Parks, a 29-lot residential development; and Mustang Creek, a 102-unit assisted living facility nearing completion. Similarly, North Tarrant Parkway is under construction and will expand to a 6 lane divided arterial. Construction on North Tarrant Parkway will be complete in 2011. It, along with Rufe Snow Drive, will have landscaped medians, turn lanes, traffic signals, and sidewalks. Two additional north-south arteries are either under design or under construction. First, Randol Mill Avenue (F.M. 1938) is proposed to become a 4-lane divided roadway. This proposal is currently under design and will increase access along the City's eastern boundary to SH 114. Last, U.S. Highway 377 beginning at Keller Hicks Road and extending north to State Highway 170 was completed in 2009 and now provides a new 4-lane divided highway along Keller's western boundary, thus completing a major north-south arterial roadway from IH-820 to SH 170. In addition, the expanded U.S. Highway 377 will provide improved access to several miles of prime commercial frontage totaling approximately 170 acres.

Major commercial and residential projects on Davis Boulevard (FM 1938) include: Salons of Volterra, a 11,333 sq. ft. office and retail development nearing completion; and Villas of Volterra, Phase I, a 20-lot patio home development.

Major commercial and residential projects on U.S. Highway 377 include: AUI Contractors Field Office and Warehouse, a 30,331 sq. ft. office and contractor yard; Bear Creek Plaza, Phase 3, a 101,000 sq. ft. commercial development of restaurants and shops; Care Now, a 5,575 sq. ft. medical facility; Marshall Pointe Estates, an 84-lot residential development; and Marshall Ridge, a 527-lot residential development. The City has included on the current Thoroughfare Master Plan to construct a two-way couplet through the Old Town Keller business district, which will ultimately create three lanes of traffic moving south along U.S. Highway 377 and three lanes of traffic traveling north along the current alignment of Elm Street. The project currently has a 10-15 year planning and design time frame, and when complete will accomplish two primary goals – the improvement of traffic flow through a major bottleneck, and the preservation of our Old Town business district.

Keller Town Center is a concentrated center of business activity that creates a focal point in the City of Keller. This focal point is non-residential with residential uses allowed as part of the overall mixed-use nature of the area. For example, the Arthouse at Keller Town Center is a 240,974 sq. ft. mixed-use development with 188 residential units. Uptown Keller, Phase I is another mixed-use development consisting of 48 residential lots. Other developments in Town Center include Pecan Park, a 10,170 square foot office development, a Wells Fargo banking facility, and the Square at Keller Town Center, a 77,600 square-foot office and retail development. MONEY magazine has named the City of Keller 7th in its top 100 "Best Places to Live" ranking of small U.S. towns. The magazine's annual list was released Monday, July 13, 2009 on its Web site, with a follow-up article published in the magazine's August 2009 edition. The list

ranks small towns by looking at the strength of their economies, home values, public schools, unemployment rates, crime rates and amenities that enrich the quality of life, among other attributes. For Keller, the article cites the energy industry that has bolstered the region, as well as major offices just outside the City for FedEx, Fidelity Investments and Sabre Holdings. The Keller Town Center district and abundant park amenities were also noted as assets. These factors, as well as the booming Alliance corridor and companies such as American Airlines, have helped Keller's population triple since 1990.

EDUCATION . . . As one of the fastest-growing school districts in Texas, Keller Independent School District (the "District") is proud to boast two National Blue Ribbon Schools of Excellence, 27 TEA Exemplary and Recognized schools and the 2007 Texas State Secondary Teacher of the Year. The District encompasses an area of approximately 51 square miles and conducts programs for K-12. The District has 38 campuses serving more than 33,000 students. Approximately 3,600 teachers, administrative personnel, and support staff are employed by the District. The District believes that education is a partnership among schools, parents and the community.

The physical facilities of the District include:

4	High schools (9-12)
6	Middle schools (7-8)
5	Intermediate schools (5-6)
22	Elementary schools (K-4)
1	Keller Learning Center

Educational opportunities beyond high school are readily available. The Northeast campus of the Tarrant County College District is within short driving distance. In addition, within a 40-mile radius, there are a number of colleges and universities, including Southern Methodist University, Texas Christian University, Texas Women's University, the University of North Texas, the University of Dallas, and the University of Texas at Arlington. In addition, there are several trade, industrial and technical schools located throughout the area.

TRANSPORTATION . . . The City is served by major highways both on a north/south and east/west axis. North/south highways are SH 121, SH 26, FM 1938 and US Hwy. 377. The east/west highways are IH Loop 820, SH 170, SH 183, and FM 1709. These major highways provide easy access to Dallas, Fort Worth and the surrounding Metroplex area.

Air service is provided by nearby Dallas/Fort Worth International Airport, the nation's third busiest airport, providing service to national and international destinations. Meacham Field, approximately five miles away in northern Fort Worth is a fixed base operation for private and commercial service and provides sophisticated instrument approach facilities, lighted runways, terminal facilities and fuel and maintenance services. Alliance Airport, located northwest of Keller, began limited operations in 1989, and is the first newly constructed industrial airport in the United States. The Airport is home to a new FedEx hub, BNSF Intermodal Terminal, DEA, Galaxy Aviation, and numerous company distribution facilities.

MEDICAL . . . Excellent health care facilities are located within minutes of the City, including four of the largest hospitals in Tarrant County. The Metroplex area is served by more than 70 hospitals which offer specialized services such as organ transplantation, major trauma care, cancer treatment, kidney dialysis and chemical dependency treatment. Baylor Medical and Diagnostic Center located on U.S. Highway 377 South in Keller has approximately 39,000 square-feet and commenced operation in March 2006. Lonestar Endoscope, also located on U.S. Highway 377 South (next to Baylor Medical) also provides important health services.

MISCELLANEOUS . . . The City offers suburban pedestrian-oriented quality of life living, tree lined streets with neighborhood connectivity via a massive system of hike and bike trails. The City is in close proximity (within a 40-minute drive time) to ten lakes, offering boating, fishing, camping, and picnicking facilities, entertainment facilities, and major sporting outlets.

The Cities of Fort Worth and Dallas with their varied cultural opportunities of theaters, museums, zoos, botanical gardens and professional sport teams are less than a 30 minute drive from the City.

EMPLOYMENT DATA

	July 2011	Average Annual 2010	Average Annual 2009	Average Annual 2008	Average Annual 2007	Average Annual 2006
Keller:						
Civilian Labor Force	20,853	19,199	19,052	19,144	18,931	18,558
Unemployed	1,404	1,301	1,280	800	678	737
Percent of Unemployed	6.73%	6.78%	6.72%	4.18%	3.58%	3.97%
Fort Worth/Arlington Metro Division:						
Civilian Labor Force	992,439	979,658	972,177	982,844	975,406	963,095
Unemployed	92,555	87,976	81,530	50,199	43,846	47,693
Percent of Unemployed	9.33%	8.98%	8.39%	5.11%	4.50%	4.95%
Tarrant County						
Civilian Labor Force	844,402	833,527	827,163	836,259	830,632	817,947
Unemployed	79,376	75,124	68,846	43,167	37,570	40,743
Percent of Unemployed	9.40%	9.01%	8.32%	5.16%	4.52%	4.98%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE

CITY OF KELLER, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2010

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2010, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION