



Post Office Box 9010 Addison, Texas 75001-9010 5300 Belt Line Road
(972) 450-7000 Fax: (972) 450-7043

AGENDA

WORK SESSION OF THE CITY COUNCIL

6:30 P.M.

AND

AGENDA

REGULAR MEETING OF THE CITY COUNCIL

7:30 P.M.

SEPTEMBER 23, 2008

TOWN HALL

5300 BELT LINE ROAD

WORK SESSION

Item #WS1 - Discussion of the Cities Aggregation Power Project's Long Term Purchase Power Agreement.

REGULAR SESSION

Item #R1 - Consideration of Old Business.

Item #R2 - Consent Agenda.

#2a - Approval of the Minutes for:
September 9, 2008, Regular City Council Meeting and Work Session.

Item #R3 - Presentation of an Award to the Town of Addison from US Pan Asian Chamber of Commerce.

Item #R4 - Discussion and consideration of approval of an agreement with Shakespeare Dallas regarding the presentation of Shakespeare in the Park.

Attachments:

1. Council Agenda Item Overview
2. Contract

Administrative Recommendation:

Administration recommends approval.

Item #R5 - Presentation of and discussion regarding the Town's Quarterly Financial Report for the period ending June 2008.

Attachment:

1. Quarterly Financial Report

Item #R6 - **PUBLIC HEARING**, discussion, and consideration of approval of an ordinance approving a negotiated resolution between the Atmos Cities Steering Committee (of which the Town of Addison is a member) and Atmos Energy Corporation, Mid-Tex Division, regarding Atmos Mid-Tex's rate review mechanism filing in cities exercising original jurisdiction, adopting tariffs that reflect rate adjustments, and finding the rates to be set by the attached tariffs to be just and reasonable.

Attachments:

1. Council Agenda Item Overview
2. Ordinance

Administrative Recommendation:

Administration recommends approval.

Item #R7 - Discussion and consideration of approval of the Town's Fiscal Year 2008 - 2009 investment policy.

Attachments:

1. Council Agenda Item Overview
2. Investment Policy

Administrative Recommendation:

Administration recommends approval.

Item #R8 - Discussion and consideration of approval of a resolution adopting the Town of Addison Investment Strategy for Fiscal Year 2008-2009.

Attachments:

1. Council Agenda Item Overview
2. Exhibit A

Administrative Recommendation:

Administration recommends approval.

Item #R9 - Discussion and consideration of approval of an Investment Advisory Service Contract.

Attachments:

1. Council Agenda Item Overview
2. First Southwest Asset Management, Inc., Proposal
3. Estrada-Hinojosa Proposal
4. The PFM Group, Proposal

Administrative Recommendation:

Administration recommends approval.

Item #R10 - Discussion and consideration of an exception to Chapter 62, Signs, Article IV, Section 62-138, Holiday decorations, for The Village on the Parkway located at 5100 Belt Line Road, such decoration to be placed on the exterior of Suite 1000, Bed Bath & Beyond Store.

Attachments:

1. Staff Report
2. Application
3. Plat w/picture

Administrative Recommendation:

Administration recommends denial.

Item #R11 - Discussion and consideration of approval of an ordinance amending Subsection 105.5 of and adding Subsection 105.5.1 to the International Building Code, 2006 Edition, and an ordinance amending Subsection R105.5 of and adding Subsection R105.5.1 to the International Residential Code, 2006 Edition, relating to building permits, the expiration thereof, a time period for completion of construction, and obtaining a new permit and payment therefore.

Attachments:

1. Lynn Chandler Memorandum
2. Ordinance-105.5
3. Ordinance-R105.5

Administrative Recommendation:

Administration recommends approval.

Item #R12 - Discussion and consideration of approval of an ordinance amending the 2006 editions of the International Fire Code and the International Building Code regarding fire sprinkler requirements.

Attachments:

1. Council Agenda Item Overview
2. Ordinance

Administrative Recommendation:

Administration recommends approval.

Item #R13 - Discussion and consideration of approval of a professional services agreement with Grantham and Associates, Inc., in an amount not to exceed \$75,000 for professional design review services on miscellaneous projects.

Attachments:

1. Council Agenda Item Overview

Administrative Recommendation:

Administration recommends approval.

Item #R14 - Discussion and consideration of acceptance of a fifteen foot (15') water line easement from the North Texas Tollway Authority.

Attachment:

1. Council Agenda Item Overview

Administrative Recommendation:

Administration recommends approval.

Item #R15 - Discussion of the 2008 Addison Athletic Club Member survey.

Adjourn Meeting

Posted:
September 19, 2008 at 5:00 P.M.
Mario Canizares - City Secretary

**THE TOWN OF ADDISON IS ACCESSIBLE TO PERSONS
WITH DISABILITIES. PLEASE CALL (972) 450-2819 AT LEAST
48 HOURS IN ADVANCE IF YOU NEED ASSISTANCE.**



MEMO

To: Ron Whitehead, City Manager
From: Randy Moravec, Chief Financial Officer
Re: CAPP Long-Term Purchase Power Agreement
Date: September 18, 2008

For the past three years the Cities Aggregation Power Project (CAPP) Board of Directors, of which I am vice-chairman, has been negotiating Texas Utilities, and then with Texas Competitive Electric Holdings Company, LLC (TCEH), a long-term electric power contract that takes advantage of low-cost power generated by coal plants. The prices of electricity have sky-rocketed this past year, because Texas' deregulated market allows for all electric power to be pegged at the price of natural gas, despite the fact that 45% of the state's power comes from lower cost coal and nuclear power plants. Natural gas has become an extremely volatile commodity which makes it difficult for electric consumers to budget for electric power.

I am pleased to announce that CAPP has entered into a contract with TCEH which will allow CAPP member cities to obtain their base power load (60% of total power) from seven dedicated coal power plants at a cost which is about half of what would be paid under current natural gas prices. The blended price of the coal power and power from other sources is estimated to be 8¢ per kWh. Under the most conservative scenarios with moderate natural gas prices, the Town would be expected to realize annual power savings of at least \$150,000. With increasing demand forcing the price of natural gas up, the savings are expected to be much higher in the future.

Attached is a summary of the purchase power agreement. Essentially, CAPP will be issuing debt to pre-pay TCEH for the base load power. Security for the debt will be agreements with member cities of CAPP who will commit to take their base load from CAPP for a 24-year period. Despite these essential concepts, the funding arrangement is complex and the first of its kind anywhere in the country. For this reason, the topic will be discussed at a work session prior to the September 23, 2008 council meeting.



September 11, 2008

To All Cities Aggregation Power Project, Inc. ("CAPP") Members,

Since its inception in 2001, CAPP's main objective has been to collectively address electric purchasing issues for its political subdivisions members in the deregulated market. We are proud that CAPP members have saved more than \$100 million since the Texas market deregulated and that CAPP membership has grown to include 110 political subdivision members.

CAPP BOARD

Chairman –

Jay Doegey,

City of Arlington

Vice Chairman-

Randy Moravec,

City of Addison

Steve Massey,

City of Allen

David Ragsdale,

City of Benbrook

Don Wilson,

City of Eastland

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City of Abilene

James Zentner,

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City of Plano

Carolyn House,

City of Snyder

Robert Sparkman,

City of The Colony

Secretary Treasurer –

Mary Bunkley,

City of Arlington

Although CAPP member savings are significant, the price volatility in the market makes it difficult to accurately budget for power expenditures from year to year. Power contract options made available to retail customers like CAPP, regardless of source, have been priced as if the energy was produced exclusively from costly natural gas-fired plants.

For several years the CAPP Board and CAPP consultants have pursued efforts to find a fixed price, long-term contract for at least a portion of CAPP's electric energy needs to bring some sense of stability to the annual budgeting process for members and to achieve pricing that consistently stays below market prices. On July 31st the CAPP Board unanimously approved proceeding with the long-term Purchase Power Agreement ("PPA") with Luminant that will supply a portion of participating CAPP members' power needs for 24 years beginning January 1, 2009.

CAPP's consultants forecast that savings for participating CAPP members will exceed \$1 billion over the life of the contract when measured against market prices for electricity based on natural gas prices. Indicative market prices for 2009 confirm more than \$25 million in savings for members participating in the long-term contract next year.

The CAPP Board's recommendation and belief that the long-term contract will result in lower prices for electricity and member savings was made after carefully weighing the benefits and risks of this transaction. All CAPP Board members are city officials or city employees. The benefits and risks inherent in the long-term contract will impact our respective municipalities. The CAPP Board endorses participation in the long-term contract as the most economically attractive alternative despite these identified risks.

The decision whether to participate in the long-term contract must be made by individual CAPP members on or before November 5, 2008. To assist members' appraisal of the long-term contract, the attached discussion provides the Board's overview of the long-term power supply plan for participating CAPP members, the CAPP prepayment and long-term pricing, and an evaluation of the risks involved with this transaction.

Also included in this package is a signed copy of the PPA, a copy of the Energy Sales Contract Between CAPP and the City (the "Member Contract") to be completed by each individual member that participates in the long-term contract, a Disclosure Statement of the known risks associated with this arrangement, a model ordinance, and a model staff report.

CAPP Long-Term Power Supply for Participating Members

It is anticipated that the portion of energy provided under the long-term Purchase Power Agreement (“PPA”) will not only drive the overall average cost of power below market prices for members of CAPP who choose to participate, but also the PPA will add price stability to volatile market prices which are based on the price of natural gas.

CAPP and Luminant signed the PPA (included in the package and described below) on or shortly after the Luminant Board meets on September 10, 2008. Under the PPA, CAPP will contract with Luminant Generation Company, LLC and several of its affiliates for 150 MW (to be adjusted up to 175 MW or downward depending upon member participation) of baseload capacity and electric energy. The energy from the baseload capacity will be delivered for CAPP’s use from seven generation units at three different sites.

The energy to be provided under the PPA will supply a portion, but not all, of each participant’s future energy needs for up to 24 years. Specifically, the PPA is designed to serve the recent historic baseload (around the clock, always on) electric needs of participants. This amounts to approximately 150 MW, or about 60 percent of participating members’ power needs in 2009. An additional supply agreement (referred to as the “wrap” agreement) of a more traditional one to four year period will be pursued by CAPP in a continuing effort to ensure that all members have adequate power whenever needed, regardless of the amount needed.

CAPP will enter two different supply agreements and will contract with a Retail Electric Provider (“REP”) for billing and other customer services. One supply agreement will be the long-term PPA, described above. The second supply agreement, the wrap agreement, addresses all remaining supply needs in excess of the baseload power provided under the PPA. The wrap agreement also provides power that would otherwise be supplied by the PPA, when the PPA generation units are not adequately producing either because of voluntary outages (scheduled maintenance) or forced outages (unexpected or emergency shutdowns.) The contract with the REP will provide for delivery of the power from the two supply agreements to individual meters.

Ordinance Approves Participation in CAPP Long-Term Power Arrangement

To participate in the long-term power arrangement, CAPP members must pass an ordinance (provided in this package.) The ordinance commits the member to purchase electric power to satisfy a portion of its annual energy needs through the CAPP long-term PPA (discussed below) for up to 24 years. The ordinance also approves the Member Contract (discussed below and included in this package) between CAPP and the individual member.

Long-Term PPA

CAPP's long-term PPA is a unit-contingent contract with the three subsidiaries of the old TXU Generation Company (now Luminant) that own seven units at three sites. The 150 MW of baseload power will be provided on an equal percentage basis from the seven units.

The PPA is conditioned to the leveraged buyout ("LBO") financing package that took TXU from a publicly traded company to a private company. Under that financing package, Luminant is authorized to make the long-term PPA agreement with CAPP, and to offer CAPP first-lien security interest in all generation and other competitive assets of Luminant and TXU Energy on an equal basis with the secured lenders to the LBO. In addition, CAPP will have a separate guaranty from Texas Competitive Energy Holdings ("TCEH"), the parent company to the affiliates (collectively referred to as "Luminant") that will supply the power under the PPA.

CAPP Member Contract

The CAPP Member Contract is the contract between CAPP and each individual member taking power pursuant to the long-term PPA. The primary purposes of the Member Contract are: (1) to assign energy from portions of the PPA baseload power and the associated debt service under the PPA to each participating member; and (2) to guarantee to bond holders that the debt will be paid. The second purpose will be fulfilled by the Member Contract (see Section 7.2 of the Member Contract) which provides a claim against the ad valorem taxing authority of the political subdivision in the event of non-payment of the assigned debt service obligation.

CAPP's Prepayment and Long-Term Contract Pricing

Prepayment by CAPP and Ad Valorem Tax Pledge by Members

The PPA requires that CAPP prepay three-fifths of the total contract price. CAPP will issue bonds to raise the capital necessary for the prepayment. The prepayment amount is likely to be \$400 million to \$525 million, depending upon how much of the offered 150 MW is committed to participating members. CAPP plans to issue bonds on or before December 23, 2008, and the bonds will be backed by the individual Member Contracts of each participating CAPP member. The ad valorem tax pledge included in the Member Contract and approved by the participating members' individual ordinances serves as security for the bond holders that participating members will meet their debt service obligations over the life of the PPA.

Price Components per kWh for Participating Members

Price for power delivered under PPA:

The initial wholesale price for the portion of electricity delivered pursuant to the long-term PPA will be approximately 5.6¢ per kWh in 2009.

- Approximately 3.5¢ of the 5.6¢ wholesale commodity price represents the member's allocated debt service obligation payment for the capacity amount prepaid by CAPP. This price will remain virtually the same for the life of the PPA.
- The remaining 2.1¢ of the 5.6¢ wholesale commodity price pays for the remaining energy delivered by Luminant that has not already been prepaid. (For ease of reference, this will be described as the "energy component.") The energy component price escalates over the life of the contract as described below.

Fixed, Predictable Escalation Over the Life of the PPA:

The energy component price (the 2.1¢ price of the initial 5.6¢ price) will escalate by three percent (3%) each year over the life of the contract. This equates to approximately one percent (1%) annual escalation of the 5.6¢ per kWh 2009 price.

This means that by 2033, the 24th year of the PPA, the energy component price will be approximately 4.5¢ per kWh. The total price for power delivered under the PPA in 2033 (allocated debt service payment of 3.5¢ plus the 4.5¢ energy component price) will be approximately 8¢ per kWh (as compared to the 5.6¢ per kWh in 2009.)

Price for remaining power needs – the wrap agreement – set more frequently:

Unlike traditional contracts that have served CAPP member needs since 2002, the long-term PPA will not serve the entirety of participating members' power needs. In addition to the baseload power provided by the PPA, which is expected to serve about 60 percent of participating members' needs in 2009, CAPP will arrange for a separate contract (the wrap agreement) that fulfills the remaining supply needs in excess of the baseload power provided under the PPA.

CAPP's designated REP will accept delivery from both suppliers (PPA and wrap contracts) on behalf of all participating members and will arrange delivery of all power to individual meters with the appropriate transmission and distribution utility. All charges other than the monthly debt service payment will be billed by the REP, just as currently done.

Monthly Payments For Participating Members

Two separate monthly payments will be made by participating members:

- Monthly Debt Service Payment to CAPP
A separate monthly debt service payment will be made (probably to a trustee who will hold the payments until the payment date prescribed in the bonds) reflecting the capacity portion (3.5¢ per kWh) of the 5.6¢ per kWh PPA price that represents the participating member's monthly debt service obligation for the prepaid electricity.
- Monthly Electric Account Payment(s) to the REP
CAPP's REP will separately bill each participating member at a "blended" rate per kWh – blending the remaining 2.1¢ energy component price per kWh and the higher market driven price for power under the wrap agreement. The monthly bill will include non-bypassable charges (regulated wires rates).

The CAPP Board will consider proposals from its designated REP for more detailed monthly bills that will reflect power costs allocated under each supply agreement and a savings calculation as well as a total monthly bill.

It will be up to the individual members to determine how they want to treat the debt service portion of their monthly payments. Since the debt service payment is essentially a component of the cost of power, most members will probably treat these payments as operating costs that will be distributed to their various functions, such as streets, utilities, police, etc. In this case a member can take their monthly electric consumption billing from the CAPP REP, obtain a ratio from the kWh associated with a function's account or accounts (e.g., 23% of total monthly electric bill is for water pumping), and then apply the ratio against the monthly debt billing and charge the appropriate function (e.g., 23% to the utility department). Some members may wish to treat the debt portion of the bill as a debt payment paid from their debt service, or interest and sinking fund, in which case no prorated distribution of the billing is necessary.

Evaluation of Risks

The CAPP Board believes that the long-term contract will substantially lower member electric costs and provide a greater degree of budget stability. However, there is no risk-free choice when it comes to contracting for future energy deliveries. While the price for power to be delivered under the PPA is fixed and will not be subject to uncertainties associated with either volatile natural gas prices or potential fuel or capacity supply shortages, there are other risks that each potential participating member must carefully evaluate before committing to the long-term contract. Neither the CAPP Board nor any of its consultants can guarantee future gas prices, the continued linkage between natural gas pricing and electric pricing, or that any participants to the PPA will act in a particular manner.

In the Disclosure Statement included in this package, we name and describe the known risks associated with participation in the long-term contract. It is important that you review the information in the Disclosure Statement. An acknowledgement and acceptance of the risks identified in the Disclosure Statement must occur with the approval of the Member Contract. Additionally, the transaction is dependent upon timely completion of a number of events including approval of signed Member Contracts by the Attorney General, the sale of CAPP bonds, closing the transaction by December 23, 2008, and making the prepayment to Seller in sufficient time to arrange the scheduling of power deliveries to be effective January 1, 2009. Although preliminary communication about the PPA has taken place, CAPP cannot guarantee approval of the Attorney General or acceptance by the financial markets.

To provide context for the risks and uncertainties listed by the Disclosure Statement, the following discussion provides the Board's perspective on some of the identified risks. It is our intention that this information will help you evaluate long-term contract issues. The Board's perception of the known risks is not intended to be a substitute for individual member due diligence, but provides an explanation why the CAPP Board endorses participation in the long-term contract as the most economically attractive alternative despite these identified risks.

The Board's perspective regarding the identified risks is informed by several sources. At least some part of every monthly CAPP Board meeting for the past three years has been spent discussing aspects of the long-term power supply arrangements, including the uncertainties and risks described in the attached Disclosure Statement. In addition to its reliance upon legal advice from CAPP's General Counsel, Geoffrey Gay (Lloyd, Gosselink, Rochelle & Townsend), and the work of CAPP's energy consultants, R.J. Covington, the CAPP Board has retained bond counsel (McCall Parkhurst & Horton) and financial advisors (First Southwest) to arrange and address long-term contract issues, including those related to the prepayment of the capacity received pursuant to the PPA. CAPP's General Counsel has solicited advice from experienced bankruptcy counsel and a lawyer familiar with power contract issues in California.

The CAPP Board believes, but cannot guarantee that its pursuit of lower prices and known and fixed contract obligations will result in lower prices for electricity compared to market prices over the 24-year term of the PPA and make budgeting for electricity more predictable. Known risks associated with participation in the long-term contract include:

1. Bankruptcy of the Seller

Considering that TXU, the predecessor company to Luminant, was the subject of the largest leveraged buyout in history and is presently operating with more than \$40 billion of debt, issues related to the potential bankruptcy of Luminant or its parent company have received a great deal of scrutiny during the PPA negotiations and as part of the CAPP Board's consideration of the long-term contract.

Of the approximately \$46 billion borrowed to take the publicly traded TXU private, \$26 billion was borrowed from lenders that were provided first-liens against all competitive assets of the former TXU. Lenders with first-liens include Citibank, Goldman Sachs, J. Aron & Company, JP Morgan Chase, Credit Suisse and others. These parties are considered "secured lenders." The remaining \$20 billion was borrowed without providing security.

By signing the PPA, CAPP will become a "Secured Commodity Hedge Counterparty" under the Security Documents. This means that CAPP will be in a first-lien secured position on equal footing with the secured lenders. Thus, CAPP will have a first-lien on all Luminant generation assets including the most valuable asset—Comanche Peak, the two unit nuclear plant near Glen Rose, Texas.

The secured creditors, including CAPP, are protected under the existing Credit Agreement against dilution of the generation assets. Luminant retains the right to replace CAPP's lien at any time with letters of credit, cash or a guaranty from an investment grade rated guarantor.

As part of its consideration of the long-term contract, the CAPP Board evaluated the potential for the supplier's bankruptcy and, if bankrupt, the value of CAPP's position as a first-lien holder. In the event of bankruptcy, the substantial Luminant generation assets will retain value (that value will depend upon current and future projections of natural gas prices at the time of bankruptcy.) While it is impossible to specifically quantify the future value of these generation assets, the CAPP Board was guided by the results of a stress test performed by Standard & Poor's ("S&P") in November 2007 (republished in the Spring of 2008.) S&P's stress test measured the effect on the value of Luminant's collateral in the event of a significant decline in natural gas prices over several years. While the value of the generation assets serving as collateral for the more than \$40 billion in debt declined under these circumstances, S&P concluded that secured creditors (including CAPP) would have a rating of "1" – virtually guaranteeing recovery of all outstanding debt while unsecured creditors would have a rating of "5" – virtually guaranteeing no recovery.

Other factors the Board considered that may mitigate the likelihood of bankruptcy despite the heavy debt burden include:

- Substantial investment (\$20 billion) of unsecured creditors including Berkshire Hathaway. Given the size of their investment, these unsecured creditors may provide additional loans to avoid the complete loss of investment.
- The fact that Oncor, a regulated subsidiary, is a consistent source of revenues. Oncor is ring-fenced and allegedly protected against bankruptcy of the parent or affiliates, it nonetheless provides dividends and other cash to the parent. Oncor recently announced the sale of a 20 percent equity position for \$1.3 billion.

Bankruptcy of one or more of the sellers could alter the expected economics of the transaction. It is the Board's conclusion that bankruptcy would likely present more of a financial problem than an operational problem. The units supplying power under the PPA are necessary for the support of power on the Texas electric grid. Simultaneous loss of all seven units would cause an economic crisis for the State. Therefore, it is reasonable to assume that the units will continue to generate regardless of ownership and regardless of bankruptcy.

The threat of bankruptcy comes down to whether a bankruptcy judge would set aside all, part, or none of the PPA. The PPA includes a provision that the parties intend for the contract to be honored as a forward contract. Despite this stated intention, it is possible that the bankruptcy judge would set the PPA aside if the determination is made that it is an executory contract. There have been recent cases where bankruptcy courts have taken into consideration "the public interest" in assessing obligations and rights of parties. The energy needs and good faith agreements of 150 political bodies may influence the bankruptcy judge to decide that preservation of the PPA is in the public interest.

2. Governmental assessments on emissions or greenhouse gases

As part of its leveraged buyout, Luminant commits to reduce emissions from its fleet of new and existing plants. The Company's plan includes the installation of in-duct selective catalytic reduction ("SCR") systems at its Martin Lake plant and selective non-catalytic reduction systems at its Monticello and Big Brown plants. Luminant will improve the low-nitrogen oxide burner technology at one of its Monticello units to further reduce nitrogen oxide emissions. External SCR systems will be installed at the Sandow and new Oak Grove units. To reduce sulfur dioxide emissions and mercury emissions, Monticello and Big Brown plants will use coal-cleaning technology. Finally, to reduce mercury emissions, Luminant's entire fleet of plants will use activated carbon injection – a sorbent injection system technology.

The cost of Luminant's commitment to reduce emissions made pursuant to the LBO is not included in the price paid by members participating in the long-term contract. However, any new governmental assessment on coal generation or greenhouse gases will be passed onto CAPP as a pro-rata share of the power it receives from Luminant.

The CAPP Board's consideration of the benefits and risks of the long-term contract included the likelihood that legislation levying a tax upon carbon dioxide emissions will be enacted at some point in the future. To the extent these charges are imposed on any unit providing power under the PPA, CAPP and the participating members will be responsible for a proportionate share (approximately 3%) of the cost in excess of operating expenses of \$100,000 annually or capital expenses greater than \$1,000,000 over the life of the financing. However, the Board believes but cannot guarantee that new governmental assessments will impact the price of power throughout the United States and will be reflected in the market price of power in the deregulated areas of Texas. As a result, the Board has reason to believe that despite future imposition of new governmental charges made under the PPA, the relative advantage of PPA pricing to market pricing will be preserved.

3. Early termination of the PPA that leaves CAPP and Participating Members owing more (to pay off the debt) than the amortized balance of CAPP's loan

The PPA is a 24-year agreement, but any commercial contract can be breached when a party decides it is economically advantageous to do so. One of the most difficult and contentious parts of the contract negotiations of the PPA was Article 12 – Early Termination.

The favorable pricing associated with the PPA is conditioned on a prepayment of three-fifths of the present value of the entire discounted purchase price. In considering various scenarios that give rise to early termination of the PPA, the CAPP Board's primary concern is that there is adequate protection for the portion of the prepayment associated with the unrealized term of the contract. In the event of early termination by the supplier, damages owed to CAPP include defeasance of the outstanding bond amount previously paid to Luminant. In addition, the PPA provides for liquidated damages not to exceed \$120 million.

If Texas Competitive Energy Holdings (“TCEH”) does not or cannot pay any of the damages owed CAPP under the PPA, participating members may owe their prorated share of the approximately \$400 million of CAPP's debt. Whether this hypothetical, worst case termination situation (consistent with the timing, but worse than the circumstances of the S&P stress test), would offset the potential benefit of the PPA's lower than market prices will depend upon the price of natural gas as it relates to the cost of electric power over the course of the next six years.

4. Legislatively mandated changes to the energy market structure

Deregulating the Texas retail electric market was an enormous and extremely difficult undertaking, and key policymakers in Texas have never advocated undoing it. Moreover, dramatic market changes that came about because of the deregulation would make re-

regulation extremely difficult. For instance, what were previously some of the state's traditional utilities have unbundled into separate entities. It remains unclear how these units could be put back together. Major generation assets have been sold off to unregulated owners and billions of dollars of stranded costs payments have been ordered and are being paid. Undoing those changes would constitute high barriers to re-regulation.

Even in the event of re-regulation of the Texas market or some other dramatic change, it is likely that the legislature would maintain its consistent position that existing contracts for electricity cannot be abrogated.

5. Restructuring or refinancing by Seller that leaves CAPP with collateral of lesser value

The LBO financing package, which places CAPP on a first-lien security basis in all generation and competitive assets, is structured as a seven year deal that terminates in the Fall of 2014. It is possible that the PPA will potentially be in effect for 18 years beyond the financing agreements on which the PPA was predicated. Thus, the Substitute Collateral provisions (Section 9.2) of the PPA take on critical importance as the parties try to anticipate whether the Company will be refinanced, taken public or sold off in bits and pieces before the end of 2014. In the event that the seller replaces CAPP's existing first-lien security interest with a new collateral package when it refinances in 2014, the contract terms require that the new package pass several dilution tests.

The CAPP Board will be diligently reviewing its security position throughout the life of the PPA, and particularly at the time of refinancing. There is nothing in the PPA that prevents CAPP from exercising its right of early termination in the event that the security supporting CAPP's prepayment becomes inadequate. The CAPP Board is hopeful that participating members receive the benefit of this contract for the full 24 years. However, even assuming that the contract is terminated prematurely, CAPP members should be made whole for the payment to Luminant through the defeasance provisions, receive some amount of liquidated damages, and have enjoyed millions of dollars in savings as compared to purchasing power in the retail market.

6. Deliberate non-delivery by Seller of contracted power such that payment of liquidated damages to CAPP for replacement energy potentially exceeds the cap on damages provided in the PPA forcing CAPP to declare an early termination of the PPA

If the supplier intentionally fails to deliver contracted power, CAPP's remedies include the following:

- a. Penalty for failure to maintain 90% availability from the seven units on a rolling three-year average.
- b. Reimbursement for replacement power if the contract energy is available but not provided.

While we have every reason to believe that Luminant will operate in good faith, even in the event of prolonged default or deliberate withholding, CAPP has remedies to protect its prepayment. CAPP can elect to terminate the PPA. This may happen under certain circumstances where the provider fails to supply the contracted power, forcing CAPP to replace the power at current market rates and then seek compensation from seller for the replacement energy. In that situation, CAPP may be forced to declare the contract in default and trigger termination. Because any prior payments for withholding power, in the event of a termination payment to CAPP, are to be used as an offset based on a rolling 3 to 5 year average, it may be necessary for CAPP to defensively terminate the contract prematurely to ensure that damage payments remain adequate to defease CAPP's bond debt.

The Board envisions a constant economic evaluation of whether to proceed with an early termination of the PPA if Luminant starts withholding power. Based upon projections by CAPP's consultants, in the event that Luminant withholds all contracted power, liquidated damages to fully compensate CAPP for procuring replacement power could amount to approximately \$250,000 per day. Even if CAPP waits for 30 days before exercising its right of early termination and Luminant continues to withhold all power for that same period, liquidated damages for 30 days of replacement power amount to \$7.5 million. While the early termination payment owed to CAPP would be reduced by the \$7.5 million already paid by Luminant in this scenario, the early termination damage payments should remain adequate to defease CAPP's bond debt.

To the extent Seller pays liquidated damages for withholding power in a nodal market, CAPP's price of replacement power would be equal to or less than the ERCOT clearing price, which is the price of power TCEH will receive at the same time. Therefore, TCEH should be economically indifferent to fulfilling its PPA obligation to CAPP or withholding power for an alternative sale and paying liquidated damages to CAPP. In other words, the supplier has no incentive to withhold power or fail to meet its obligation to provide power to CAPP.

7. Failure by one or more participating members to appropriate or pay amounts owed for power delivered under the PPA forcing Seller to declare CAPP in default and terminate the transaction

Given that electricity is essential to providing city services, we believe that it is extremely unlikely that a participating member will fail to appropriate or pay for the power delivered. Regardless, the PPA does not contemplate joint and several liability for either the power provider or CAPP. Similarly, there is no joint and several liability for individual members pursuant to the Member Contract. In other words, no participating member of the long-term contract will be required to absorb the liabilities of another participating member.

8. Technological Advancements/Availability of Inexpensive Natural Gas

The CAPP Board has pursued the long-term contract in order to achieve a great degree of budget stability and predictability for participating members by eliminating some of the price risks associated with natural gas price volatility. Current economic projections indicate that the Board's pursuit of known and fixed contractual obligations for capacity will in fact also result in lower prices for electricity compared to market prices over the 24-year term of the PPA.

In the near term (5 years), no natural gas experts are predicting significant declines in the cost of natural gas. In fact, most experts indicate that natural gas prices are likely to increase, perhaps substantially, as liquefied natural gas becomes part of a worldwide commodity index. The Chairman of the Public Utility Commission of Texas testified earlier this summer that natural gas prices will continue to increase over the next several years. Given that it will take approximately ten years to bring new nuclear power plants on line and that wind power is not reliable for meeting baseload needs addressed in the PPA, the energy market will not likely use any proxy for determining electricity costs other than natural gas for the foreseeable future. Similarly, because of the capital intensive nature of electric infrastructure, it is likely to take years before the market price of electricity is affected by technological advancements.

Nevertheless, the Board is cognizant that sometime during the term of the 24 year contract, the possibility exists that technological advancements may be made in the production of electricity or circumstances may occur such that natural gas prices decline substantially. If the CAPP Board's sole directive is to achieve the lowest possible electric price at all times, then these unknown and unforeseen scenarios may be reason not to commit to any long-term contract. However, potential technological advancements and declining natural gas prices will not diminish the stability and predictability of the power delivered pursuant to the PPA. In fact, the structure of the PPA (supplying a portion of participating members' power needs) enhances CAPP's ability to take advantage of technological advancements or changes in fuel prices, while also providing budgeting stability.

**OFFICIAL ACTIONS OF THE ADDISON CITY COUNCIL
WORK SESSION**

September 9, 2008
6:00 P.M. – Town Hall
5300 Belt Line Road
Council Chambers

Present: Mayor Chow, Councilmembers Braun, Hirsch, Kraft, Meier, Niemann and Mellow

Absent: None

Arrived Late: Councilmember Hirsch arrived at 6:10 P.M.
Councilmember Braun arrived at 6:13 P.M.

Work Session

Item #WS1 - Discussion regarding the design of the Town's new elevated storage tank.

Jessica Brown and Brad Goldberg with Freese and Nichols led the discussion. There was no action taken.

Item #WS2 - Discussion regarding potential participation in a hospital development.

Ron Whitehead and Carmen Moran led the discussion. There was no action taken.

Mayor-Joe Chow

Attest:

City Secretary-Mario Canizares

**OFFICIAL ACTIONS OF THE ADDISON CITY COUNCIL
REGULAR SESSION**

Regular Session

Council Members Present:

Mayor Chow, Councilmembers Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Absent: None

Regular Session

Item #R1 - Consideration of Old Business.

The following employees were introduced to the Council: Shaun Calloway with the Police Department, Joel Cruz with the Utilities Division of the Public Works Department and Katie Roller with the Finance Department.

Item #R2 - Consent Agenda.

#2a - Approval of the Minutes for:

August 21, 2008, Special Meeting and Work Session
August 25, 2008, Special Meeting and Work Session
August 26, 2008, Regular City Council Meeting and Work Session

The following Minutes were approved as written:

August 21, 2008, Special Meeting and Work Session
August 25, 2008, Special Meeting and Work Session
were approved as written.

The Minutes for August 26, 2008, Regular City Council Meeting and Work Session, were approved with the following change to Item #R2, #2a: Delete "Mayor Braun" and replace with "Councilmember Braun."

Councilmember Kraft moved to duly approve Item #2a with the foregoing change.

Councilmember Braun seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann
Voting Nay: None
Absent: None

Item #R3 - Discussion and consideration of approval of a Proclamation recognizing October 7, 2008, as National Night Out and encouraging all Addison residents to participate.

Mayor Chow read the Proclamation recognizing October 7, 2008, as National Night Out and encouraging all Addison residents to participate. There was no action taken.

Item #R4 - **PUBLIC HEARING**, discussion and consideration of approval of an ordinance of the Town of Addison, Texas, approving and adopting the annual budget for the fiscal year beginning October 1, 2008, and ending September 30, 2009; providing that said expenditures for said fiscal year shall be made in accordance with said budget; providing for a repeal clause.

Mayor Chow opened the meeting as a public hearing.

The following residents spoke:

- Earl Jones, 14750 Celestial Place, Dallas, TX 75254
- Bob Jacoby, 4016 Rive Lane, Addison, TX 75001

Mayor Chow closed the meeting as a public hearing.

Councilmember Niemann moved to duly approve Ordinance 008-031 of the Town of Addison, Texas, approving and adopting the annual budget for the fiscal year beginning October 1, 2008, and ending September 30, 2009; providing that said expenditures for said fiscal year shall be made in accordance with said budget; providing for a repeal clause.

Councilmember Hirsch seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Mellow and Niemann
Voting Nay: Meier
Absent: None

Item #R4a - Consideration and approval of a resolution ratifying the property tax increase reflected in the annual budget for the fiscal year beginning October 1, 2008, and ending September 30, 2009.

Councilmember Niemann moved to duly approve Resolution R08-016, ratifying the property tax increase reflected in the annual budget for the fiscal year beginning October 1, 2008, and ending September 30, 2009.

Councilmember Braun seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Mellow and Niemann
Voting Nay: Meier

Absent: None

Item #R5 - Discussion and consideration of approval of an ordinance levying taxes for the Town of Addison, Texas, and fixing and adopting the tax rate on all taxable property for the year 2008 at a rate of \$0.4535 per one hundred dollars (\$100.00) valuation on all taxable property within the corporate limits of the Town of Addison as of January 1, 2008; providing for a penalty and interest for delinquent taxes; declaring an emergency and providing an effective date.

Councilmember Niemann moved to increase property taxes and duly approve Ordinance 008-032, levying taxes for the Town of Addison, Texas, and fixing and adopting the tax rate on all taxable property for the year 2008 at a rate of \$0.4535 per one hundred dollars (\$100.00) valuation on all taxable property within the corporate limits of the Town of Addison as of January 1, 2008; providing for a penalty and interest for delinquent taxes; declaring an emergency and providing an effective date.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Mellow and Niemann

Voting Nay: Meier

Absent: None

Item #R6 - Discussion and consideration of approval of an ordinance of the Town of Addison, Texas, amending Chapter 82 of the Code of Ordinances of the Town by amending sewage rates and water rates for all customer classifications; providing a savings clause; providing a severability clause, providing an effective date.

The City Attorney confirmed that the 8,000 cap on sewer consumption rate is in the Ordinance.

Councilmember Niemann moved to duly approve Ordinance 008-033, of the Town of Addison, Texas, amending Chapter 82 of the Code of Ordinances of the Town by amending sewage rates and water rates for all customer classifications; providing a savings clause; providing a severability clause, providing an effective date.

Councilmember Kraft seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Item #R7 - Discussion and consideration of approval of an ordinance of the Town of Addison, Texas, amending Chapter 67 (Special Events), Article II (District and Non-District Events) of the Code of Ordinances of the City by amending Section 67-17 by stating space rental fees for various Town of Addison facilities; providing a savings clause, providing a severability clause and providing an effective date.

Councilmember Niemann moved to approve Ordinance 008-034, of the Town of Addison, Texas, amending Chapter 67 (Special Events), Article II (District and Non-District Events) of the Code of Ordinances of the City by amending Section 67-17 by stating space rental fees for various Town of Addison facilities; providing a savings clause, providing a severability clause and providing an effective date.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Item #R8 - Discussion and consideration of approval of an ordinance amending the Code of Ordinances by amending Chapter 66 (Solid Waste) Article II (Collection and Disposal), Division 2 (Service Charge), by amending Section 66-52, increasing from \$10.67 to \$11.65 the monthly fee for single family residential garbage and recycling collection.

Councilmember Mellow moved to approve Ordinance 008-035, amending the Code of Ordinances by amending Chapter 66 (Solid Waste) Article II (Collection and Disposal), Division 2 (Service Charge), by amending Section 66-52, increasing from \$10.67 to \$11.65 the monthly fee for single family residential garbage and recycling collection.

Councilmember Braun seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Item #R9 - REPLAT/Lot 1R4, Block A, Addison Storage Addition. Discussion and consideration of approval of a replat of one lot, located west of Addison Road, between Glenn Curtiss Drive and Ratliff Road, on application from Mr. George Kelly, represented by Stovall Associates.

Councilmember Niemann moved to approve a replat of one lot, located west of Addison Road, between Glenn Curtiss Drive and Ratliff Road, on application from Mr. George Kelly, represented by Stovall Associates.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Item #R10 - FINAL PLAT/Vitruvian Park. Discussion and consideration of approval of a final plat for Lots 1 and 2, Block A, of the Vitruvian Park I subdivision within the Town

located on approximately 10.32 acres at 3900 and 4010 Brookhaven Club Drive (south side of Brookhaven Club Drive), on application from UDR, Inc., represented by Mr. Bruce Dunne of Icon Consulting Engineers.

Councilmember Niemann moved to approve a final plat for Lots 1 and 2, Block A, of the Vitruvian Park I subdivision within the Town located on approximately 10.32 acres at 3900 and 4010 Brookhaven Club Drive (south side of Brookhaven Club Drive), on application from UDR, Inc., represented by Mr. Bruce Dunne of Icon Consulting Engineers, subject to the following conditions:

1. Revise plat to show dedication of required street easements as shown in PD.
2. Revise plat to show dedication of Lot 2 as right-of-way dedication to town, including right-of-way dedication language.

Councilmember Kraft seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Item # R11 - PUBLIC HEARING Case 1561-SUP/Blue Mesa Grill. Public hearing, discussion, and consideration of approval of an ordinance amending an existing Special Use Permit for a restaurant, and an existing Special Use Permit for the sale of alcoholic beverages for on-premises consumption, for property located at 5100 Belt Line Road, Suite 500, on application from Blue Mesa Grill, represented by Mr. Jason Romano.

Mayor Chow opened the meeting as a public hearing.

No one spoke.

Mayor Chow close the meeting as a public hearing.

Councilmember Niemann moved to duly approve Ordinance 008-036, amending an existing Special Use Permit for a restaurant, and an existing Special Use Permit for the sale of alcoholic beverages for on-premises consumption, for property located at 5100 Belt Line Road, Suite 500, on application from Blue Mesa Grill, represented by Mr. Jason Romano, subject to the following condition:

1. The sign is to be removed or relocated so as that it will not interfere with the walkway.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

Councilmember Niemann recused himself for Item #R12.

Item #R12 - **PUBLIC HEARING** Case 1562-Z/Meridian Square. Public hearing, discussion, and consideration of approval of a concept plan for 48 townhomes and approximately 90 condominium units, located in the UC (Urban Center) district, Residential Subdistrict, located on approximately 3.98 acres at the southeast corner of Airport Parkway and Quorum Drive, on application from Addison Urban Development partners, LLC, represented by Mr. Matt Alexander of Dowdey, Anderson & Associates.

Mayor Chow opened the meeting as a public hearing.

No one spoke.

Mayor Chow closed the meeting as a public hearing.

Councilmember Braun moved to duly approve a concept plan for 48 townhomes and approximately 90 condominium units, located in the UC (Urban Center) district, Residential Subdistrict, located on approximately 3.98 acres at the southeast corner of Airport Parkway and Quorum Drive, on application from Addison Urban Development partners, LLC, represented by Mr. Matt Alexander of Dowdey, Anderson & Associates.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, and Mellow

Voting Nay: None

Absent: None

Abstained: Niemann

Councilmember Niemann returned to Council Chambers.

Item #R13 - Discussion and consideration of approval of the Official Ballot for Texas Municipal League Intergovernmental Risk Pool Board of Trustees Election to elect officials to serve a six-year term on the TML Intergovernmental Risk Pool (Workers' Compensation, Property and Liability) Board of Trustees.

Councilmember Mellow moved to duly approve the Official Ballot for Texas Municipal League Intergovernmental Risk Pool Board of Trustees Election to elect officials to serve a six-year term on the TML Intergovernmental Risk Pool (Workers' Compensation, Property and Liability) Board of Trustees, as marked on the ballot.

Councilmember Meier seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

At 10:20 P.M., Mayor Chow announced that Council would convene into Executive Session to discuss the following Item:

Item #ES1 - Closed (executive) session of the City Council, pursuant to Section 551.071, Texas Government Code, to conduct a private consultation with its attorney(s) to seek the advice of its attorney(s) about pending litigation, to wit: **Cause No. 07-11965; AN Collision Center of Addison, Inc. d/b/a Bankston Collision Center v. Dallas Area Rapid Transit (DART), The Town of Addison, Regional Rail Right-Of-Way Company, Explorer Pipeline Company, and Sprint Communications Company L.P.**, in the 14th District Court of Dallas County, Texas.

The Council came out of Executive Session at 10:47 P.M.

Item #R14 -Consideration to authorize the City Manager to enter into settlement negotiation, by and through mediation, in **Cause No. 07-11965; AN Collision Center of Addison, Inc. d/b/a Bankston Collision Center v. Dallas Area Rapid Transit (DART), The Town of Addison, Regional Rail Right-Of-Way Company, Explorer Pipeline Company, and Sprint Communications Company L.P.**, in the 14th District Court of Dallas County, Texas.

Councilmember Niemann moved to duly authorize the City Manager to enter into settlement negotiation, by and through mediation, in **Cause No. 07-11965; AN Collision Center of Addison, Inc. d/b/a Bankston Collision Center v. Dallas Area Rapid Transit (DART), The Town of Addison, Regional Rail Right-Of-Way Company, Explorer Pipeline Company, and Sprint Communications Company L.P.**, in the 14th District Court of Dallas County, Texas.

Councilmember Mellow seconded. Motion carried.

Voting Aye: Chow, Braun, Hirsch, Kraft, Meier, Mellow and Niemann

Voting Nay: None

Absent: None

There being no further business before the Council, the meeting was adjourned.

Mayor-Joe Chow

Attest:

City Secretary-Mario Canizares

From: Peichih Chiou [peichih@uspaacc-sw.org]
Sent: Monday, September 15, 2008 11:02 AM
To: Sue Ellen Fairley
Subject: FW: Special Recognition of Mayor Joe Chow

#R3

From: Peichih Chiou [mailto:peichih@uspaacc-sw.org]
Sent: Monday, September 08, 2008 12:46 PM
To: 'jchow@ci.addison.tx.us'; 'jchow60883@yahoo.com'
Subject: Special Recognition of Mayor Joe Chow

Dear Mayor Chow,

As you know, on August 13 this year, our chamber recognized the best and brightest Asian Americans for their outstanding achievements during our Award Luncheon. The Awards were presented at the luncheon during our 7th Annual Asian Business EXPO. The purpose of the EXPO was to provide a venue where Asian American suppliers and Corporate America can meet one-on-one for partnership opportunities.

The City of Addison, under your leadership, was chosen to be the Award recipient of our " Outstanding City for Business Inclusiveness" Award. As we didn't get the opportunity to make the presentation in person, I welcome your invitation to present this award to you and the City of Addison during your council meeting on **September 23, 2008**.

Please let us know what time we should be there. The presentation will take just a few minutes of the council's time. On behalf of US Pan Asian Chamber, I am honored to have this opportunity to recognize you and thank you again for your support.

PS: There will be 4 board members with me during this presentation

Sincerely,

Grace McDermott

President
682-367-1393 O
817-265-3863 H
817-874-3195 Cell

Council Agenda Item: #R4

SUMMARY:

Subject to City attorney final approval, council approval is sought of a contract with Shakespeare Dallas for the Town's sponsorship of "Shakespeare in the Park" in Addison Circle Park annually from October 2008 – October 2010.

FINANCIAL IMPACT:

Proposed Cost and Budgeted Amount:	2008	\$34,500
Proposed Budget Amount:	2009	\$46,500
Proposed Budget Amount:	2010	\$49,000

The contract calls for the Town to pay \$15,500 upon execution of the contract, which will be paid from the 2007-08 budget. The timing of future payments will also straddle fiscal years due to the scheduling of the event, which is typically held in October, the first month of the Town's fiscal year.

RECOMMENDATION:

The Shakespeare Festival has brought larger groups to Addison each year it has been held in Addison Circle Park. The event enhances Addison's reputation as being a destination for quality events and artistic performances and staff recommends approval of the contract.

STATE OF TEXAS

§
§
§

CONTRACT FOR SERVICES

COUNTY OF DALLAS

This Contract for Services (the "Contract") is made and entered into as of the _____ day of _____, 2008 by and between the Town of Addison, Texas (the "City") and Shakespeare Dallas ("Shakespeare Dallas") for the City's sponsorship of the "Shakespeare in the Park" that is to be held in annually in Addison Circle Park from October 2008- October 2010.

WITNESSETH:

WHEREAS, Shakespeare Dallas is a private, non-profit organization established under the laws of the State of Texas for the purpose of promoting the cultural enrichment of the community through live, professional theatrical productions of superior quality based on the works of William Shakespeare; and

WHEREAS, Shakespeare Dallas' productions and work attract tourists to and encourages tourism in the City, and the City has an interest in attracting such tourists and promoting tourism to the area in order to receive the economic benefits associated therewith; and

WHEREAS, it is the City's desire to encourage and promote the arts, including visual, theatrical and musical arts; and

WHEREAS, the City is authorized to expend revenues from its hotel occupancy tax for the encouragement, promotion, improvement, and application of the arts, and desires to encourage and promote the arts through the execution of this Contract for Services.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements hereinafter set forth, the benefits flowing to each of the parties hereto, and other good and valuable consideration, the Town of Addison, Texas and Shakespeare Dallas do hereby contract, covenant and agree as follows:

I. TERM

The term of this Contract and Agreement shall be from October 1, 2008 through October 31, 2010.

II. SERVICES

A. Shakespeare Dallas shall conduct and present a production entitled "The Merchant of Venice" (the "Show") within the City on October 15, 16, 17, 18 and 19, 2008 in accordance and compliance with the terms and conditions hereof and all laws, ordinances, rules, regulations, standards, guidelines, and policies of the City or any other governmental authority having jurisdiction over the Show. The Show shall be conducted within the Bowl area of Addison Circle Park located within the Addison Arts & Events District (the "Show Site").

Similar productions will be held in 2009 and 2010 with dates and production titles mutually approved by the City and Shakespeare Dallas no later than October 15, 2008 for the 2009 production and October 15, 2009 for the 2010 production (for each such year, the "Show" will refer to the production as mutually approved).

B. In connection with its conducting and presenting the Show held annually, Shakespeare Dallas shall provide the City with all the following for each such Show:

- (a) A listing of the City logo as a sponsor of the Show on collateral pieces, including but not limited to posters, fliers, invitations, admission passes, tickets, brochures, programs, etc.
- (b) A listing of the City logo as a sponsor of the Show on all print, broadcast, outdoor and electronic advertising, including but not limited to newspaper ads, magazine ads, radio ads, billboards, newsletters, web communications, etc.
- (c) A listing of the City as a sponsor of the Show in all press releases, and other communications regarding the Show.
- (d) A listing of the City logo as a sponsor on all street banners and signs in connection with the Show.
- (d) The inclusion of the Addison logo on the Shakespeare Dallas web site (www.shakespearedallas.org) or any other web site of Shakespeare Dallas and a link to the City's website (www.addisontexas.net).
- (e) Provide recognition of the Town of Addison from the stage at the Show.
- (f) Provide the City with placement of one banner display at the Show.
- (g) Provide the City with one full-page advertisement in the Shakespeare Dallas Playbill.
- (h) Provide the City with fifty (50) complimentary VIP admission and parking passes.
- (i) Submit detailed financial statements and program results to the City within thirty (30) days after the end of Show listing the expenditures made by Shakespeare Dallas with the revenues received pursuant to this Contract.
- (j) Payment of all fees including but not limited to City services, electrical service, rental equipment and services, site preparation materials and Pavilion cleaning fees.

With respect to the banner and advertisement described above, the City shall submit to Shakespeare Dallas the form and content of the same for its review and approval, which approval shall not be unreasonably withheld, conditioned, or delayed. In the event Shakespeare Dallas fails to disapprove (with specific comments regarding the reasons for such disapproval) such banner and advertisement within five (5) days after the same is submitted (or resubmitted after modifications, as the case may be) to Shakespeare Dallas, such banner and advertisement shall be deemed approved. The parties agree that the type of banners and advertisement provided for this same or similar event in the Town of Addison in years prior to this Agreement are acceptable.

- C. The City shall provide to Shakespeare Dallas the following:
- (a) Compensation as outlined in Section III below (subject, however, to the City's annual budgeting and appropriation of funds to pay such compensation as determined by the City in its sole discretion).
 - (b) Display of banner(s) (as approved by the City, in the City's sole discretion, and subject to availability) across Belt Line Road advertising the Show. Such banner(s) shall be supplied by Shakespeare Dallas to the City no later than October 6, 2008 for display on October 7, 2008 through October 21, 2008. Display dates for the 2009 and 2010 productions will be determined by the City by January 1, 2009 for the 2009 production and by January 1, 2010 for the 2010 production.
 - (c) Assistance with marketing and promotions, including but not limited to the following:
 - a. Listing on the City's website (www.addisontexas.net) with link to Shakespeare Dallas' website (www.shakespearefestival.org).
 - b. Listing on the City's toll-free recording (1-800-ADDISON).
 - c. Listing on the City's calendar of events that is distributed for publicity purposes and printed on collateral, subject to the Town's printing schedule and funding.
 - d. Flier (provided by Shakespeare Dallas) insertion in the City's September 2008, 2009 and 2010 utility statements, subject to availability and to the City's review and approval.
 - (d) Provide Shakespeare Dallas with the Show Site for conducting the Show, provided Shakespeare Dallas has complied with the terms and conditions of this Contract.

III. COMPENSATION

For the operation and provision of the services, projects and programs of Shakespeare in the Park in October 2008 as described herein, the City shall pay Shakespeare Dallas the sum of Thirty-four Thousand, Five Hundred and No 100 Dollars (\$34,500.00). Such sum shall be paid in two installments (the first in the amount of \$15,500.00 payable upon execution of this Contract and the second in the amount of \$19,000.00) payable upon completion of the Show and Show marketing and performance reports are received by the City.

For the operation and provision of the services, projects and programs of Shakespeare in the Park in October 2009 as described herein, the City shall pay Shakespeare Dallas the sum of Forty-Six Thousand, Five Hundred and No 100 Dollars (\$46,500.00). Such sum shall be paid in two installments (the first in the amount of \$15,500.00 payable January 1, 2009 and the second in the amount of \$31,000.00) payable upon completion of the Show and Show marketing and performance reports are received by the City.

For the operation and provision of the services, projects and programs of Shakespeare in the Park in October 2010 as described herein, the City shall pay Shakespeare Dallas the sum of

Forty-Nine Thousand and No 100 Dollars (\$49,000.00). Such sum shall be paid in two installments (the first in the amount of \$15,500.00 payable January 1, 2010 and the second in the amount of \$33,500.00) payable upon completion of the Show and Show marketing and performance reports are received by the City.

Notwithstanding the above or any other provision of this Agreement, all such compensation and any other payments (if any) by the City under this Agreement are subject to the annual budgeting and appropriation of funds by the City to pay such compensation and to make such payments (if any) in its sole and absolute discretion.

IV. ASSUMPTION OF RESPONSIBILITY AND RISK; SHOW CANCELLATION

In connection with the Show and this Contract, Shakespeare Dallas agrees to assume and does hereby assume all responsibility and liability for any and all damages or injuries of whatsoever kind or nature sustained by any person or property, whether real or asserted, by or from the performance of services hereunder by, or any act or omission of Shakespeare Dallas, its officials, officers, employees, agents, contractors, subcontractors, concessionaires, invitees, guests, or any other person acting by, through, or under the authority or direction of Shakespeare Dallas (together, "Responsible Parties"). Addison assumes, and shall have, no responsibility for any property placed by the Responsible Parties or any of them on the Show premises or the Show Site, and **Shakespeare Dallas hereby RELEASES the City, its elected officials, its officers, employees, representatives, volunteers, and agents from any and all claims or liabilities of any kind or nature whatsoever for any loss, injury or damages whatsoever to persons or property that are sustained by reason of the occupancy of the Show Site under this Agreement.**

Further, Shakespeare Dallas does agree **TO AND ASSUME ANY AND ALL RISKS** with respect to any loss, harm, injury (including death), accident, incident, action, occurrence or activity which may occur in connection with WorldFest, and do hereby **RELEASE, WAIVE, ACQUIT, AND FOREVER DISCHARGE** the Town of Addison, Texas and the elected officials, the officers, employees, agents, representatives, and volunteers of the Town of Addison, Texas, individually or collectively, in both their official and private capacities (the Town of Addison, Texas and the elected officials, the officers, employees, agents, representatives, and volunteers of the Town of Addison being each an "Addison Person" and collectively the "Addison Persons") from, and do **COVENANT NOT TO SUE** the Addison Persons (or any of them) for, any and all claims, liability, judgments, lawsuits, demands, harm, losses, damages, proceedings, actions, causes of action, fees, fines, penalties, expenses, or costs (including, without limitation, attorneys fees and court costs) whatsoever for or related to any illness or injury of any kind or nature whatsoever (including, without limitation, death), or any damage to or destruction of any property, or any other harm or loss whatsoever, (collectively, "Claims"), which Shakespeare Dallas or any of its officials, officers, employees, representatives, volunteers, agents, contractors, licensees, or invitees may sustain or suffer in connection with or related to the production and the use and occupancy of the Event Site, **INCLUDING, WITHOUT LIMITATION, ANY AND ALL CLAIMS WHICH ARISE FROM, OR ARE ALLEGED OR FOUND TO HAVE BEEN CAUSED BY, IN WHOLE OR IN PART, THE NEGLIGENCE OR GROSS NEGLIGENCE OF ANY ADDISON PERSON, OR CONDUCT BY ANY ADDISON PERSON THAT WOULD GIVE RISE TO STRICT LIABILITY OF ANY KIND. Further, without limiting any other provision of this Contract, Shakespeare Dallas shall DEFEND, INDEMNIFY, AND HOLD**

HARMLESS the Town of Addison, Texas and all other Addison Persons from any such Claims.

Should the Show be postponed or canceled due to an Act of God, public safety, public welfare consideration, or for any other reason whatsoever, as may be determined by the City in its sole discretion and opinion, Shakespeare Dallas hereby **RELEASES** the City, its officials, officer, employees and agents from any and all liability and claims for damages (including consequential damages) or injuries of any kind whatsoever which result from such postponement or cancellation. In addition, neither party to this Contract shall be liable for damages caused by delay or failure to perform hereunder when such delay or failure to perform is due to terrorism, fire, acts of God, national emergency, war, civil disorder, labor dispute, inclement weather, any unavoidable casualties, or any causes beyond their respective control.

The provisions of this Section IV shall survive the termination or expiration of this Contract.

**IV-A. SHAKESPEARE DALLAS' DEFENSE, INDEMNITY, AND
HOLD HARMLESS OBLIGATION**

A. **Shakespeare Dallas covenants and agrees to FULLY DEFEND, INDEMNIFY AND HOLD HARMLESS the Town of Addison, Texas and the elected officials, the officers, employees, representatives, and volunteers of the Town of Addison, Texas, individually or collectively, in both their official and private capacities (the Town of Addison, Texas and the elected officials, the officers, employees, representatives, and volunteers of the Town of Addison, Texas being each an "Addison Person" and collectively the "Addison Persons"), from and against any and all claims, liability, judgments, lawsuits, demands, harm, losses, damages, proceedings, suits, actions, causes of action, liens, fees, fines, penalties, expenses, or costs, of any kind and nature whatsoever made upon any Addison Person, whether directly or indirectly, (the "Claims"), that arise out of, result from, or relate to: (1) the work and services of Shakespeare Dallas as set forth in Section II of this Agreement; (2) representations or warranties by Shakespeare Dallas under this Agreement; and/or (3) any other act or omission under or in performance of this Agreement by Shakespeare Dallas, or any owner, officer, director, manager, employee, agent, representative, consultant, contractor, subcontractor, licensee, or concessionaire of Shakespeare Dallas, or any other person or entity for whom Shakespeare Dallas is legally responsible, and their respective owners, officers, managers, employees, directors, agents, and representatives. SUCH DEFENSE, INDEMNITY AND HOLD HARMLESS SHALL AND DOES INCLUDE CLAIMS ALLEGED OR FOUND TO HAVE BEEN CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE OR GROSS NEGLIGENCE OF ANY ADDISON PERSON, OR CONDUCT BY ANY ADDISON PERSON THAT WOULD GIVE RISE TO STRICT LIABILITY OF ANY KIND. However when Claims arise out of the co-negligence of an Addison Person or Persons, Shakespeare Dallas' liability under this clause shall be reduced by that portion of the total amount of the Claims (excluding defense fees and costs) equal to the Addison Person or Persons' proportionate share of the negligence that caused the loss. Likewise, Shakespeare Dallas' liability for Addison Person's defense costs and attorneys' fees shall be reduced by that portion of the defense costs and attorneys' fees equal to Addison Person or Persons' proportionate share of the negligence that caused the loss.**

B. Shakespeare Dallas shall promptly advise the Town of Addison in writing of any claim or demand against any Addison Person or Shakespeare Dallas related to or arising out of Shakespeare Dallas's activities under this Agreement and shall see to the investigation and defense of such claim or demand at Shakespeare Dallas's sole cost and expense. The Addison Persons shall have the right, at the Addison Persons' option and at own expense, to participate in such defense without relieving Shakespeare Dallas of any of its obligations hereunder.

C. The provisions of this defense, indemnity, and hold harmless obligation shall survive the termination or expiration of this Agreement.

D. Shakespeare Dallas agrees to reimburse the City for all sums which the City may pay or may be paid on behalf of the City or which the City may be compelled to pay in settlement of any Claims, including without limitation any claim under the provisions of any workers compensation law or other similar law, or under any plan for employee benefits which the City may have or adopt. The provisions of this paragraph shall survive the termination or expiration of this Contract.

V. INSURANCE

Shakespeare Dallas shall carry insurance, throughout the length and term of this Contract, with responsible insurance companies qualified to do business in the State of Texas, in the minimum types and amounts set forth in Section 67-16 of the Code of Ordinances of the City, a true and correct copy of which is attached hereto as Exhibit "B" and incorporated herein (with the addition that the requirement for commercial general liability shall also include coverage for death); provided, however, that the City Manager may waive the requirement of any of such insurance where, in the sole opinion of the Manager, such insurance is not necessary to cover or protect a function or purpose of this Agreement. Certified copies of all such policies shall be delivered to the City no later than September 30 in years 2008, 2009, and 2010.

VI. TERMINATION

This Contract may be canceled and terminated by either party upon giving at least thirty (30) days written notice of such cancellation and termination to the other party hereto. Such notice shall be sent certified mail, return receipt requested, and to the most recent address shown on the records of the party terminating the Contract. The thirty (30) days period shall commence upon deposit of the said notice in the United States mail and shall conclude at midnight of the 30th day thereafter. In the event of such cancellation and termination and if Shakespeare Dallas has failed at the time of such cancellation and termination to provide all of the services set forth herein, Shakespeare Dallas shall promptly refund to the City that portion of funds paid to Shakespeare Dallas under the terms of this Contract for which it has not received services (as determined by the City) under this Agreement. Except as set forth herein, upon payment or tender of such amount, all of the obligations of Shakespeare Dallas and the City under this Contract shall be discharged and terminated and no action shall lie or accrue for additional benefit, consideration or value for or based upon the services performed under or pursuant to this Contract.

VII. CONFLICT OF INTEREST

(a) No officer or employee of the City shall have any interest or receive any benefit, direct or indirect, in this Contract or the proceeds thereof. This prohibition is not intended and should not be construed to preclude payment of expenses legitimately incurred by City officials in the conduct of the City's business.

(b) For purposes of this section, "benefit" means anything reasonably regarded as an economic advantage, including benefit to any other person in whose welfare the beneficiary is interested, but does not include contributions or expenditures made and reported in accordance with any law.

VIII. ACCOUNTING

Prior to adopting its annual budget, Shakespeare Dallas shall submit for the City's review a budget showing the use of the City's funds provided pursuant to this Contract, and Shakespeare Dallas shall make such periodic reports to the City, as provided for herein, listing the expenditures made by Shakespeare Dallas from the funds provided by the City. The approval of Shakespeare Dallas's annual budget creates a fiduciary duty in Shakespeare Dallas with respect to the funds provided by the City under this Contract.

Funds received hereunder from the City may be spent for day-to-day operations, supplies, salaries and other administrative costs provided that such costs are necessary for the promotion and encouragement of the purposes for which the funds may be used as described herein.

Shakespeare Dallas shall maintain complete and accurate financial records of all of its revenues, including, without limitation, each expenditure of revenue received pursuant to this Contract. By the thirtieth (30th) day after the close of the Show, Shakespeare Dallas shall provide the City a detailed financial report for the Show, in form and content acceptable to the City, listing the expenditures made by Shakespeare Dallas of the funds paid to Shakespeare Dallas under this Agreement. The City shall have the right to audit the books and records of Shakespeare Dallas relating to this Contract and the services provided by Shakespeare Dallas hereunder upon providing Shakespeare Dallas with ten (10) days prior notice thereof, and for that purpose Shakespeare Dallas shall provide all of such books and records for such audit at its offices located at the address set forth below in Section XX, Notices.

IX. INDEPENDENT CONTRACTOR

In performing services under this Contract, the relationship between the City and Shakespeare Dallas is that of independent contractor, and the City and Shakespeare Dallas by the execution of this Contract do not change the independent status of Shakespeare Dallas. No term or provision of this Contract or action by Shakespeare Dallas in the performance of this Contract shall be construed as making Shakespeare Dallas the agent, servant or employee of the City, and nothing herein shall be construed to create a partnership, joint venture, joint enterprise, or agency relationship between the parties hereto.

X. NON-ASSIGNABILITY

Shakespeare Dallas may not and shall have no authority to assign, transfer, sell, pledge, or otherwise convey this Contract or any of the rights, duties or responsibilities hereunder without obtaining the prior written approval of the City. Any such assignment, transfer, sale, pledge, or

other conveyance in violation hereof shall entitle the City to immediately terminate this Contract, and upon such termination all funds paid to Shakespeare Dallas shall be promptly reimbursed to the City.

XI. NO PARTNERSHIP OR JOINT VENTURE

Nothing contained in this Contract shall be deemed to constitute that the City and Shakespeare Dallas are partners or joint venturers with each other or to constitute a joint enterprise.

XII. COPYRIGHT; MARKS

Shakespeare Dallas assumes full responsibility for complying with all United States laws and treaty terms pertaining to intellectual property issues and any applicable regulations, including but not limited to the assumption of all responsibilities for paying all royalties which are due for the use of domestic or foreign copyrighted works in Shakespeare Dallas', transmissions or broadcasts, and Shakespeare Dallas, without limiting any other indemnity given by Shakespeare Dallas as set forth herein, agrees to **DEFEND, INDEMNIFY, AND HOLD HARMLESS** the City, its officials, officers, employees, and agents, for any liability, claims or damages (including but not limited to court costs and reasonable attorney's fees) growing out of Shakespeare Dallas's infringement or violation of any statute, treaty term or regulation applicable to intellectual property rights, including but not limited to copyrights.

In connection with the Show, each party grants to the other party a non-exclusive, non-transferable, royalty-free right and license to reproduce, publish and display, in accordance with and subject to the terms and conditions of this Contract and solely for the limited purposes set forth herein, the party's trademarks, service marks, logos, or other content (together, "Marks") provided in connection with advertising of the Show as described herein. Such reproduction, publication, display or use shall be subject to the approval of the party which is the owner of the Logos. Except for the express license rights granted herein, all right, title and interest in and to the Marks shall remain in the respective party who owns the Marks. Neither party hereto shall copy, distribute, reproduce, display, or use any Marks except as expressly permitted under this Agreement. Each party hereto acknowledges the other party's rights and interests in and to such other party's Marks and agrees not to claim any right, title or interest in or to such Marks or to at any time challenge such other party's rights in or to such Marks for any reason whatsoever. All use of either party's Marks or the goodwill generated thereby shall inure to the benefit of the respective party which owns such Marks.

Each party hereto represents that its execution and delivery of this Agreement, and its performance hereunder, will not violate or conflict with (i) any other contract or agreement to which it is a party, or (ii) the intellectual property rights or other rights of any third party.

XIII. NON-DISCRIMINATION

During the term of this Contract, Shakespeare Dallas agrees that it shall not discriminate against any employee or applicant for employment because of race, age, color, sex or religion, ancestry, national origin, place of birth, or handicap.

XIV. LEGAL COMPLIANCE

Shakespeare Dallas shall observe and abide by all applicable federal laws, state statutes and the Charter and Ordinances of the City, and all rules and regulations of any lawful regulatory body acting thereunder in connection with the services performed.

XV. APPLICABLE LAWS

This Contract is made subject to the provisions of the Charter and ordinances of the City, as amended, and all applicable state and federal laws.

XVI. VENUE

The validity of this Contract and of any of its terms or provisions, as well as the rights and duties of the parties hereto, shall be governed by the laws of the State of Texas, without reference to its conflict of laws provisions. Venue for any action or claim brought on or under this Contract shall lie exclusively in Dallas County, Texas.

XVII. COUNTERPARTS

This Contract may be executed in any number of counterparts, each of which shall be deemed an original and constitute one and the same instrument.

XVIII. GOVERNING LAW

This Contract shall be governed by and construed in accordance with the laws and court decisions of the State of Texas.

XIX. NO WAIVER; SURVIVABILITY; NO THIRD PARTY BENEFICIARIES

The failure by either party to exercise any right, power, or option given to it by this Contract, or to insist upon strict compliance with the terms of this Contract, shall not constitute a waiver of the terms and conditions of this Agreement with respect to any other or subsequent breach thereof, nor a waiver by such party of its rights at any time thereafter to require exact and strict compliance with all the terms hereof. The rights or remedies under this Contract are cumulative to any other rights or remedies, which may be granted by law. Any rights, remedies, duties, or obligations either party may have with respect to the other arising out of the performance of or in connection with this Contract shall survive the cancellation, expiration or termination of this Contract.

This Contract is solely for the benefit of the parties hereto and is not intended and shall not be construed to create or to grant any rights, duties, or obligations, contractual or otherwise, to any third person or entity.

XX. NOTICES

All notices, communications and reports, required or permitted under this Contract shall be personally delivered or mailed to the respective parties using certified mail, return receipt requested, postage prepaid, at the addresses shown below. The City and Shakespeare Dallas agree to provide the other with written notification within five (5) days, if the address, provided below, is changed. Mailed notices shall be deemed communicated on the date shown on the

return receipt. If no date is shown, the mailed notice shall be deemed communicated on the fifth (5th) day after mailing.

The City's address:

Shakespeare Dallas' address:

Assistant City Manager
Town of Addison
Post Office Box 9010
Addison, Texas 75001-9010

Executive and Artistic Director
Shakespeare Dallas
3630 Harry Hines Blvd., 4th Floor
Dallas, Texas 75219

XXI. LEGAL CONSTRUCTION; SEVERABILITY

The terms of this Contract are severable, and if any article, clause, paragraph, section or other portion of this Contract shall be found to be illegal, unlawful, unconstitutional or void for any reason, the balance of the Contract shall remain in full force and effect and the parties shall be deemed to have contracted as if said clause, section, paragraph or portion had not been in the Contract initially.

XXII. AUTHORITY TO EXECUTE CONTRACT

The undersigned officers and/or agents of the parties hereto are the properly authorized officials and have the necessary authority to execute this Contract on behalf of the parties hereto, and each party hereby certifies to the other that any necessary resolutions or other act extending such authority have been duly passed and are now in full force and effect.

XXIII. ENTIRE AGREEMENT

This Agreement represents the entire and integrated agreement between the City and Shakespeare Dallas and supersedes all prior negotiations, representations and/or agreements, either written or oral. This Agreement may be amended only by written instrument signed by both the City and Shakespeare Dallas

IN WITNESS THEREOF, the parties hereto have caused this agreement to be signed by their proper corporate officers as first above specified, and have caused their proper corporate seal to be hereto affixed the day and year first above written.

TOWN OF ADDISON, TEXAS

SHAKESPEARE DALLAS

By: _____
Chris Terry, Assistant City Manager

By: _____

Its: _____

Department of Financial & Strategic Services
Quarterly Review

For the Period and Year June 30, 2008

*Town of Addison
September 2008*

Quarter Ended 6/30/08

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First Southwest Portfolio Report	Attached

Executive Dashboard – 3rd Quarter, 2008 Fiscal Year

Financial Indicators

Key Revenue Sources:

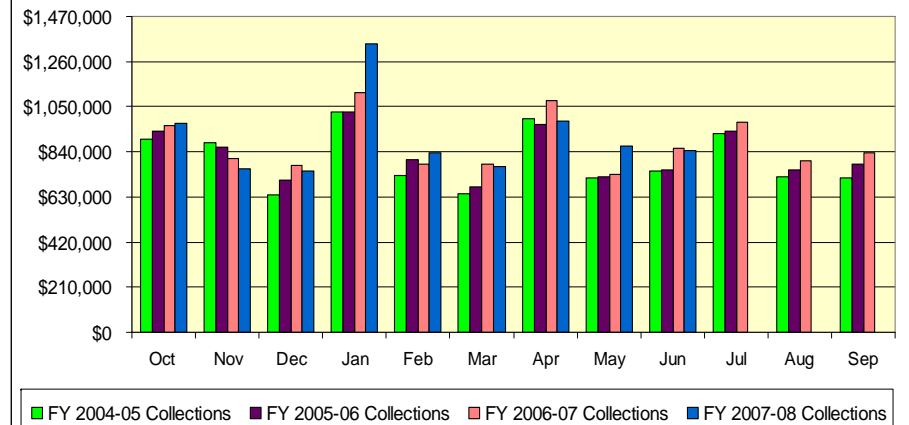
	FY08 Budget	FY08 Projection*	Outlook/Variance
Ad Valorem Taxes	\$10,044,110	\$10,099,400	\$55,290
Sales Taxes	\$10,732,900	\$10,800,000	\$67,100
Franchise Fees	\$2,590,000	\$2,482,440	(\$107,560)
Licenses and Permits	\$557,900	\$742,650	\$184,750
Court Fines	\$1,143,000	\$1,163,000	\$20,000
Hotel Tax	\$5,200,000	\$5,100,000	(\$100,000)
Fuel Flowage Fees	\$835,000	\$828,000	(\$7,000)
Water and Sewer Charges	\$8,458,000	\$8,473,300	(\$15,300)

Key Expenditures:

	FY08 Budget	FY08 Projection*	Outlook/Variance
General Fund	\$29,022,270	\$27,267,050	\$1,755,220
Hotel Fund	\$7,603,990	\$6,402,530	\$1,201,460
Airport Operations	\$3,684,320	\$3,304,920	\$379,400
Utility Dept.	\$2,239,180	\$2,441,110	(\$201,930)

*Using data through June 30, 2008

Addison Sales Tax Collections



Overall Fund Outlook:

General Fund



Airport Fund



Hotel Fund



Utility Fund



Executive Dashboard – 3rd Quarter, 2008 Fiscal Year



Economic Indicators

Office Occupancy Indicators:

North Dallas / Addison  Down from 83.01% to 81.10% Dallas/Fort Worth Metroplex  Down from 80.92% to 78.23%



Source: Blacks Guide, Summer/Fall 2007 vs Winter/Spring 2008

Hotel Indicators:

Hotel Occupancy  2008 down 5.7% from 2007 RevPAR  2008 down \$3.33 from 2007

Source: STR Report – June 2007 vs. June 2008

Area Economic Indicators:

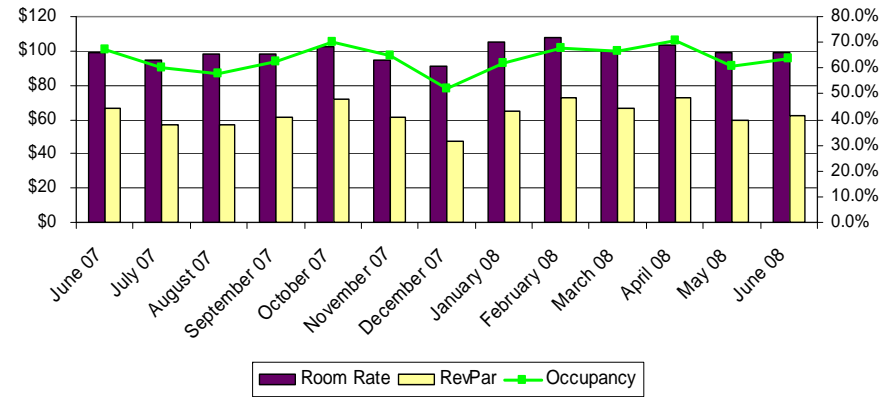
Area Employment  2008 up 0.2% from 2007 Texas Leading Indicators Index  2008 up 0.5 points from 2007

Source: Dallas Federal Reserve

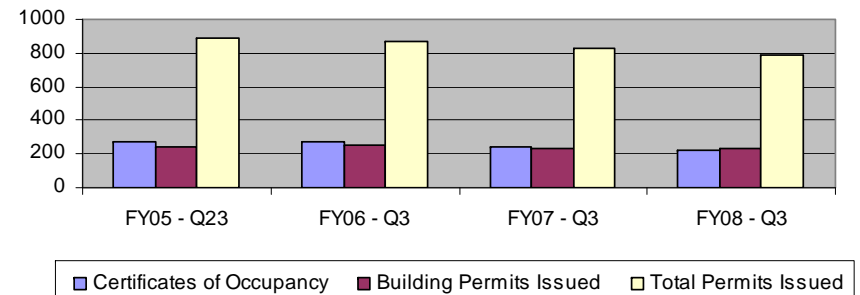
Building Permit Activity:

	FY 2007 (thru June 30th)	FY 2008 (thru June 30th)
Certificates of Occupancy	245	220
Building Permits Issued	233	228
Total Permits Issued	828	783
Total Valuation	\$93,336,617	\$54,535,685

Hotel Industry Statistics



Comparison of Permit Activity








Contract Summary Dashboard - 3rd Quarter, 2008 Fiscal Year

For the period ended June 30, 2008


Status of Current Contracts

Type of Service






Key Maintenance Contracts

<u>Contract</u>	<u>Vendor/Contractor</u>	<u>Project Manager</u>	<u>Contract Amount</u>	<u>Paid Amount YTD</u>	<u>% of Contract</u>	<u>Status</u>	<u>Comments</u>
General Services - HVAC Maintenance	Brothers A/C & Heating		\$89,652	\$75,280	84%		
General Services - Janitorial Services	Jani-King of Dallas		\$102,480	\$74,938	73%		
Parks Mowing	Blade Turner		\$146,000	\$128,558	88%		New Contract Began 2/1/08
Street Sweeping	Sweeping Services of Texas		\$53,000	\$34,931	66%		Contract expires 9/30/08
Solid Waste Pick-Up	Waste Management		\$224,160	\$142,775	64%		

Key Construction Contracts





<u>Contract</u>	<u>Vendor/Contractor</u>	<u>Contract Amount*</u>	<u>Paid Amount YTD</u>	<u>% of Contract</u>	<u>Status</u>	<u>Comments</u>
Airport Paving Improvements	Northstar	\$770,000	\$684,341	89%		Final Payment paid June 08

Key Service Contracts

<u>Contract</u>	<u>Vendor/Contractor</u>	<u>Contract Amount**</u>	<u>Paid Amount YTD</u>	<u>% of Contract</u>	<u>Status</u>	<u>Comments</u>
Legal Services	Cowles and Thompson	\$466,500	\$416,589	89%		Legal fees typically run high through midyear
Investment Services	First Southwest	\$49,000	\$29,702	61%		
Advertising Services	Krause	\$948,430	\$548,956	58%		
Sponsorship Services	PPI and Cavanaugh	\$86,000	\$83,750	97%		
Airport Management	Washington Staubach	\$1,014,670	\$809,332	80%		

*Includes all change orders

**Because contract amounts are based on different variables (hourly rate, percentage of funds invested, etc), contract amount represents amount budgeted for 2008 fiscal year

Completed	
No issues	
Some issues	
Major issues	

Department of Financial & Strategic Services

To: Ron Whitehead, City Manager

From: Ryan L. Adams, Director
Jason L. Cooley, Strategic Services Manager

Re: Third Quarter FY 2008 Financial Report

Date: September 23, 2008

GENERAL FUND

- With three-quarters of the year elapsed, revenues totaled \$23.6 million, which is roughly \$1.1 million, or 5% more than received this time a year ago.
- Sales tax through June is up 2.9%, compared to 3.9% recorded by Dallas County and 5.2% enjoyed by the State of Texas.
- Through nine months, operating expenditures total almost \$18.5 million, which is 63.6% of budget and \$1.47 million more than spent this time last year. Much of the increase is attributed to the extensive scope of maintenance projects that were included in the 2008 budget.

HOTEL FUND

- Revenues through the third quarter totaled \$5.1 million, a decline of \$394k from last year. The reduction is due to falling hotel occupancy taxes caused by an anemic business travel market.
- Operating expenditures amounted to \$4.9 million, up \$201k from last year at the same time.

AIRPORT FUND

- Operating revenue through nine months totaled \$2.7 million, a 3.1% decline from last year. Income from rentals is down \$17k and fuel flowage fees are down \$71k. Although the decline in income is relatively minor, there is continuing concern that rising fuel prices and current economic conditions will continue dampen general aviation travel.
- Year-do-date operating expenses amounted to \$2.3 million, contributing to net income of \$407k. However, with the retirement of debt and capital expenditures, working capital (fund balance) declined \$691k through June.

UTILITY FUND

- Operating revenues through the third quarter total nearly \$5.4 million, which represents a 9% decline from a year ago. The decline is directly related to the reduced volume of water sold to Addison's customers. Operating expenses total \$4.4 million, a slight increase of \$6k from a year ago.
- Net income of \$742k combined with the influx of \$6.3 million in bond proceeds, offset debt service and capital expenses to fund a \$5.4 million increase in working capital.

CASH AND INVESTMENT REPORT

- Cash for all funds as of June 30, 2008 totaled \$76.1 million, a net increase of \$31.6 million from last quarter. The increase is primarily due to the receipt of \$28 million in bond proceeds from the Series 2008 sale.
- The Town's average investment yield to maturity as of 06/30/08 was 2.835%, down significantly from the 3.665% of the previous quarter and 5.216% same time last year. The average weighted maturity decreased 46 days to 183 days.
- Despite the decline in interest rates, the Town's return is still significantly above the benchmark Texpool return due to the long-term investments made before the decline in interest rates. We concur with the investment strategy recommended by First Southwest and will continue to keep investments relatively short in the six to nine month range during this period of low interest rates.

TOWN OF ADDISON

EXECUTIVE SUMMARY OF MAJOR OPERATING FUNDS FOR THE QUARTER ENDED JUNE 30, 2008 UNAUDITED ACTUAL AMOUNTS COMPARED TO THE 2008 ADOPTED BUDGET AND PREVIOUS YEAR ACTUAL FOR SAME PERIOD

All Amounts Expressed in Thousands of Dollars

	General Fund			Hotel Fund			Airport Fund			Utility Fund			Total Major Operating Funds*		
	Budget	Actual	PY Actual	Budget	Actual	PY Actual	Budget	Actual	PY Actual	Budget	Actual	PY Actual	Budget	Actual	PY Actual
RESOURCES															
Ad Valorem Tax	\$ 10,072	\$ 10,088	\$ 9,128	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,072	\$ 10,088	\$ 9,128
Non-Property Tax	11,699	8,627	8,382	5,200	3,548	3,919	-	-	-	-	-	-	16,899	12,174	12,301
Franchise Fees	2,590	1,965	1,921	-	-	-	-	-	-	-	-	-	2,590	1,965	1,921
Service/Permitting/License Fees	1,825	1,369	1,517	1,456	885	975	870	578	649	8,518	5,351	5,885	12,669	8,184	9,026
Rental, Interest and Other Income	1,900	1,564	1,529	854	682	615	3,237	2,213	2,284	200	180	172	6,191	4,639	4,600
Transfers and Other Sources	-	-	-	-	-	-	-	-	-	6,278	6,278	-	6,278	6,278	-
Total Resources	28,085	23,613	22,477	7,510	5,115	5,509	4,107	2,790	2,932	14,996	11,809	6,057	54,698	43,328	36,976
APPLICATION OF RESOURCES															
Personal Services	18,778	12,400	12,097	1,578	1,072	1,039	284	230	220	1,362	930	852	22,001	14,631	14,208
Supplies and Materials	1,181	884	742	120	88	63	24	13	11	119	78	84	1,444	1,063	900
Maintenance	3,476	1,473	899	540	286	290	1,766	960	854	486	243	147	6,268	2,961	2,190
Contractual Services	4,494	2,824	2,425	4,287	2,620	2,596	1,611	1,105	1,132	5,023	3,141	3,302	15,415	9,690	9,455
Capital Equipment Amortization	1,078	808	785	61	46	16	-	-	-	18	13	13	1,157	868	814
Capital Equipment/Projects	15	62	35	318	108	179	988	883	552	1,751	-	156	3,072	1,052	922
Transfers and Other Uses**	-	-	-	700	700	530	389	292	290	2,623	1,967	1,957	3,711	2,959	2,777
Total Application of Resources	29,022	18,450	16,983	7,604	4,920	4,713	5,060	3,482	3,058	11,382	6,372	6,511	53,069	33,224	31,265
Net Change in Fund Balances	\$ (937)	\$ 5,163	5,494	\$ (94)	\$ 195	\$ 796	\$ (953)	\$ (691)	\$ (126)	\$ 3,614	\$ 5,437	(454)	\$ 1,629	\$ 10,104	5,710

Notes:

* Totals may not exactly match due to rounding.

** Transfers and other uses includes interfund transfers and and retirement of debt in the Airport and Utility funds.

TOWN OF ADDISON
GENERAL FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Advalorem taxes:						
Current taxes	\$ 10,044,110	\$ (111,972)	\$ 10,046,155	100.0%	\$ 9,171,090	97.8%
Delinquent taxes	3,450	(9,600)	4,057	117.6%	(92,443)	-919.8%
Penalty & interest	24,130	22,044	37,376	154.9%	49,064	209.1%
Non-property taxes:						
Sales tax	10,732,900	2,697,229	8,130,545	75.8%	7,889,369	76.4%
Alcoholic beverage tax	966,400	254,123	496,029	51.3%	492,579	53.1%
Franchise / right-of-way use fees:						
Electric franchise	1,600,000	390,258	1,206,941	75.4%	1,233,484	73.9%
Gas franchise	225,000	(565)	241,342	107.3%	231,325	102.8%
Telecommunication access fees*	631,800	178,049	408,752	64.7%	361,288	54.3%
Cable franchise	110,700	30,040	93,763	84.7%	80,792	73.0%
Wireless network fees	15,000	240	8,240	54.9%	9,445	63.0%
Street rental fees	7,500	2,250	5,750	76.7%	4,633	57.9%
Licenses and permits:						
Business licenses and permits	146,800	8,632	54,565	37.2%	98,753	66.0%
Building and construction permits	411,100	78,061	326,965	79.5%	497,361	132.5%
Intergovernmental revenue	-	-	-	0.0%	-	0.0%
Service fees:						
General government	600	173	302	50.3%	821	91.2%
Public safety	724,700	179,331	551,366	76.1%	513,818	74.4%
Urban development	4,600	2,466	7,881	171.3%	5,080	108.3%
Streets and sanitation	296,900	83,702	230,358	77.6%	225,296	83.1%
Recreation	58,400	30,762	61,768	105.8%	52,469	76.1%
Interfund	181,650	45,414	136,242	75.0%	123,759	75.0%
Court fines	1,143,000	291,982	896,350	78.4%	894,987	85.8%
Interest earnings	561,000	132,253	429,941	76.6%	404,867	82.6%
Rental income	146,500	30,250	115,708	79.0%	107,120	74.4%
Other	49,000	76,459	122,245	249.5%	122,386	326.4%
Total Revenues	\$ 28,085,240	\$ 4,411,581	\$ 23,612,641	84.1%	\$ 22,477,343	83.9%

NOTES:

* Telecommunication fees are due 45 days following the end of the quarter. Third quarter report completed prior to deadline which explains disparity compared to previous year.

TOWN OF ADDISON
GENERAL FUND
FY 2008 QUARTERLY STATEMENT OF EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
General Government:						
City manager	\$ 1,379,920	\$ 297,470	\$ 900,136	65.2%	\$ 838,620	70.4%
Financial & strategic services	1,032,450	247,039	574,501	55.6%	603,298	62.7%
General services	959,620	258,838	577,747	60.2%	497,238	63.9%
Municipal court	457,320	105,409	306,887	67.1%	294,288	69.1%
Human resources	450,730	98,951	229,482	50.9%	278,851	68.6%
Information technology	1,413,200	215,838	767,865	54.3%	748,862	67.8%
Combined services	987,550	248,101	605,505	61.3%	450,812	59.9%
Council projects	306,380	56,343	260,248	84.9%	252,070	86.3%
Public safety:						
Police	7,435,230	1,565,052	4,960,261	66.7%	4,620,665	67.3%
Emergency communications	1,057,820	198,613	723,985	68.4%	714,544	72.7%
Fire	6,168,000	1,289,936	4,135,768	67.1%	4,047,463	69.9%
Development services	937,680	187,867	645,784	68.9%	536,803	68.5%
Streets	2,129,910	345,935	1,158,327	54.4%	883,253	51.8%
Parks and Recreation:						
Parks	2,637,690	637,841	1,650,300	62.6%	1,409,346	54.8%
Recreation	1,668,770	364,416	953,300	57.1%	807,974	63.0%
OTHER FINANCING USES						
Parking lot long-term lease	-	-	-	0.0%		
Total Expenditures	\$ 29,022,270	\$ 6,117,650	\$ 18,450,096	63.6%	\$ 16,984,087	65.6%

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON

HOTEL FUND

FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET

With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Hotel/Motel occupancy taxes	\$ 5,200,000	\$ 954,997	\$ 3,547,564	68.2%	\$ 3,919,083	78.8%
Intergovernmental	-	-	-	0.0%	-	0.0%
Proceeds from special events	1,456,000	677,008	885,455	60.8%	975,268	79.8%
Conference centre rental	516,000	163,930	403,880	78.3%	375,675	75.1%
Theatre centre rental	88,000	20,221	64,640	73.5%	66,552	82.2%
Interest and miscellaneous	250,000	78,631	213,919	85.6%	172,676	102.4%
Total Revenues	7,510,000	1,894,787	5,115,458	68.1%	\$ 5,509,254	78.2%
Expenditures and other uses:						
Visitor services	1,128,260	235,182	633,890	56.2%	582,688	66.2%
Marketing	1,216,480	336,532	746,283	61.3%	700,524	65.0%
Special events	2,771,440	1,000,457	1,600,039	57.7%	1,696,889	63.3%
Conference centre	1,097,370	221,335	700,743	63.9%	657,560	68.5%
Performing arts	690,440	205,130	539,004	78.1%	544,955	94.2%
Capital projects	-	-	-	0.0%	-	0.0%
Other financing uses:						
Transfer to debt service fund	700,000	350,000	700,000	100.0%	530,033	75.0%
Total Expenditures and Other	\$ 7,603,990	\$ 2,348,636	\$ 4,919,959	64.7%	\$ 4,712,649	68.5%

NOTES:

- 1) N/A - Not Applicable
- 2) Amounts spent by special project:

Public Relations	\$ 716,770	\$ 235,213	\$ 482,905	67.4%	\$ 512,339	70.6%
Oktoberfest	525,000	14,399	45,667	8.7%	25,841	4.9%
Kaboom Town	197,500	27,358	27,550	13.9%	64,988	34.3%
Calendar	50,000	-	44,030	88.1%	44,094	98.2%
Hotel Support Program	260,000	73,176	149,791	57.6%	197,599	76.0%
Taste Addison	635,000	554,405	633,468	99.8%	624,703	96.0%
International festival (prior year Italia)	20,000	-	965	4.8%	56,339	57.7%
Jazz Festival	198,100	114,961	170,006	85.8%	183,908	74.1%
Shakespeare Festival	31,000	-	18,762	60.5%	17,950	57.9%
Summer Jazz Festival	40,000	25,026	25,240	63.1%	21,807	58.5%
Cinema in the Circle	20,000	13,000	14,140	70.7%	1,772	141.8%
Spoletto	35,000	-	-	0.0%	13,374	66.8%
Weekend to Wipe Out Cancer	15,000	139	308	2.1%	4,728	36.4%
TOTAL	\$ 2,743,370	\$ 1,057,677	\$ 1,612,832	58.8%	\$ 1,769,442	62.2%

TOWN OF ADDISON
STREET CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Intergovernmental grants	\$ 972,000	\$ 244,922	\$ 697,356	71.7%	\$ 41,776	5.6%
Interest income and other	100,000	(112,048)	112,705	112.7%	156,580	156.6%
Total Revenues	1,072,000	132,874	810,061	75.6%	198,356	23.3%
Expenditures:						
Personal services	8,000	885	23,214	290.2%	17,391	217.4%
Design and engineering	15,000	475	85,662	571.1%	21,782	48.4%
Construction and equipment:	2,514,000	394,776	1,346,335	53.6%	92,023	3.2%
Total Expenditures	\$ 2,537,000	\$ 396,136	\$ 1,455,211	57.4%	\$ 131,196	4.4%

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON
PARKS CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Interest income and other	\$ -	\$ 6,795	\$ 29,919	N/A	\$ 27,528	137.6%
Developer contributions	-	-	-	0.0%	\$ 184,247	N/A
Transfer from street capital project fund	-	-	-	0.0%	-	0.0%
Total Revenues	-	6,795	29,919	N/A	211,775	1058.9%
Expenditures:						
Personal services	1,000	295	295	29.5%	-	0.0%
Design and engineering	50,000	2,834	2,834	5.7%	-	0.0%
Construction and equipment:	-	-	-	0.0%	-	0.0%
Total Expenditures	\$ 51,000	\$ 3,129	\$ 3,129	6.1%	\$ -	0.0%

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON
2002 CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Interest earnings and other	\$ 60,000	\$ 14,807	\$ 66,534	110.9%	\$ 78,091	130.2%
Total Revenues	60,000	14,807	66,534	110.9%	78,091	130.2%
Expenditures and other uses:						
Personal services	25,000	-	12,500	0.0%	25,000	100.0%
Design and engineering	430,000	4,892	41,712	9.7%	56,373	28.2%
Arbitrage rebate	-	-	56,681	N/A	-	-
Construction and equipment	-	6,500	6,500	N/A	96,900	N/A
Total Expenditures	\$ 455,000	\$ 11,392	\$ 117,393	25.8%	\$ 178,273	79.2%

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON
2004 CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Intergovernmental grants	\$ -	\$ -	\$ -	0.0%	\$ 72,847	N/A
Interest earnings and other	20,000	3,117	13,714	68.6%	19,416	194.2%
Total Revenues	20,000	3,117	13,714	68.6%	\$ 92,263	922.6%
Expenditures and other uses:						
Personal services	-	-	-	0.0%	-	0.0%
Design and engineering	70,000	-	-	0.0%	-	0.0%
Construction and equipment	-	-	-	0.0%	86,332	N/A
Total Expenditures	\$ 70,000	\$ -	\$ -	N/A	\$ 86,332	N/A

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON
2006 CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues:						
Interest earnings and other	\$ 15,000	\$ 2,506	\$ 11,028	68.6%	13,604	N/A
Total Revenues	15,000	2,506	11,028	73.5%	\$ 13,604	N/A
Expenditures and other uses:						
Bond sale costs	-	-	-	0.0%	-	N/A
Design and engineering	-	-	-	0.0%	6,719	N/A
Construction and equipment	-	-	-	0.0%	61,956	N/A
Total Expenditures	\$ -	\$ -	\$ -	0.0%	\$ 68,675	N/A

NOTES:

1) N/A - Not Applicable

TOWN OF ADDISON
2008 CAPITAL PROJECT FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Revenues and other sources:						
Interest earnings and other	\$ 175,000	\$ 30,485	\$ 30,485	17.4%	\$ -	N/A
Bond proceeds	28,222,000	28,222,000	28,222,000	100.0%	-	N/A
Total Revenues	28,397,000	28,252,485	28,252,485	99.5%	\$ -	N/A
Expenditures and other uses:						
Bond sale costs	-	-	-	0.0%	-	N/A
Design and engineering	250,000	-	-	0.0%	-	N/A
Construction and equipment	-	843,287	843,287	N/A	-	N/A
Total Expenditures	\$ 250,000	\$ 843,287	\$ 843,287	337.3%	\$ -	N/A

NOTES:

1) N/A - Not Applicable

AIRPORT FUND

FY 2008 QUARTERLY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES TO WORKING CAPITAL COMPARED TO BUDGET

With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Operating revenues:						
Operating grants	\$ 50,000	\$ -	\$ -	0.0%	\$ -	0.0%
Fuel flowage fees	835,000	197,148	552,155	66.1%	623,558	59.4%
Rental	3,012,000	797,864	2,136,569	70.9%	2,153,642	68.9%
User fees	35,000	11,293	25,490	72.8%	24,972	71.3%
Total operating revenues	<u>3,932,000</u>	<u>1,006,305</u>	<u>2,714,214</u>	69.0%	<u>2,802,172</u>	66.0%
Operating expenses:						
Town - Personal services	283,610	33,165	229,672	81.0%	219,777	77.2%
Town - Supplies	23,800	5,012	13,253	55.7%	11,281	50.6%
Town - Maintenance	176,970	8,275	23,715	13.4%	18,664	71.1%
Town - Contractual services	666,620	211,655	462,576	69.4%	382,888	67.0%
Grant - Maintenance	100,000	136,260	139,248	139.2%	-	0.0%
Operator operation & maintenance	1,488,720	288,033	796,695	53.5%	835,253	44.7%
Operator service contract	944,600	212,571	642,450	68.0%	748,896	76.1%
Total operating expenses	<u>3,684,320</u>	<u>894,971</u>	<u>2,307,609</u>	62.6%	<u>2,216,759</u>	58.1%
Net operating income	<u>247,680</u>	<u>111,334</u>	<u>406,605</u>	164.2%	<u>585,413</u>	137.5%
Non-Operating revenues (expenses):						
Interest earnings and other	175,000	11,308	76,100	43.5%	130,227	167.0%
Interest on debt, fiscal fees & other	(153,670)	(38,417)	(115,252)	75.0%	(120,953)	75.0%
Total non-operating revenues (expenses)	<u>21,330</u>	<u>(27,109)</u>	<u>(39,152)</u>	-183.6%	<u>9,274</u>	11.0%
Net income (loss) (excluding depreciation)	<u>\$ 269,010</u>	<u>\$ 84,225</u>	<u>\$ 367,453</u>	136.6%	<u>\$ 594,687</u>	173.6%
CHANGES IN WORKING CAPITAL						
Net income (excluding depreciation)	<u>\$ 269,010</u>	<u>\$ 84,225</u>	<u>\$ 367,453</u>	136.6%	<u>594,687</u>	173.6%
Sources (uses) of working capital:						
Retirement of long-term debt	(235,000)	(58,750)	(176,250)	75.0%	(168,750)	75.0%
Net additions to fixed assets with grants	(200,000)	(149,660)	(150,000)	75.0%	-	0.0%
Other net additions to fixed assets	(787,500)	(264,306)	(732,678)	0.0%	(551,919)	39.1%
Net sources (uses) of working capital	<u>(1,222,500)</u>	<u>(472,716)</u>	<u>(1,058,928)</u>	86.6%	<u>(720,669)</u>	44.0%
Net increase (decrease) in working capital	(953,490)	(388,491)	(691,475)	72.5%	(125,982)	9.7%
Beginning fund balance	1,346,060	1,390,519	1,693,503	125.8%	1,981,507	100.0%
Ending fund balance	<u>\$ 392,570</u>	<u>\$ 1,002,028</u>	<u>\$ 1,002,028</u>	255.2%	<u>\$ 1,855,525</u>	269.9%

NOTES:

- 1) Operating income and portions of operating expenses are underreported by one month due to transactions being accounted for by operator one month and not reported to Town until following month.

UTILITY FUND
FY 2008 QUARTERLY STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES TO WORKING CAPITAL COMPARED TO BUDGET
With Comparative Information from Prior Fiscal Year

Category	2007-08 FY				2006-07	
	Amended Budget	3rd Quarter	Year-to-Date	YTD as % of Budget	Year-to-Date	YTD as % of Budget
Operating revenues:						
Water sales	\$ 4,186,000	\$ 902,083	\$ 2,489,596	59.5%	\$ 2,627,801	55.9%
Sewer charges	4,272,000	999,226	2,796,639	65.5%	3,139,967	68.9%
Tap fees	5,000	2,035	16,390	327.8%	8,900	178.0%
Penalties	55,000	11,076	48,780	88.7%	107,955	196.3%
Total operating revenues	8,518,000	1,914,420	5,351,405	62.8%	5,884,623	63.2%
Operating expenses:						
Water purchases	2,384,500	574,611	1,328,670	55.7%	1,426,357	55.0%
Wastewater treatment	2,034,800	519,811	1,471,402	72.3%	1,513,214	70.4%
Utility operations	2,589,040	510,997	1,605,104	62.0%	1,459,226	65.2%
Total operating expenses	7,008,340	1,605,419	4,405,176	62.9%	4,398,797	63.0%
Net operating income	1,509,660	309,001	946,229	62.7%	1,485,826	63.7%
Non-Operating revenues (expenses):						
Interest income and other	200,000	56,212	179,999	90.0%	172,220	172.2%
Interest on bonded debt and fiscal charges	(512,800)	(128,200)	(384,600)	75.0%	(434,295)	75.0%
Total non-operating revenues (expenses)	(312,800)	(71,988)	(204,601)	65.4%	(262,075)	54.7%
Net income (excluding depreciation)	\$ 1,196,860	\$ 237,013	\$ 741,628	62.0%	\$ 1,223,751	66.1%
CHANGES IN WORKING CAPITAL						
Net income (loss)	1,196,860	237,013	741,628	62.0%	1,223,751	66.1%
Sources (uses) of working capital:						
Retirement of long-term debt	(2,110,000)	(527,500)	(1,582,500)	75.0%	(1,522,673)	75.0%
Proceeds from sale of bonds	6,278,000	6,278,000	6,278,000	100.0%	-	N/A
Net additions to fixed assets	(1,751,000)	-	-	0.0%	(155,893)	15.9%
Net sources (uses) of working capital	2,417,000	5,750,500	4,695,500	194.3%	(1,678,566)	55.8%
Net increase (decrease) in working capital	3,613,860	5,987,513	5,437,128	150.5%	(454,815)	39.2%
Beginning fund balance	3,749,610	2,947,034	3,502,761	93.4%	3,742,232	98.8%
Ending fund balance	\$ 7,363,470	\$ 8,934,547	\$ 8,939,889	121.4%	\$ 3,287,417	125.0%

NOTES:

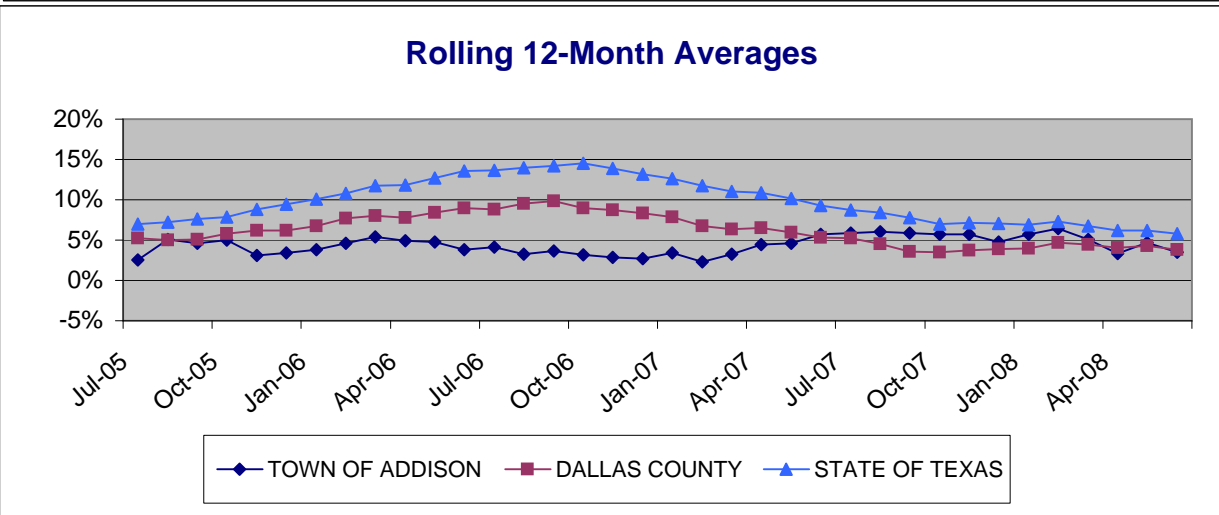
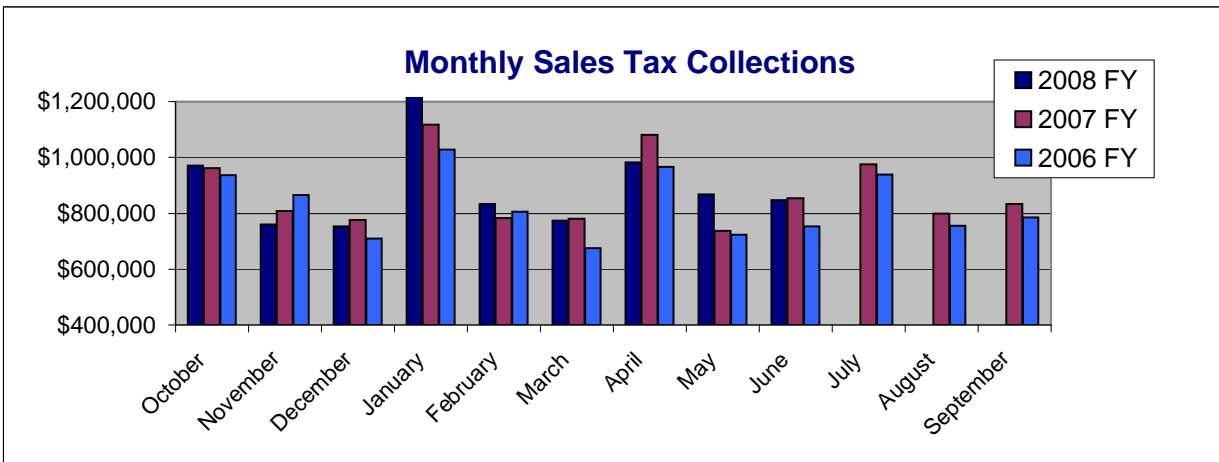
- 1) N/A - Not Applicable
- 2) Purchases of water and wastewater treatment services are underreported by one to two months due to prior year accruals and delay in receiving billings from Dallas Water Utilities.

TOWN OF ADDISON

Schedule of Sales Tax Collections and Related Analyses

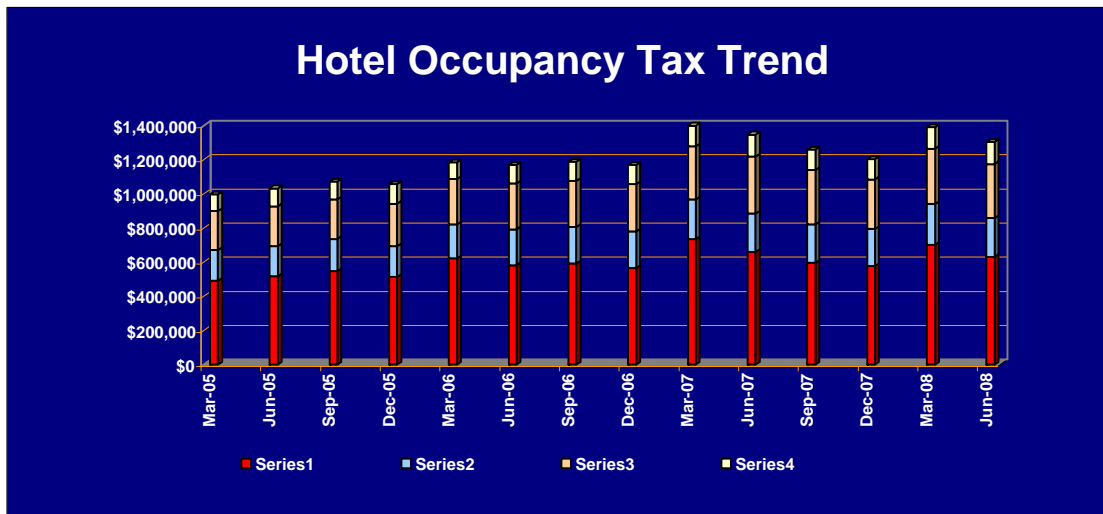
For the fiscal year ending September 30, 2008

	TOWN OF ADDISON				DALLAS COUNTY		STATE OF TEXAS	
	2007-08 Collections		% Change from Prior Year		% Change from Prior Year		% Change from Prior Year	
	Monthly	Cumulative	Monthly	Cumulative	Monthly	Cumulative	Monthly	Cumulative
October	\$ 970,520	\$ 970,520	0.8%	0.8%	0.0%	0.0%	3.0%	3.0%
November	\$ 760,005	\$ 1,730,525	-6.0%	-2.3%	7.6%	3.2%	9.9%	6.0%
December	\$ 753,408	\$ 2,483,933	-2.8%	-2.4%	6.7%	4.3%	7.4%	6.5%
January	\$ 1,342,045	\$ 3,825,978	20.1%	4.4%	3.4%	4.0%	4.8%	5.9%
February	\$ 832,902	\$ 4,658,880	6.4%	4.8%	9.7%	4.9%	9.2%	6.5%
March	\$ 774,436	\$ 5,433,316	-0.9%	4.0%	2.8%	4.6%	3.2%	6.0%
April	\$ 983,172	\$ 6,416,487	-9.1%	1.7%	0.3%	3.9%	1.4%	5.2%
May	\$ 867,541	\$ 7,284,028	17.7%	3.4%	6.2%	4.2%	8.0%	5.5%
June	\$ 846,518	\$ 8,130,545	-0.9%	2.9%	2.0%	3.9%	2.6%	5.2%
July								
August								
September								
Budget 07-08:	\$ 10,732,900							
Projected Year-End	\$ 10,800,000							



TOWN OF ADDISON HOTEL OCCUPANCY TAX COLLECTION
Hotels By Service Type for the Quarter and Year-To-Date Ended June 30, 2008
With Comparisons to Prior Year

	Rooms		3rd Quarter FY 08		08 to 07 % Diff.	YTD FY 08		08 to 07 % Diff.
	Number	Percentage	Amount	Percentage		Amount	Percentage	
Full Service								
Marriott Quorum	535	14%	\$ 237,280	18%	-9%	\$ 729,570	19%	-4%
Intercontinental	532	13%	237,922	18%	-6%	724,502	19%	-5%
Crown Plaza	429	11%	155,795	12%	7%	454,773	12%	5%
	1,496	38%	630,998	48%	2%	1,908,846	49%	-4%
Extended Stay								
Budget Suites	344	9%	9,791	1%	-7%	23,288	1%	-23%
Best Western	70	2%	17,341	1%	-9%	51,704	1%	-4%
Marriott Residence	150	4%	63,239	5%	18%	176,587	5%	6%
Summerfield Suites	132	3%	31,761	2%	-6%	116,381	3%	5%
Homewood Suites	128	3%	41,567	3%	-15%	130,219	3%	-2%
Springhill Suites	159	4%	61,970	5%	4%	185,250	5%	4%
	983	25%	225,670	17%	-7%	683,429	18%	-15%
Business Moderate								
Marriott Courtyard Quorum	176	4%	78,280	6%	-9%	239,407	6%	-1%
LaQuinta Inn	152	4%	46,100	4%	-8%	130,475	3%	-3%
Marriott Courtyard Proton	145	4%	55,671	4%	-3%	161,997	4%	2%
Holiday Inn Express	102	3%	42,724	3%	8%	117,869	3%	17%
Hilton Garden Inn	96	2%	51,769	4%	4%	142,945	4%	3%
Holiday Inn - Arapaho	101	3%	31,364	2%	-17%	101,627	3%	-6%
Comfort Inn	86	2%	12,229	1%	-15%	36,795	1%	-11%
	858	22%	318,137	24%	4%	931,116	24%	1%
Economy								
Motel 6	126	3%	20,183	2%	5%	56,566	1%	6%
Hampton Inn	159	4%	52,275	4%	-5%	155,113	4%	-1%
Quality Inn	115	3%	21,159	2%	8%	58,504	2%	13%
Comfort Suites	78	2%	22,716	2%	2%	66,109	2%	5%
Super 8	78	2%	9,082	1%	0%	25,809	1%	-12%
Best Value	60	2%	4,400	0%	31%	11,693	0%	0%
	616	16%	129,815	10%	0%	373,796	10%	2%
TOTAL	3,953	100%	\$ 1,304,619	100%	-1%	\$ 3,897,186	100%	-3%



TOWN OF ADDISON
INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Quarter Ending June 30, 2008

Fund	Balance 3/31/2008	Quarter Receipts	Quarter Disbursements	Balance 6/30/2008
General Fund	\$ 16,344,204	\$ 5,284,610	\$ 7,201,093	\$ 14,427,721
Special Revenue Funds:				
Hotel	5,364,750	2,479,204	2,243,302	5,600,652
Public Safety	63,167	8,763	28,282	43,648
Municipal Court	467,323	315,486	267,812	514,997
Arbor	158,496	17,837	709	175,624
Debt Service Funds:				
G. O. Bonds	2,176,362	336,554	306,004	2,206,912
Hotel Revenue Bonds	979,003	7,292	-	986,295
Capital Projects Funds:				
Streets	3,134,416	132,875	376,388	2,890,903
Parks	912,866	6,796	3,128	916,534
2002 G.O. Bonds	1,992,698	14,808	11,393	1,996,113
2004 G.O. Bonds	418,366	3,116	-	421,482
2006 G.O. Bonds	336,425	2,507	-	338,932
2008 G.O. Bonds	-	28,252,485	843,286	27,409,199
Enterprise Funds:				
Utility	4,285,747	8,168,687	1,694,049	10,760,385
Airport	1,947,001	1,070,212	1,522,991	1,494,222
Internal Service Funds:				
Capital Replacement	3,352,034	204,863	303,367	3,253,530
Information Services	2,561,611	127,946	19,049	2,670,508
TOTAL - ALL FUNDS	\$ 44,494,469	\$ 46,434,041	\$ 14,820,853	\$ 76,107,657

Note: Cash inflows and outflows represent revenues, expenditures, and investment transactions.

INVESTMENTS BY MATURITY AND TYPE				
For the Quarter Ending June 30, 2008				
	Type	% of Portfolio	Yield to Maturity	Amount
	Pools	30.75%	2.25%	\$ 23,663,310
	Agencies	50.42%	3.01%	38,808,588
	Bank CD's	2.77%	5.23%	2,132,001
	Commercial Paper	16.06%	3.00%	12,361,066
Total Investments		100.00%		76,964,965
	Accrued Interest Earnings			305,653
	Demand Deposits			(1,162,961)
TOTAL				\$ 76,107,657

**Quarterly Investment Report
Pooled Investment Funds
Quarter ending June 30, 2008**

This quarterly Investment report has been prepared in compliance with Section 2256.023 "Internal Management Reports", of the Public Funds Investment Act, and in accordance with reporting requirements contained in the Town of Addison Investment Policy as approved by City Council on September 25, 2007.

Activity in the Town's portfolio during this quarter is in compliance with the investment strategy as specified in the Town's Investment Policy. All investments are high-quality securities with no perceived default risk. Securities reflect active and efficient secondary markets in the event of an unanticipated cash requirement. Operating funds require the greatest short-term liquidity. Investment pools have been utilized to provide short-term fund requirements. Investment maturities have been staggered throughout the budget cycle to provide cash flow based on anticipated operating needs of the Town. Diversifying the appropriate maturity structure has reduced market cycle risk. There has been no loss of principal during this quarter of activity, and none is anticipated in the future.



Randolph C. Moravec
Chief Financial Officer



Brian Hogan
Financial Services Manager



Investment Portfolio Summary
For the Quarter Ended
June 30, 2008

Prepared By

 **First Southwest Asset Management**

Second Quarter of Calendar Year 2008 Review

MAJOR EVENTS

The overriding theme of the second quarter was inflation, particularly a rapid rise in crude oil prices that shattered previous inflation-adjusted highs. Since the beginning of 2008, oil is up 44%. On a year-over-year basis, the increase is a stunning 114%. By the end of June, the ongoing weakness of the dollar combined with increasing global demand had driven prices above \$140 per barrel. The record oil prices pushed gasoline to all-time highs, which quickly gobbled up discretionary income, the essential ingredient to economic growth.

But so far, high oil prices haven't been able to reduce demand in a significant way, because there isn't a ready substitute. Although there has been an encouraging reduction in the total number of miles Americans are driving in recent months, drivers are consuming nearly as much gas as they did three years ago when it cost half as much. As energy prices rise, so do production and shipping costs. In late May, Dow Chemical announced that huge increases in commodity prices would force the company to pass along some of its higher production costs to consumers. Dow's projected 20% increase would be their biggest price jump in more than 100 years. Bloomberg reported that General Mills, Monsanto and Hershey could soon follow. Overall food prices are also rising at an alarming rate, up 5% year-over-year, the fastest rise since 1990. And this inflationary pressure is on a global scale. In early June, CNN reported that European Central Bank President, Jean-Claude Trichet, said that the ECB was in a state of "heightened (inflation) awareness" and suggested that a rate increase could come as early as July. Trichet's comment hammered an already reeling U.S. dollar that Bernanke had tried to jawbone higher only days earlier.

Although record energy costs are clearly inflationary, they also make sustainable economic recovery difficult. Consumers are supposed to spend their way out of recessions. The government's \$140 billion dollar stimulus plan was intended to give them the means to do exactly that. However, rising gasoline prices have completely nullified any lasting advantage that the checks would have provided. Not only that, but unemployment is on the rise, the stock market is falling like a stone and consumer confidence is getting clobbered. The nation's economic problem was highlighted by the Central Bank of Canada in April when it cut its' key interest rate by a larger-than-expected 50 bps and reasoned that it was "now projecting a deeper and more protracted slowdown in the U.S. economy." So, the Fed's in a box. Its' dual objectives both need major attention. The FOMC needs to simultaneously cut rates to stimulate anemic growth and raise rates to squelch inflation and prop up the dollar.

During the quarter, Fed officials convinced the markets that their most pressing concern was inflation and as a result, short yields moved significantly higher. Some investors projected Fed rate hikes as soon as the August FOMC meeting and the bond market priced-in 75 bps of tightening before year end. The two-year Treasury-note yield opened the quarter at 1.59% and reached an intraday high of 3.10% in mid-June even after what was likely a final 25 bp rate cut in April. But as the quarter drew to a close, economic releases proved especially bad, stocks plunged, bonds rallied in a classic flight-to-quality and difficult choices for the Fed got even tougher.

THE FED

Fed officials all talked tough on inflation during the quarter. This abrupt change in focus put an end to market anticipated rate cuts, and shifted expectations to aggressive rate hikes. Some of the comments left little room for any interpretation other than that the Fed would take its inflation fighting role seriously. In late April, the Wall Street Journal suggested in a front-page story that the Fed might soon pause in its easing campaign. On April 30th, the FOMC cut rates once more to 2.0%, but by the end of May, Fed officials had a more pressing concern. Dallas Fed President Richard Fisher, a voting member of the FOMC, said in late May that "if inflation developments and more importantly, inflation expectations continue to worsen, I would expect a change of course in monetary policy to occur sooner rather than later, even in the face of an anemic

economy" and added that he "...didn't know a single person on the FOMC that wasn't concerned about inflation." Minneapolis Fed President, also a voting member, echoed Fisher's concerns claiming that inflation was "too high" and that the Fed would need to consider the timing and magnitude of any reversal in interest rate reductions. A couple of weeks later, Bernanke said that "...the latest round of increases in energy prices has added to the upside risk to inflation and inflation expectations." That same day, Philly Fed President Charles Plosser told CNBC that the Fed would "need to act preemptively" to stem inflation and that it was "...clear that rates would have to rise". It's hard to imagine a scenario in which the Fed would resume its easing campaign. The next move should be up.

Summary of FOMC Monetary Policy Actions:

- 1) April 30th – Fed cuts the target fed funds rate by 25 bps from 2.25% to 2.00%
- 2) June 25th – Fed leaves monetary policy unchanged.

HOUSING

Both new and existing home sales have risen slightly from recent lows. It's possible that housing may have reached a bottom, but if this proves to be the case, it'll likely be quite some time before any significant bounce occurs. There is simply too much inventory and not enough financially-able, confident and credit-worthy buyers. The record home sales of recent years were fueled by historically low mortgage rates, lax lending standards, questionably innovative loan practices and brisk economic growth. All of these are now gone.

Mortgage delinquencies have hit an all-time high and the total number of foreclosed homes has now topped the million mark. The home vacancy rate rose to an all-time high of 2.9% and home values keep on falling. The April S&P Case-Shiller home-price index dropped by 15.3% over the past year and has declined in each of the past 16 months. Thirty-year mortgage rates rose to an eight-month high of 6.57% in June - ironically this is a higher average lending rate than before the Fed starting cutting rates in September. Since bloated inventories snuff out new construction, housing starts recently fell to their lowest level in more than 17 years, while single family building permits have plunged 41% from last year.

Easier credit might spark sales and help move the massive inventory, but cautious lenders just aren't cooperating. The Fed's Senior Loan Officer Survey for April revealed that credit conditions were tightened further during the quarter, even after 225 basis points of easing in 2008. Surprisingly, 60% of lenders indicated they had tightened their standards on prime mortgages during the prior quarter. Housing could well be an anchor on economic growth for years to come.

EMPLOYMENT

The labor market weakened during the quarter and offered little hope of near-term improvement. Non-farm payrolls were negative for the sixth consecutive month, falling by a larger-than-expected 62k in June, while significant downward revisions to prior months pushed payroll losses to 438k for the first half of 2008. By contrast, nearly 1.1 million jobs were created in 2007. The May unemployment rate jumped from 5.0% to 5.5%, the biggest single month increase in more than 22 years. Predictably, much of the reported job loss and rise in unemployment is concentrated in the feeble construction and manufacturing sectors.

CONSUMER CONFIDENCE AND SPENDING

The Conference Board's measure of consumer confidence plunged from 57.2 to 50.4 in June, the lowest point since February 1992, while the future expectations index reached an all-time record low for the series. The University of Michigan sentiment index fell for the fifth straight month in May to 56.4, the lowest since the 1980 recession. Surprisingly, both confidence surveys were taken in the midst of a period in which most Americans had already received or were expected to find rebate checks in their mailboxes. Still, there was plenty for consumers to fret over. Skyrocketing gasoline prices are a constant reminder of dwindling savings accounts. Supposedly, every penny of pump price increase takes \$1.3 billion out of consumer pockets. With the average pump price up \$1.14 since last year, a whopping \$140 billion in spending power has virtually evaporated. As bad as that sounds, consumer woes weren't restricted to petroleum. Tumbling home prices, rising unemployment and a stock market poised on the brink of an official bear market absolutely gouged household net worth in the second quarter. In fact, Merrill Lynch estimated that \$1.2 trillion in stock market and home equity value was wiped out during the

quarter, while food and energy cost increases are sapping discretionary spending at an annual loss rate of \$300 billion. So, there was little apparent incentive to spend those rebate checks. But despite a national savings rate below one percent, spend they did, as retail sales doubled forecasts and rose by a full 1.0% in May

INFLATION

Late spring floods in the Midwest dealt a cruel blow to corn prices, which closed the first half of 2008 up 66% from the beginning of the year. Overall food prices jumped 0.9% in May – the largest one-month increase since January 1990. In the past 12 months, the overall price of food as jumped by 5%, also the biggest increase since 1990. There is little reason to expect a retreat in food prices in the near future. Likewise, the price of factory raw materials are on the rise. The prices paid index of the June ISM survey rose to 91.5, the highest since July 1979. Energy price increases are apparent to anyone who drives by the Exxon station, but related price increases are less evident. According to Business Week, major U.S. airlines will spend \$60 billion on fuel this year, a 400% increase from 2000. Because of this, the major carriers are projected to lose an average of \$60 per roundtrip passenger and are expected to lose a combined \$7.2 billion this year. The airlines have responded with fare increases and new fees, along with reduced route options and fewer and fewer perks.

Overall CPI and PPI continue to rise, but core inflation rates, which exclude food and energy prices are reasonably well behaved. Core CPI is up 2.3% through May, a bit lower than in 2007. A large part of the reason has to do with the drop in housing costs. The Fed has traditionally focused on the core rate of inflation. This habit has allowed them to cut rates aggressively in 2008 in the face of rising commodity prices, but now many are questioning whether achieving well-behaved core inflation should be the Fed's objective, as persistent headline inflation would have a tendency to bleed through to the core over time. The Fed seems to have picked up on this notion and has been rattling its inflation-fighting saber.

MARKET MOVEMENT

- Short-term yields were very volatile during the quarter as expectations for additional rate cuts gave way to concerns about inflation. After closing Q1 at 1.49% the six-month T-bill yield fell as low as 1.39% before changing directions and climbing as high as 2.42%. The six-month T-bill settled in to close the quarter at 2.16%, an increase of 67 bps. In similar fashion, the two-year T-note yield, which opened the quarter at a very low 1.59%, climbed as high as 3.04% before sliding back to close the 2nd quarter at 2.62%, an increase of 103 bps.
- The DOW followed up the first quarter's 7.6% decline with another 7.4% drop and is now down 15% for the year. The S&P fell 3.2% and is now off almost 15% during 2008. The NASDAQ managed a slight gain of 0.6% in the second quarter but is still down nearly 12% for the year. Since the end of the quarter, the major indices have all fallen into official bear market territory, down more than 20% from the last October's highs.
- The TexPool average rate during the second quarter was 2.33%, down 122 bps from the prior quarter's 3.55%. TexPool's yield has now stabilized around 2.20% as Fed monetary policy is on hold for the time being.

INTEREST RATES

		Fed Funds	3 mo T-bill	6 mo T-bill	2 yr T-note	5 yr T-note	10 yr T-note
Last	3/31/08	2.25%	1.32%	1.49%	1.59%	2.44%	3.41%
High			2.01%	2.42%	3.04%	3.76%	4.27%
Low			1.08%	1.39%	1.59%	2.44%	3.41%
End	6/30/08	2.00%	1.74%	2.16%	2.62%	3.33%	3.97%

PORTFOLIO ACTIVITY SINCE MARCH 31st :

- The portfolio had two bonds called prior to maturity, the first for \$1 million was called in April at a yield-to-call of 5.81%. The second for \$1.5 million was called in May at a yield-to-call of 5.22%.
- Two blocks of commercial paper matured- \$3 million in early May, and \$3 million in late June.
- During April and May we made five purchase totaling \$9.5 million. Four of these were in non-callable agency securities with maturities ranging from October 2008 through April 2009. We also made one purchase of American Express Credit commercial paper maturing in October 2008. The purchases met our strategy of shortening the maturity horizon, while still adding incremental yield versus TexPool. The weighted average yield on these purchases was 2.50%.
- During June the Town received approximately \$34 million in bond proceeds. Of this amount, \$26.5 million was invested in a laddered portfolio of agency securities and commercial paper. Maturities were staggered in roughly even \$3 million blocks from October 2008 through July 2009. The remaining \$7.5 million was placed in TexPool. The weighted average yield on these purchases was 2.80%.

SUMMARY / OUTLOOK

Predicting what the Fed will do (and when) is a huge challenge as the U.S. economy stumbles while global inflation rises. Fed officials have made no secret of their concern over mounting price pressures, but threatening to increase the funds target doesn't equate to actually pulling the trigger. The housing sector, highly sensitive to interest rates, is still in the midst of what many would consider a severe recession. The DOW is fast approaching an official bear market with nearly a 20% decline and 2,800 point drop from the October 2007 highs. Consumer expectations are at their lowest point since the University of Michigan survey was created more than 50 years ago. Vehicle sales have just fallen to 15-year lows as light truck buyers have disappeared right along with \$3 per gallon gasoline. Business payrolls have been negative for the past six months. The unemployment rate is nearing a four-year high. The ISM manufacturing survey has indicated contraction for much of 2008 and the non-manufacturing index slipped into contraction territory in June. If one considers the notion that the Fed keeps inflation in check by raising interest rates to slow the economy, then tightening monetary policy at this point is hard to fathom.

The other side of the argument is that inflation expectations are a bigger problem than inflation itself. The Fed can try to control these expectations by talking a tough game and then following through with moderate tightening. A case could be made that by raising rates, the Fed might be able to ratchet down inflation premiums on the long end of the curve and indirectly lower fixed-term mortgage rates, the opposite of what they've managed to achieve through 325 bps of easing. Another benefit to tightening the funds rate would be its positive effect on the dollar. A strengthening dollar should help rein in oil prices, which should lower gasoline prices and boost consumer discretionary income. Since consumer spending fuels GDP growth, the extra dollars could help spur economic growth.

Both arguments probably make some sense, which is why there seems to be disagreement among the experts. Merrill, UBS, Lehman, Deutsche Bank, First Tennessee and Moody's are among those firms still calling for rate cuts after a brief Fed pause. JP Morgan is the only Primary Dealer firm calling for a rate hike this year, although a number of lesser known firms had forecast tightening as well. The most likely direction for interest rates is higher, but the fragile economy will most likely postpone any rate hikes until sometime in 2009. In the meantime, the high degree of uncertainty should create significant market volatility and continued headaches for policy makers.

PROJECTED STRATEGY FOR THE SECOND QUARTER 2008:

Although the timing is very uncertain, it is likely that the next change in monetary policy will be an increase in the fed funds rate. However, that is not likely to occur until sometime in 2009. The short-end of the yield curve has become steeply sloped. This makes investments in the six to nine month range very attractive at yields well above the current TexPool rate. We will continue to focus on this area of the curve in order to position the portfolio for the expected rate hikes in 2009 and take advantage of the aforementioned higher yields.

Town of Addison
FIXED INCOME DISTRIBUTION
June 30, 2008

Summary Information

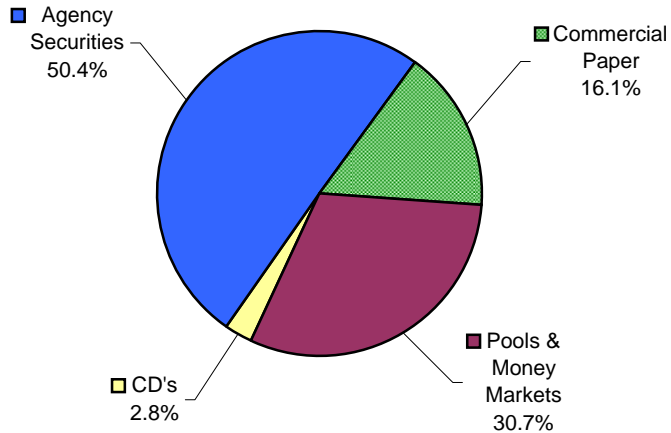
<u>Totals</u>		<u>Weighted Averages</u>	
Par Value	76,974,310.63	Average YTM	2.835
Market Value	76,959,475.36	Average Maturity (yrs)	0.5
Adjusted Cost	76,964,964.33	Average Coupon (%)	2.504
Net Gain/Loss	-5,488.97	Average Duration	0.5
Annual Income	1,918,717.74		
Number of Issues	26		

Distribution by Maturity

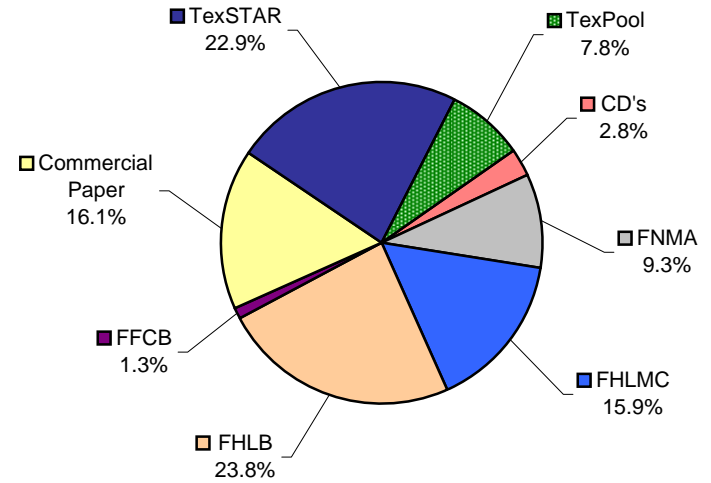
<u>Maturity</u>	<u>Number</u>	<u>Mkt Value</u>	<u>% Bond Holdings</u>	<u>Average Y T M</u>	<u>Average Coupon</u>	<u>Average Duration</u>
0 - 3 Months	6	33,155,481.07	43.1	2.412	2.213%	0.039
3 - 6 Months	7	18,088,187.75	23.5	2.734	1.142%	0.371
6 - 9 Months	3	5,950,533.00	7.7	2.852	1.776%	0.646
9 - 12 Months	5	10,365,987.50	13.5	2.895	3.744%	0.860
1 - 2 Years	8	5,171,844.31	6.7	4.275	5.229%	1.413
2 - 3 Years	2	4,227,441.73	5.5	4.650	5.265%	2.081

Town of Addison
Portfolio Composition
June 30, 2008

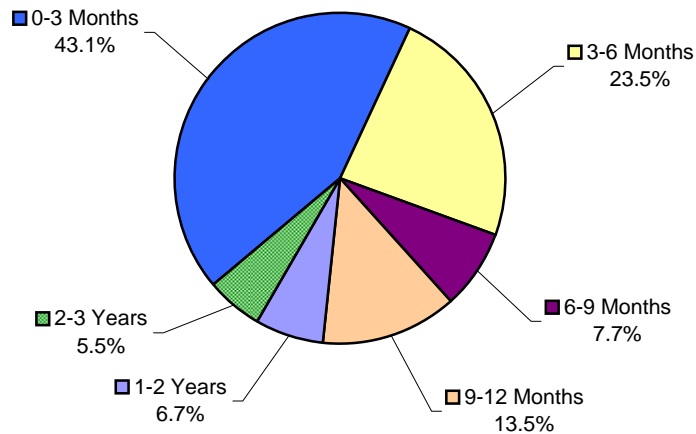
Portfolio Composition by Security Type



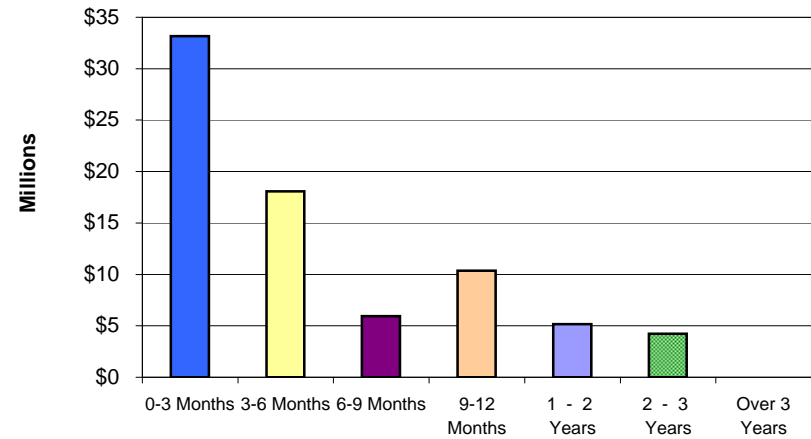
Portfolio Composition by Issuer



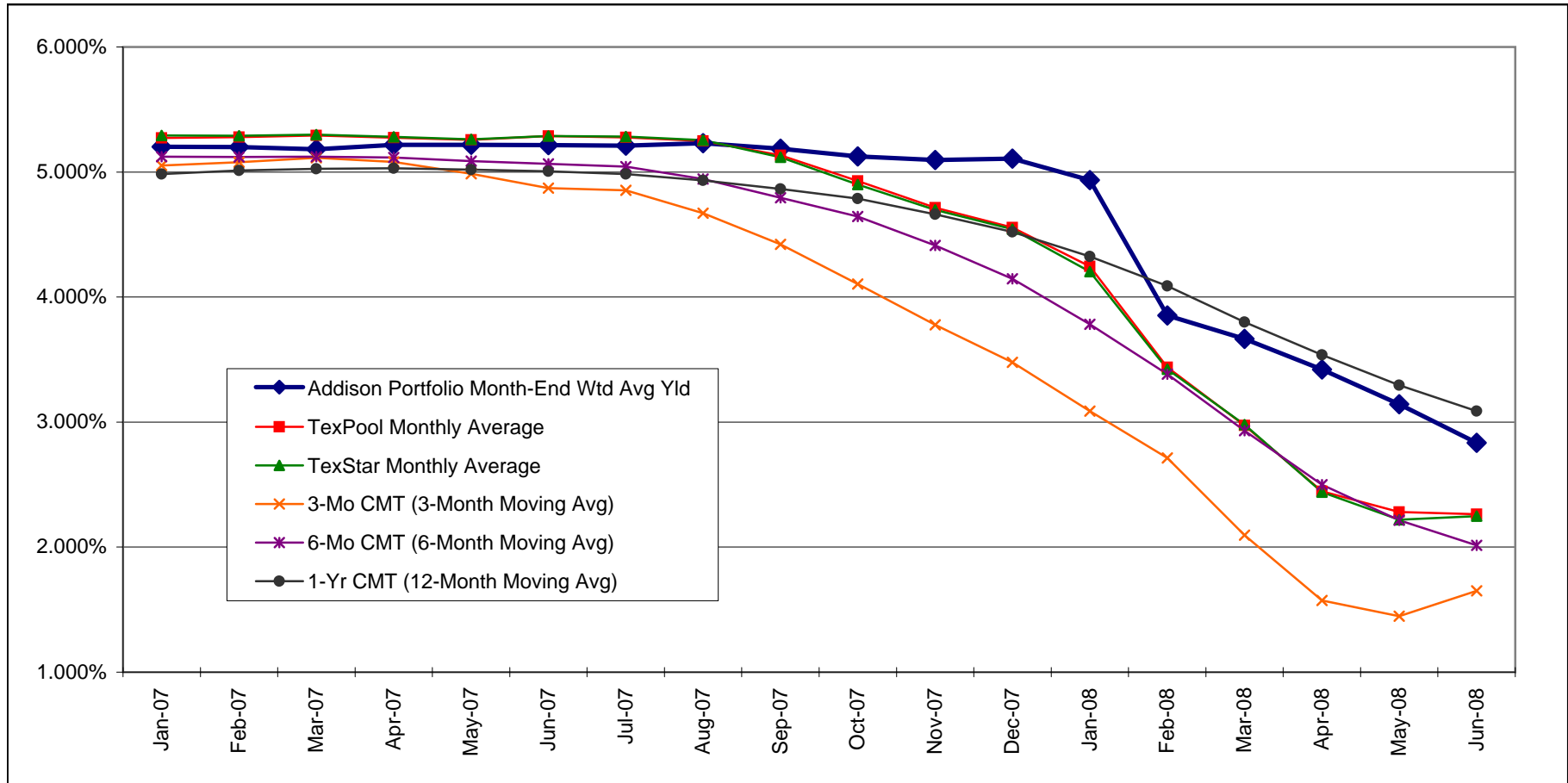
Portfolio Composition by Maturity (Percentage)



Portfolio Composition by Maturity (Amount)



Town of Addison
Benchmark Comparison
June 30, 2008



Notes:

- 1.) Benchmark data for TexPool is the monthly average yield.
- 2.) CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities.
- 3.) The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year CMT is the daily average for the previous 12-months.

Town of Addison
DETAIL OF SECURITY HOLDINGS
As of June 30, 2008

Security Description	Security CUSIP	Coupon	Settlement Date	Maturity Date	Next Call Date	Par Value	Purchase Price	Purchase Cost	Book Value	Market Price	Market Value	Accrued Interest	Days to Maturity	Days to Next Call	Yield to Maturity	Yield to Next Call
Pooled Funds																
TexSTAR	texstar	2.247				17,643,217.67	100.000	17,643,217.67	17,643,217.67	100.000	17,643,217.67	0.00	1		2.247	
TexPool	texpool	2.263				6,020,092.40	100.000	6,020,092.40	6,020,092.40	100.000	6,020,092.40	0.00	1		2.263	
GE Capital Services CP	36959RG82	0.000	01-10-08	07-08-08		1,500,000.00	98.000	1,470,000.00	1,498,833.33	99.954	1,499,316.00	0.00	8		4.138	
FHLMC	3128X1VY0	3.690	02-26-08	08-13-08		3,000,000.00	100.465	3,013,950.00	3,003,549.41	100.126	3,003,780.00	42,435.00	44		2.672	
FNMA	31359MYT4	4.500	02-20-08	08-15-08		2,000,000.00	100.882	2,017,640.00	2,004,484.75	100.219	2,004,375.00	34,000.00	46		2.660	
FNMA Disc Note	313588G33	0.000	06-19-08	09-17-08		3,000,000.00	99.412	2,982,375.00	2,984,725.00	99.490	2,984,700.00	0.00	79		2.397	
Toyota Motor Credit	89233GKM7	0.000	06-20-08	10-21-08		3,000,000.00	99.098	2,972,940.00	2,975,360.00	99.165	2,974,953.00	0.00	113		2.701	
FHLB	3133XQTY8	2.200	04-29-08	10-29-08		2,000,000.00	99.942	1,998,840.00	1,999,239.34	99.875	1,997,500.00	7,577.78	121		2.317	
American Express Credit CP	02581RKW2	0.000	05-05-08	10-30-08		3,000,000.00	98.700	2,960,988.33	2,973,480.83	99.054	2,971,635.00	0.00	122		2.702	
GE Capital Services CP	36959RLK9	0.000	02-26-08	11-19-08		2,000,000.00	97.968	1,959,356.67	1,978,536.67	98.915	1,978,306.00	0.00	142		2.836	
FHLB	3133XRCE8	2.220	06-19-08	11-21-08		4,000,000.00	99.860	3,994,400.00	3,994,833.55	99.875	3,995,000.00	9,866.67	144		2.551	
FHLMC Disc Note	313396S53	0.000	01-08-08	12-08-08		2,000,000.00	96.734	1,934,675.00	1,968,800.00	98.880	1,977,600.00	0.00	161		3.679	
FNMA	31359MTR4	3.375	06-19-08	12-15-08		2,185,000.00	100.381	2,193,324.85	2,192,766.76	100.375	2,193,193.75	3,277.50	168		2.585	
FHLB	3133XPNE0	2.750	02-08-08	02-06-09	08-06-08	2,000,000.00	100.000	2,000,000.00	2,000,000.00	99.969	1,999,375.00	21,847.22	221	37	2.750	2.750
FFCB	31331XQM7	5.000	04-14-08	02-23-09		1,000,000.00	102.353	1,023,530.00	1,017,703.52	101.375	1,013,750.00	17,777.78	238		2.214	
GE Capital Corp CP	36959HQG5	0.000	06-19-08	03-16-09		3,000,000.00	97.727	2,931,825.00	2,934,855.00	97.914	2,937,408.00	0.00	259		3.144	
FHLB	3133X4ZC8	3.000	06-19-08	04-15-09		1,290,000.00	100.021	1,290,270.90	1,290,260.06	100.125	1,291,612.50	8,170.00	289		2.971	
FHLB	3133XKLY9	4.750	06-19-08	04-24-09		1,000,000.00	101.476	1,014,760.00	1,014,186.80	101.531	1,015,312.50	8,840.28	298		2.968	
FHLB	3133XQVZ2	2.520	04-28-08	04-28-09		2,000,000.00	100.000	2,000,000.00	2,000,000.00	99.719	1,994,375.00	8,820.00	302		2.520	
FHLMC	3137EAAE9	5.250	06-20-08	05-21-09		3,000,000.00	102.053	3,061,587.00	3,059,564.74	102.062	3,061,875.00	17,500.00	325		2.967	
FHLB	3133XRK90	3.000	06-19-08	06-18-09		3,000,000.00	99.990	2,999,700.00	2,999,709.89	100.094	3,002,812.50	3,250.00	353		3.010	
FHLB	3133XGEQ3	5.250	05-13-08	08-05-09		1,500,000.00	103.259	1,548,885.00	1,543,542.98	102.500	1,537,500.00	31,937.50	401		2.534	
FHLB	3133XJPB8	5.250	03-03-08	01-22-10	07-22-08	1,500,000.00	100.953	1,514,295.00	1,502,129.04	100.156	1,502,343.75	34,781.25	571	22	4.713	2.739
View Pt Bk CD	VPB-CD 2010	5.200	04-05-07	04-05-10		2,000,000.00	100.000	2,000,000.00	2,000,000.00	100.000	2,000,000.00	282.61	644		5.234	
View Pt Bk CD	VPB-CD 2010	5.200	06-30-07	04-05-10		24,504.12	100.000	24,504.12	24,504.12	100.000	24,504.12	3.46	644		5.234	
View Pt Bk CD	VPB-CD 2010	5.200	09-30-07	04-05-10		26,534.88	100.000	26,534.88	26,534.88	100.000	26,534.88	3.75	644		5.234	
View Pt Bk CD	VPB-CD 2010	5.200	12-31-07	04-05-10		26,882.66	100.000	26,882.66	26,882.66	100.000	26,882.66	3.80	644		5.234	
View Pt Bk CD	VPB-CD 2010	5.200	03-31-08	04-05-10		26,866.18	100.000	26,866.18	26,866.18	100.000	26,866.18	3.80	644		5.234	
View Pt Bk CD	VPB-CD 2010	5.200	06-30-08	04-05-10		27,212.72	100.000	27,212.72	27,212.72	100.000	27,212.72	3.85	644		5.234	
FHLMC	3128X6JR8	5.420	03-27-08	08-06-10	08-06-08	2,000,000.00	101.028	2,020,554.00	2,005,605.64	100.259	2,005,186.00	43,661.11	767	37	4.950	2.507
FHLMC	3128XSPV4	5.125	03-18-08	11-24-10	11-24-08	2,204,000.00	101.832	2,244,377.28	2,227,486.39	100.828	2,222,255.73	11,609.26	877	147	4.391	2.401
		2.505				76,974,310.63	99.970	76,943,584.66	76,964,964.33	99.988	76,959,475.36	305,652.61	183		2.835	
GRAND TOTAL		2.505				76,974,310.63	99.970	76,943,584.66	76,964,964.33	99.988	76,959,475.36	305,652.61	183		2.835	

Town of Addison
Pooled Funds
INVESTMENT TRANSACTIONS
From 04-01-08 To 06-30-08

Settle Date	Security	CUSIP	Coupon	Mature Date	Call Date	Quantity	Unit Price	Amount
PURCHASES								
04-14-08	FFCB	31331XQM7	5.000	02-23-09		1,000,000	102.353	1,023,530.00
	Accrued Interest							7,083.33
04-28-08	FHLB	3133XQVZ2	2.520	04-28-09		2,000,000	100.000	2,000,000.00
04-29-08	FHLB	3133XQTY8	2.200	10-29-08		2,000,000	99.942	1,998,840.00
05-05-08	American Express Credit CP	02581RKW2	0.000	10-30-08		3,000,000	98.700	2,960,988.33
05-13-08	FHLB	3133XGEQ3	5.250	08-05-09		1,500,000	103.259	1,548,885.00
	Accrued Interest							21,437.50
06-19-08	FHLB	3133XRCE8	2.220	11-21-08		4,000,000	99.860	3,994,400.00
06-19-08	FNMA	31359MTR4	3.375	12-15-08		2,185,000	100.381	2,193,324.85
	Accrued Interest							819.38
06-19-08	GE Capital Corp CP	36959HQG5	0.000	03-16-09		3,000,000	97.727	2,931,825.00
06-19-08	FHLB	3133X4ZC8	3.000	04-15-09		1,290,000	100.021	1,290,270.90
	Accrued Interest							6,880.00
06-19-08	FHLB	3133XKLY9	4.750	04-24-09		1,000,000	101.476	1,014,760.00
	Accrued Interest							7,256.94
06-19-08	FHLB	3133XRK90	3.000	06-18-09		3,000,000	99.990	2,999,700.00
	Accrued Interest							250.00
06-19-08	FNMA Disc Note	313588G33	0.000	09-17-08		3,000,000	99.412	2,982,375.00
06-20-08	Toyota Motor Credit	89233GKM7	0.000	10-21-08		3,000,000	99.098	2,972,940.00
06-20-08	FHLMC	3137EAAE9	5.250	05-21-09		3,000,000	102.053	3,061,587.00
	Accrued Interest							12,687.50
06-30-08	View Pt Bk CD	VPB-CD 2010	5.200	04-05-10		27,213	100.000	27,212.72
								33,057,053.45
CALLS								
04-14-08	FHLMC	3128X1R90	4.000	10-14-08	04-14-08	1,000,000	100.000	1,000,000.00
	Accrued Interest							20,000.00
05-20-08	FNMA	31359M2A0	5.200	11-20-09	05-20-08	1,500,000	100.000	1,500,000.00
	Accrued Interest							39,000.00
								2,559,000.00
MATURITIES								
05-05-08	Morgan Stanley CP	61745AE54	0.000	05-05-08		3,000,000	100.000	3,000,000.00
06-25-08	Toyota Motor Credit	89233GFR2	0.000	06-25-08		3,000,000	100.000	3,000,000.00
								6,000,000.00

Council Agenda Item: #R6

SUMMARY:

Council approval is requested of an ordinance approving a negotiated resolution with the Atmos Energy Corp. Mid-Tex Division adopting new rate tariffs pursuant with the company's rate review mechanism filing.

FINANCIAL IMPACT:

The new rates will marginally increase revenue received from the Atmos Gas franchise as well as the Town's natural gas expenditures. The negotiated rates will increase the company's revenue by 1.24%. This increase is projected to increase the revenue to the Town by approximately \$3,700. Most of the Atmos gas bill relates to the actual price of natural gas that is passed through by the company. The new rates only deal with the company's operating expenses. The 2008-09 budget includes about \$47,000 for natural gas purchases, the new rates would increase this amount by \$400. Therefore, the net impact to the Town's budget is a modest gain of \$3,300.

BACKGROUND:

The Town is one of over 150 cities that are members of the Atmos Cities Steering Committee ("ACSC"), which is responsible for reviewing and contesting rate increases filed by Atmos. In response to a rate increase request filed by Atmos in September 2007, the ACSC negotiated a comprehensive settlement that not only approved a reduced rate increase, but established a new mechanism for reviewing annual rate filings by the company. Under the old method, Atmos would issue what is known as a GRIP (gas reliability infrastructure program) surcharge which excluded cities from reviewing the reasonableness of the surcharge. Under the negotiated settlement approved by the Addison Council in January 2008, the company now files a Rate Review Mechanism (RRM) which gives cities the ability to review and judge. In addition, Atmos and ACSC agreed to certain constraints on the magnitude of changes to expenses and invested capital under RRM. The agreement also freezes the Company's rate of return on equity and its capital structure for purposes of the RRM filings to avoid the parent company manipulating Atmos' overall rate of return.

On April 14, 2008, Atmos filed with the Town an application to increase natural gas rates pursuant to the RRM tariff. The Company's April RRM filing sought a \$33.5 million rate increase. Consultants employed by the ACSC analyzed the schedules and evidence offered by Atmos to support its request to increase rates. As a result of their study, the ACSC was able to negotiate rates that provide the Company \$20 million, or \$13.5 million less than the rates requested by the Company. These rates will be effective October 1, 2008. The monthly bill impact for the average residential customer is \$0.81.

RECOMMENDATION:

A contested case proceeding before the RRC on the Company's current application will take several months and cost ratepayers millions of dollars in rate case expenses and would not likely produce a request more favorable than the negotiated rates. The ACSC Executive Committee recommends that ACSC members approve the negotiated tariff adjustments and Town staff concurs with this recommendation.

TOWN OF ADDISON, TEXAS

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS, ("CITY") APPROVING A NEGOTIATED RESOLUTION BETWEEN THE ATMOS CITIES STEERING COMMITTEE AND ATMOS ENERGY CORP., MID-TEX DIVISION ("ATMOS MID-TEX" OR "THE COMPANY") REGARDING THE COMPANY'S RATE REVIEW MECHANISM FILING IN ALL CITIES EXERCISING ORIGINAL JURISDICTION; DECLARING EXISTING RATES TO BE UNREASONABLE; ADOPTING TARIFFS THAT REFLECT RATE ADJUSTMENTS CONSISTENT WITH THE NEGOTIATED SETTLEMENT AND FINDING THE RATES TO BE SET BY THE ATTACHED TARIFFS TO BE JUST AND REASONABLE; APPROVING ATMOS' PROOF OF REVENUES; ADOPTING A SAVINGS CLAUSE; DETERMINING THAT THIS ORDINANCE WAS PASSED IN ACCORDANCE WITH THE REQUIREMENTS OF THE TEXAS OPEN MEETINGS ACT; DECLARING AN EFFECTIVE DATE; AND REQUIRING DELIVERY OF THIS ORDINANCE TO THE COMPANY AND LEGAL COUNSEL.

WHEREAS, the Town of Addison, Texas (the "City") is a gas utility customer of Atmos Energy Corp., Mid-Tex Division ("Atmos Mid-Tex" or "the Company"), and a regulatory authority with an interest in the rates and charges of Atmos Mid-Tex; and

WHEREAS, the City is a member of the Atmos Cities Steering Committee ("ACSC"), a coalition of more than 150 similarly situated cities served by Atmos Mid-Tex that have joined together to facilitate the review and response to natural gas issues affecting rates charged in the Atmos Mid-Tex service area (such participating cities are referred to herein as "ACSC Cities"); and

WHEREAS, Atmos Mid-Tex and ACSC Cities have been in continuing disagreement, dispute, and litigation over the implementation of GRIP surcharges pursuant to Section 104.301 of the Texas Utilities Code; and

WHEREAS, as part of the negotiations to resolve Atmos Mid-Tex's 2007 rate case, ACSC Cities and the Company worked collaboratively to develop the Rate Review Mechanism ("RRM") tariff that allows for an expedited rate review process controlled by ACSC Cities as a substitute to the current GRIP process instituted by the Legislature; and

WHEREAS, the City took action earlier this year to approve a Settlement Agreement with Atmos Mid-Tex resolving the Company's 2007 rate case and authorizing the RRM Tariff; and

WHEREAS, on or about April 14, 2008, Atmos Mid-Tex filed with the City its first application pursuant to the RRM tariff to increase natural gas rates by approximately \$33.5 million, such increase to be effective in every municipality that has adopted the RRM tariff within its Mid-Tex Division; and

WHEREAS, ACSC Cities coordinated its review of Atmos' RRM filing and designated a Negotiation Committee made up of ACSC representatives and assisted by ACSC attorneys and consultants to resolve issues identified by ACSC in the Company's RRM filing; and

WHEREAS, the Company has filed evidence that existing rates are unreasonable and should be changed; and

WHEREAS, independent analysis by ACSC's rate expert concluded that Atmos is able to justify a rate increase of \$19.8 million; and

WHEREAS, the ACSC Executive Committee, as well as ACSC lawyers and consultants, recommends ACSC members approve the attached rate tariffs ("Attachment A" to this Ordinance) that will increase the Company's revenue requirement by \$20 million; and

WHEREAS, the attached tariffs implementing new rates and Atmos Mid-Tex's Proof of Revenues ("Attachment B" to this Ordinance) are consistent with the negotiated resolution reached by ACSC Cities (including but not limited to a reduction of the residential customer monthly charge to \$7.00 per month) and are just, reasonable, and in the public interest; and

WHEREAS, it is the intention of the parties that ACSC Cities receive the benefit of any Settlement Agreement that Atmos Mid-Tex enters into with other entities arising out of its RRM or any associated appeals of a decision entered by the Railroad Commission regarding the Company's request to increase rates. The ACSC Cities' acknowledge that the exercise of this right is conditioned upon the ACSC Cities' acceptance of all rates, revenues, terms and conditions of any other Settlement Agreement or associated appeals arising out of the Company's RRM filing *in toto*; and

WHEREAS, the negotiated resolution of the Company's RRM filing and the resulting rates are, as a whole, is in the public interest.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF _____, TEXAS:

Section 1. The findings set forth in this Ordinance are hereby in all things approved and are incorporated herein and made a part hereof.

Section 2. The City Council finds that the existing rates for natural gas service provided by Atmos Mid-Tex are unreasonable and new tariffs and Atmos' proof of revenues, which are attached hereto and incorporated herein as Attachments A and B, are just and reasonable and are hereby adopted.

Section 3. That to the extent any resolution or ordinance previously adopted by the City Council is inconsistent with this Ordinance, it is hereby repealed.

Section 4. That the meeting at which this Ordinance was approved was in all things conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section 5. That if any one or more sections or clauses of this Ordinance is adjudged to be unconstitutional or invalid, such judgment shall not affect, impair or invalidate the remaining provisions of this Ordinance and the remaining provisions of the Ordinance shall be interpreted as if the offending section or clause never existed.

Section 6. That if ACSC Cities determine any rates, revenues, terms and conditions, or benefits resulting from a Final Order or subsequent negotiated settlement approved in any proceeding addressing the issues raised in Atmos Mid-Tex's RRM filing would be more beneficial to the ACSC Cities than the terms of the attached tariff, then the more favorable rates, revenues, terms and conditions, or benefits shall additionally accrue to the ACSC Cities. Exercise of this right is conditioned upon ACSC Cities' acceptance of all rates, revenues, terms and conditions of any other Settlement Agreement or associated appeals arising out of the Company's RRM filing *in toto*.

Section 8. That this Ordinance shall become effective from and after its passage with rates authorized by attached Tariffs to be effective for customer bills delivered on or after October 1, 2008.

Section 9. That a copy of this Ordinance shall be sent to Atmos Mid-Tex, care of David Park, Vice President Rates and Regulatory Affairs, at Atmos Energy Corporation, 5420 LBJ Freeway, Suite 1800, Dallas, Texas 75240, and to Geoffrey Gay, General Counsel to ACSC, at Lloyd Gosselink Rochelle & Townsend, P.C., P.O. Box 1725, Austin, Texas 78767-1725.

PASSED AND APPROVED by the City Council of the Town of Addison, Texas this _____ day of _____, 2008.

Joe Chow, Mayor

ATTEST:

By: _____
Mario Canizares, City Secretary

APPROVED AS TO FORM:

By: _____
John Hill, City Attorney

RATE SCHEDULE:	R – RESIDENTIAL SALES	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 23

Application

Applicable to Residential Customers for all natural gas provided at one Point of Delivery and measured through one meter.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and Mcf charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Bill	\$ 7.00 per month
Commodity Charge – All Mcf	\$2.2410 per Mcf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Rate Review Mechanism: Commodity Charge includes an amount calculated in accordance with Rider RRM.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Franchise Fees are to be assessed solely to customers within municipal limits. This does not apply to Environs Customers.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RRC TARIFF NO: 19844
REVISION NO: 0

RATE SCHEDULE:	C – COMMERCIAL SALES	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 24

Application

Applicable to Commercial Customers for all natural gas provided at one Point of Delivery and measured through one meter and to Industrial Customers with an average annual usage of less than 3,000 Mcf.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and Mcf charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Bill	\$ 13.50 per month
Commodity Charge - All Mcf	\$ 0.9809 per Mcf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Rate Review Mechanism: Commodity Charge includes an amount calculated in accordance with Rider RRM.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Franchise Fees are to be assessed solely to customers within municipal limits. This does not apply to Environs Customers.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Issued By: David J. Park
Date Issued: 08/13/2008

Vice President, Rates and Regulatory Affairs

RATE SCHEDULE:	I – INDUSTRIAL SALES	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 25

Application

Applicable to Industrial Customers with a maximum daily usage (MDU) of less than 3,500 MMBtu per day for all natural gas provided at one Point of Delivery and measured through one meter. Service for Industrial Customers with an MDU equal to or greater than 3,500 MMBtu per day will be provided at Company's sole option and will require special contract arrangements between Company and Customer.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and MMBtu charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Meter	\$ 425.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.2733 per MMBtu
Next 3,500 MMBtu	\$ 0.1993 per MMBtu
All MMBtu over 5,000 MMBtu	\$ 0.0427 per MMBtu

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Rate Review Mechanism: Commodity Charge includes an amount calculated in accordance with Rider RRM.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Franchise Fees are to be assessed solely to customers within municipal limits. This does not apply to Environs Customers.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Curtailement Overpull Fee

Upon notification by Company of an event of curtailement or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailement or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RRC TARIFF NO: 19842
REVISION NO: 0

RATE SCHEDULE:	I – INDUSTRIAL SALES	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 26

Replacement Index

In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions

In order to receive service under Rate I, Customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

RATE SCHEDULE:	T – TRANSPORTATION	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 27

Application

Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., Mid-Tex Division Distribution System (Customer) for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's bill will be calculated by adding the following Customer and MMBtu charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer Charge per Meter	\$ 425.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.2733 per MMBtu
Next 3,500 MMBtu	\$ 0.1993 per MMBtu
All MMBtu over 5,000 MMBtu	\$ 0.0427 per MMBtu

Upstream Transportation Cost Recovery: Plus an amount for upstream transportation costs in accordance with Part (b) of Rider GCR.

Rate Review Mechanism: Commodity Charge includes an amount calculated in accordance with Rider RRM.

Retention Adjustment: Plus a quantity of gas as calculated in accordance with Rider RA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Franchise Fees are to be assessed solely to customers within municipal limits. This does not apply to Environs Customers.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Imbalance Fees

All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RRC TARIFF NO: 19845
REVISION NO: 0

RATE SCHEDULE:	T – TRANSPORTATION	
APPLICABLE TO:	Entire Division (except Environs areas and the City of Dallas)	
EFFECTIVE DATE:	10/01/2008	PAGE: 28

Monthly Imbalance Fees

Customer shall pay Company the greater of (i) \$0.10 per MMBtu, or (ii) 150% of the difference per MMBtu between the highest and lowest "midpoint" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" during such month, for the MMBtu of Customer's monthly Cumulative Imbalance, as defined in the applicable Transportation Agreement, at the end of each month that exceeds 10% of Customer's receipt quantities for the month.

Curtailement Overpull Fee

Upon notification by Company of an event of curtailement or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailement or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index

In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement

A transportation agreement is required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions

In order to receive service under Rate T, customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

RIDER:	GCR – GAS COST RECOVERY	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 40

Applicable to Rate R, Rate C, and Rate I for all gas sales made by Company, and applicable to Rate R, Rate C, Rate I, and Rate T for recovery of Pipeline System costs. The total gas cost recovery amount due is determined by adding the gas cost calculated in Section (a) below and the pipeline cost calculated in Section (b) below.

The amount due for gas cost (Section (a)) is determined by multiplying the Gas Cost Recovery Factor (GCRF) by the Customer's monthly volume. For Customers receiving service under Rate R and Rate C, monthly volume will be calculated on a Mcf basis. For Customers receiving service under Rate I, monthly volume will be calculated on an MMBtu basis and the quantities will be adjusted as necessary to recover actual gas costs.

The amount due for pipeline cost (Section (b)) is determined by multiplying the Pipeline Cost Factor (PCF) by the Customer's monthly volume. For Customers receiving service under Rate R and Rate C, monthly volume will be calculated on an Mcf basis. For Customers receiving service under Rate I and Rate T, monthly volume will be calculated on an MMBtu basis and the quantities will be adjusted as necessary to recover actual gas costs.

(a) Gas Cost

Method of Calculation

The monthly gas cost adjustment is calculated by the application of a Gas Cost Recovery Factor (GCRF), as determined with the following formula:

$$\text{GCRF} = \text{Estimated Gas Cost Factor (EGCF)} + \text{Reconciliation Factor (RF)} + \text{Taxes (TXS)}$$

EGCF = Estimated cost of gas, including lost and unaccounted for gas attributed to residential, commercial, and industrial sales, and any reconciliation balance of unrecovered gas costs, divided by the estimated total residential, commercial, and industrial sales. Lost and unaccounted for gas is limited to 5%.

RF = Calculated by dividing the difference between the Actual Gas Cost Incurred, inclusive of interest over the preceding twelve-month period ended June 30 and the Actual Gas Cost Billed over that same twelve-month period by the estimated total residential, commercial, and industrial sales for the succeeding October through June billing months. The interest rate to be used is the annual interest rate published by the PUC every December. The interest rate of 2008 is 4.69%.

Actual Gas Cost Incurred = The sum of the costs booked in Atmos Energy Corp., Mid-Tex Division account numbers 800 through 813 and 858 of the FERC Uniform System of Accounts, including the net impact of injecting and withdrawing gas from storage. Also includes a credit or debit for any out-of-period adjustments or unusual or nonrecurring costs typically considered gas costs and a credit for amounts received as Imbalance Fees or Curtailment Overpull Fees.

Actual Gas Cost Billed = EGCF multiplied by the monthly volumes billed to Residential, Commercial and Industrial Sales customers, less the total amount of gas cost determined to have been uncollectible and written off which remain unpaid for each month of the reconciliation period.

RIDER:	GCR – GAS COST RECOVERY	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 41

Any amount remaining in the reconciliation balance after the conclusion of the period of amortization will be maintained in the reconciliation balance and included in the collection of the next RF.

Atmos Energy shall file annual reports with the Commission, providing by month the following amounts: Gas Cost Written Off, Margin Written Off, Tax and Other Written Off, Total Written Off, Gas Cost Collected and Margin Collected.

TXS = Any statutorily imposed assessments or taxes applicable to the purchase of gas divided by the estimated total residential, commercial, and industrial sales.

ADJ = Any surcharge or refund ordered by a regulatory authority, inclusive of interest, divided by the estimated total residential, commercial, and industrial sales is to be included as a separate line item surcharge.

(b) Pipeline Cost

Method of Calculation

Each month, a Pipeline Cost Factor (PCF) is calculated separately for each Pipeline Cost Rate Class listed below. The formula for the PCF is:

$PCF = PP / S$, where:

$PP = (P - A) \times D$, where:

P = Estimated monthly cost of pipeline service calculated pursuant to Rate CGS

D = Pipeline service allocation factor for the rate class as approved in the Company's most recent rate case, as follows:

Pipeline Cost Rate Class	Allocation Factor (D)
Rate R - Residential Service	.634698
Rate C - Commercial Service	.302824
Rate I - Industrial Service and Rate T - Transportation Service	.062478

A = Adjustment applied in the current month to correct for the difference between the actual and estimated pipeline cost revenue of the second preceding month, calculated by the formula:

$A = R - (C - A2)$, where:

R = Actual revenue received from the application of the PP component in the second preceding month.

C = Actual pipeline costs for the second preceding month.

A2 = The adjustment (A) applied to the PP component in the second preceding month.

ATTACHMENT A

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

REVISION NO: 0

RIDER:	GCR – GAS COST RECOVERY	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 42

S = Estimated Mcf or MMBtu for the rate class for the current billing month.

The PCF is calculated to the nearest 0.0001 cent.

The Pipeline Cost to be billed is determined by multiplying the Mcf or MMBtu used by the appropriate PCF. The Pipeline Cost is determined to the nearest whole cent.

Issued By: David J. Park
Date Issued: 08/13/2008

Vice President, Rates and Regulatory Affairs

**ATMOS ENERGY CORPORATION
MID-TEX DIVISION**
REVISION NO: **0**

RIDER:	CEE – CONSERVATION & ENERGY EFFICIENCY	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 58

Purpose

Atmos Energy Mid-Tex is proposing to institute a complete Conservation & Energy Efficiency program which will offer assistance to qualified customer segments in reducing energy consumption and lowering energy utility bills. The proposal is one where Atmos Energy shareholders will fund a percentage of the allowable expenses incurred annually, with a customer rate component providing the remainder of the funding. Following is a high-level, concept summary of the proposal. Atmos Energy Mid-Tex Division proposes to work with the communities it serves to develop the details of a new tariff and programs addressing conservation and energy efficiency.

Synopsis:

Voucher system to provide free energy savings materials and supplies to qualifying customers of Atmos Mid-Tex. Qualified Customers will receive up to two hundred dollars (\$200.00) worth of caulking, weather-stripping, sheathing, sealing, water heater blankets, and like materials, other energy saving devices such as clock-thermostats, set-back devices ("covered items") from approved suppliers / retailers. Company will undertake efforts to enlist support from community groups, including its own Employee Action Program, to assist customers with installation. If it is determined that professional installation capabilities are necessary, the parties will agree on labor assistance amounts.

Eligibility

Low Income – Low-income rate-payers that qualify for heating bill assistance through LIHEAP agencies and all agencies that distribute Atmos "Share the Warmth" funds. Agencies that allocate assistance funds denote customer as Low Income, a status that lasts for one year.

Senior Citizen – Primary account holder can request eligibility through ATM call center or web-site. Customer provides primary SSN which is verified through Social Security Administration. And account holder that is or turns 65 years old in that year becomes eligible.

Funding

Initial program funding will be at two million dollars (\$2,000,000). Atmos Energy shareholders will contribute one million dollars (\$1,000,000.00) to this initiative annually with ratepayers providing one million dollars (\$1,000,000.00) per year. It is proposed that the program operate on an October 1 through September 30 year, with benefits being capped at the two million dollar level for the initial program period.

Administration:

A third-party administrator will coordinate qualification of customers, voucher distribution, subsequent verification and reimbursement of eligible expenditures and general program administration. Program administration expenses will be funded from the annual approved budget.

Audits will be provided all interested parties within 120 days of the end of each program year to determine effectiveness.

Issued By: David J. Park
Date Issued: 08/13/2008

Vice President, Rates and Regulatory Affairs

ATTACHMENT A

ATMOS ENERGY CORPORATION
MID-TEX DIVISIONREVISION NO: 0

RIDER:	CEE – CONSERVATION & ENERGY EFFICIENCY	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 59

Report

Atmos shall file an annual report detailing cost to administer the program with details of the amounts paid out of program for energy conversation assistance. The report shall also detail number of applicants, number rejected and accepted and reason rejected. The report shall be filed with the Gas Service Director.

Issued By: David J. Park
Date Issued: 08/13/2008

Vice President, Rates and Regulatory Affairs

RIDER:	FF – FRANCHISE FEE ADJUSTMENT	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:	10/01/2008	PAGE: 43

Application

Applicable to Customers inside the corporate limits of an incorporated municipality that imposes a municipal franchise fee upon Company for the Gas Service provided to Customer. Franchise Fees to be assessed solely to customers within the municipal limits. This does not apply to Environs customers.

Monthly Adjustment

Company will adjust Customer's bill each month in an amount equal to the municipal franchise fees payable for the Gas Service provided to Customer by Company. Municipal franchise fees are determined by each municipality's franchise ordinance. Each municipality's franchise ordinance will specify the percentage and applicability of franchise fees.

From time to time, Company will make further adjustments to Customer's bill to account for any over- or under-recovery of municipal franchise fees by Company.

RIDER:	Rider WNA – Weather Normalization Adjustment	
APPLICABLE TO:	Entire System (except Environs areas and the City of Dallas)	REVISION: DATE:
EFFECTIVE DATE:	11/01/2008	PAGE: 1 OF 2

RIDER WNA – Weather Normalization Adjustment

Provisions for Adjustment

The base rate per Mcf (1,000,000 Btu) for gas service set forth in any Rate Schedules utilized by the cities of the Mid-Tex Division service area for determining normalized winter period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all temperature sensitive residential, and commercial bills based on meters read during the revenue months of November through April. The five regional weather stations are Abilene, Austin, Dallas, Waco, and Wichita Falls.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment Factor shall be computed to the nearest one-hundredth cent per Mcf by the following formula:

$$WNAF_i = R_i \frac{(HSF_i \times (NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- $WNAF_i$ = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per Mcf
- R_i = base rate of temperature sensitive sales for the i^{th} schedule or classification approved by the entity exercising original jurisdiction.
- HSF_i = heat sensitive factor for the i^{th} schedule or classification calculated as the slope of the linear regression of average sales per bill (Mcf) and actual heating degree days by month for the test year by schedule or classification and weather station as part of the RRM filing.
- NDD = billing cycle normal heating degree days calculated as the simple ten-year average of actual heating degree days.
- ADD = billing cycle actual heating degree days.
- BL_i = base load sales for the i^{th} schedule or classification calculated as the y-intercept of the linear regression of average sales per bill (Mcf) and actual heating degree days by month for the test year by schedule or classification and weather station as part of the RRM filing.

The Weather Normalization Adjustment for the j^{th} customer in i^{th} rate schedule is computed as:

$$WNA_j = WNAF_i \times q_{ij}$$

ATTACHMENT A

TARIFF FOR GAS SERVICE

ATMOS ENERGY CORP.,
MID-TEX DIVISION

RATE SCHEDULE:	Rate WNA – Weather Normalization Adjustment	
APPLICABLE TO:	Entire System (except Environs areas and the City of Dallas)	REVISION: DATE:
EFFECTIVE DATE:	11/01/2008	PAGE: 2 OF 2

Where q_{ij} is the relevant sales quantity for the j th customer in i th rate schedule.

Filings with Entities Exercising Original Jurisdiction

As part of its annual RRM filing the Company will file (a) a copy of each computation of the Weather Normalization Adjustment Factor, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, (c) a schedule showing the factors of values used in calculating such Weather Normalization Adjustment and (d) a random sample and audit of thirty (30) actual customer bills, with customer information deleted, for each rate schedule or classification to which the WNA was applied in the preceding 12 month period. To the extent that source data is needed to audit the WNA application, such data will be provided by the Company as part of the annual RRM filing.

If the RRM is discontinued, as provided in the Rider RRM tariff, the information required herein to be filed with the entities exercising original jurisdiction shall be filed on March 1 of each year.

Base Use/Heat Sensitivity (HSF) Factors

Weather Station	Residential		Commercial	
	Base use Mcf	HSF Mcf/HDD	Base use Mcf	HSF Mcf/HDD
Abilene	1.27	.0130	10.93	.0638
Austin	1.29	.0133	18.47	.0641
Dallas	1.79	.0186	20.83	.0878
Waco	1.30	.0141	11.41	.0617
Wichita Falls	1.35	.0143	11.62	.0540

Sample WNAF_j Calculation:

$$.1533 \text{ per Mcf} = 1.2267 \times \frac{(.0131 \times (30-17))}{(1.14 + (.0131 \times 17))}$$

Where

- i = Residential Single Block Rate Schedule
- R_i = 1.2267 per MCF (Rate R - Final Order GUD No. 9670)
- HSF_i = .0131 (Residential - Abilene Area)
- NDD = 30 HDD (Simple ten-year average of Actual HDD for Abilene Area – 9/15/06 – 10/14/06)
- ADD = 17 HDD (Actual HDD for Abilene Area – 9/15/06 – 10/14/06)
- BL_i = 1.14 Mcf (Residential - Abilene Area)

ATTACHMENT B

**ATMOS ENERGY CORP., MID-TEX DIVISION
SUMMARY PROOF OF REVENUE AT PROPOSED RATES
TEST YEAR ENDING DECEMBER 31, 2007**

Line	Description (a)	Total (b)	Reference (c)
	Rate R		
1	<u>Rate Characteristics:</u>		
2	Customer Charge	\$7.00	RRM Settlement Agreement, Pg 2, Item 5
3			
4	Consumption Charge (\$/Mcf)	\$2.1600	Settlement Allocation
5	2007 RRM True-up (\$/Mcf)	\$0.0810	Settlement Allocation
6	Rider GCR Part A	\$8.1244	Schedule H
7	Rider GCR Part B	\$0.6243	Schedule I
8			
9	<u>Billing Units (1):</u>		
10	Bills	17,069,679	WP_J-1.1
11	Total MCF	78,708,921	WP_J-1.1
12			
13	<u>Proposed Revenue:</u>		
14	Customer Charge	\$ 119,487,753	
15	Consumption Charge	176,385,175	
16	Base Revenue	\$ 295,872,928	
17	Rider GCR Part A	639,460,135	
18	Rider GCR Part B	49,140,231	
19	Subtotal	\$ 984,473,295	
20	Revenue Related Taxes	59,244,614	
21			
22	Total Proposed Revenue- Rate R	\$ 1,043,717,909	
23			
24	Note 1: See Billing Determinants Study for details.		

ATTACHMENT B

**ATMOS ENERGY CORP., MID-TEX DIVISION
SUMMARY PROOF OF REVENUE AT PROPOSED RATES
TEST YEAR ENDING DECEMBER 31, 2007**

Line	Description (a)	Total (b)	Reference (c)
Rate C			
1	<u>Rate Characteristics:</u>		
2	Customer Charge	\$13.50	RRM Settlement Agreement, Pg 2, Item 5
3			
4	Consumption Charge (\$/Mcf)	\$0.9442	Settlement Allocation
5	2007 RRM True-up (\$/Mcf)	\$0.0367	Settlement Allocation
6	Rider GCR Part A	\$8.1244	Schedule H
7	Rider GCR Part B	\$0.5228	Schedule I
8			
9	<u>Billing Units (1):</u>		
10	Bills	1,434,516	WP_J-1.2
11	Total MCF	<u>50,233,642</u>	WP_J-1.2
12			
13	<u>Proposed Revenue:</u>		
14	Customer Charge	\$ 19,365,966	
15	Consumption Charge	<u>49,273,373</u>	
16	Base Revenue	\$ 68,639,339	
17	Rider GCR Part A	408,116,524	
18	Rider GCR Part B	26,261,046	
19	Subtotal	<u>\$ 503,016,909</u>	
20	Revenue Related Taxes	30,271,052	
21			
22	Total Proposed Revenue- Rate C	<u><u>\$ 533,287,962</u></u>	
23			
24	Note 1: See Billing Determinants Study for details.		

ATTACHMENT B

**ATMOS ENERGY CORP., MID-TEX DIVISION
SUMMARY PROOF OF REVENUE AT PROPOSED RATES
TEST YEAR ENDING DECEMBER 31, 2007**

Line	Description (a)	Total (b)	Reference (c)
Rate I &T			
1	<u>Rate Characteristics:</u>		
2	Customer Charge	\$ 425.00	Settlement Allocation
3			
4	Block 1 (\$/MMBTU)	\$0.2352	Settlement Allocation
5	Block 2 (\$/MMBTU)	\$0.1715	Settlement Allocation
6	Block 3 (\$/MMBTU)	\$0.0367	Settlement Allocation
7	2007 RRM True-up (\$/MMBTU):		Settlement Allocation
8	Block 1 (\$/MMBTU)	\$0.0381	
9	Block 2 (\$/MMBTU)	\$0.0278	
10	Block 3 (\$/MMBTU)	\$0.0060	
11	Rider GCR Part A	\$8.1244	Schedule H
12	Rider GCR Part B	\$0.2938	Schedule I
13			
14	<u>Consumption Characteristics:</u>		
15	Block 1 (First 1,500 MMBTU)	0.23502	(1)
16	Block 2 (Next 3,500 MMBTU)	0.26655	(1)
17	Block 3 (Over 5,000 MMBTU)	0.49843	(1)
18			
19	<u>Billing Units (1):</u>		
20	Bills	10,052	WP_J-1
21	Block 1	9,522,217	WP_J-1
22	Block 2	10,799,921	WP_J-1
23	Block 3	20,195,218	WP_J-1
24	Total MMBTU	<u>40,517,356</u>	
25			
26	Sales Volumes	<u>2,331,063</u>	WP_J-1
27			
28	<u>Proposed Revenue:</u>		
29	Customer Charge	\$ 4,272,100	
30	Block 1	2,602,422	
31	Block 2	2,152,424	
32	Block 3	862,336	
33	Base Revenue	\$ 9,889,282	
34	Rider GCR Part A	18,494,542	
35	Rider GCR Part B	11,902,411	
36	Subtotal	\$ 40,286,235	
37	Revenue Related Taxes	2,424,385	
38			
39	Total Proposed Revenue- Rate I&T	<u>\$ 42,710,620</u>	
40			
41	Note 1: See Billing Determinants Study for details.		

Council Agenda Item: #R7

SUMMARY:

Council approval is requested of the Town's FY 2009 investment policy.

FINANCIAL IMPACT:

There is no financial impact associated with the approval of the investment policy. We have budgeted \$2,392,800 in interest earnings for the upcoming fiscal year.

BACKGROUND:

The Public Funds Investment Act (PFIA) requires the Council to annually review and approve an investment policy for the Town. The Town's investment advisor, First Southwest Asset Management (FSAM), has assisted staff with the development and review of the proposed investment policy for FY 2009.

Due to a variety of changes being approved over the past several years, staff is not recommending any amendments to the policy for FY 2009.

RECOMMENDATION:

Staff recommends approval of the Town's FY 2009 investment policy.

TOWN OF ADDISON

INVESTMENT POLICY

For

FY 2008-09

Revised and Adopted:
September 23, 2008

**TOWN OF ADDISON, TEXAS
INVESTMENT POLICY**

I.

SCOPE

The Public Funds Investment Act, Chapter 2256, Texas Government Code, prescribes that each Town is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal management of the Town's funds. This Policy shall not apply to the selection, retention or other issues concerning the depositories of the Town's funds in demand and time deposits as provided under Chapter 105 of the Local Government Code.

This Policy shall apply to the investment and management of all funds of the Town under its control, other than those expressly excluded herein or by applicable law or valid agreement. This Policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Policy other than those in conflict. The Employees Deferred Compensation Agency Fund is excluded from coverage under this Policy.

This Policy also requires the formal adoption of an "Investment Strategy Statement" that specifically addresses each of the Town's fund groups. Each Investment Strategy Statement will describe its objectives concerning:

- a) suitability of investment type,
- b) preservation and safety of principal,
- c) liquidity,
- d) marketability of each investment,
- e) diversification of the portfolio, and
- f) yield.

In order to make effective use of the Town's resources, all monies shall be pooled into one investment bank account, except for those monies required to be accounted for in other bank accounts as stipulated by applicable laws, bond covenants or contracts. The income derived from this pooled investment account shall be distributed in accordance with the Town's internal procedures.

II.

OBJECTIVES

The Town's principal investment objectives in order of priority are:

1. Conformance with all Federal regulations, State of Texas statutes and other legal requirements including the Town Charter and Town Ordinances, including this Policy.
2. Preservation of capital and the protection of investment principal.
3. Maintenance of sufficient liquidity to meet anticipated disbursement and cash flows.
4. Diversification to avoid incurring unreasonable risks regarding securities owned.
5. Attainment of a market rate of return equal to or higher than the performance measure established from time to time by the Director of Financial and Strategic Services of the Town which is commensurate with the acceptable risk and liquidity objectives of this Policy.

III.

DELEGATION OF AUTHORITY

The City Council appoints the Director of Financial and Strategic Services and the Financial Services Manager as the "Investment Officers" of the Town. Direct management responsibility for the investment program is delegated by the City Council to the Director of Financial and Strategic Services (hereinafter referred to as the "Director"). The Investment Officers' authority will at all times be limited by all applicable laws and regulations in effect from time to time and this Policy. The Investment Officers shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

With written approval from the City Manager, the Director may delegate any phase of the investment management program to any of the Investment Officers. Such approval shall state specifically the functions such person is authorized to perform or that the person is authorized to perform all activities of the Director under this Policy. The Director shall obtain and maintain, at the Town's expense, fidelity bonds for himself and each of his designees in amounts determined adequate by the Director (which shall not be less than five percent of the amounts subject to this Policy) for each fiscal year as shown by the approved budget. No person may engage in an investment transaction except as provided under the terms of this Policy and the internal procedures established by the Director. A current list of persons authorized to transact investment business and wire funds on behalf of the Town shall be maintained by the Director.

The Director shall develop and maintain written administrative procedures for the operation of the investment program consistent with this Policy. The controls shall be designed to prevent, identify and control losses of public funds arising from deviation from this Policy, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Town.

In the discretion of the City Council and in any event upon the termination or reassignment of any Investment Officer authorized to conduct transactions for the Town pursuant to this Policy, the authority of such person shall be revoked and such revocation of authority shall be immediately communicated by the Director orally and in writing to each and every depository, broker/dealer, investment advisor, custodian and other agency or entity with whom the Town has any existing or continuing relationship in the management of its investments.

The Director and all Investment Officers shall attend at least one training session relating to the treasurer's or officer's responsibilities within twelve (12) months after taking office or assuming duties; and attend a training session not less than once every two years and receive not less than ten (10) hours of training. Such training from an independent source shall be approved or endorsed by the Government Finance Officers Association, Government Finance Officers Association of Texas, Government Treasurers Organization of Texas, Texas Municipal League, or the North Central Texas Council of Governments to include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

IV.

INVESTMENT ADVISORS

The Town may, in the discretion of the Director, appoint one or more Investment Advisors to assist the Town's financial staff in the management of the Town's funds. The Investment Advisor must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940 and also be registered with the Texas State Securities Board as an Investment Advisor. To be eligible for consideration, an Investment Advisor shall demonstrate to the Director knowledge of, and experience in, the management of public funds. The Director will satisfy himself as to the Advisor's qualifications by all appropriate means, including reference checks with the Advisor's other clients, the State Securities Board and the Securities and Exchange Commission. An appointed Investment Advisor shall act solely in an advisor and administrative capacity, within the guidelines of this Investment Policy and without any discretionary authority to transact business on behalf of the Town.

Each Investment Advisor, appointed by the Town, shall agree that its investment advice shall at all times be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence,

discretion and intelligence, in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

Appointment of an Investment Advisor shall otherwise be according to the Town's normal purchasing procedures for selecting professional services. Any approved investment advisor may be terminated with the approval of the City Manager, if in the opinion of the Director, the advisor has not performed adequately. The term of any Investment Advisor contract may not exceed two years. Any renewal or extension of the Investment Advisor contract must be made by the City Council by resolution.

V.

STANDARD OF CARE

As provided for in the Public Funds Investment Act, the standard of care for the Town's investments shall be that such "investments shall 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."

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Director and the Investment Officers shall recognize that the investment activities of the Town are a matter of public record.

The Director and the Investment Officers, acting in accordance with written procedures and exercising the proper standard of care, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that this Policy and the Director's procedures were followed. In determining whether the Director or an Investment Officer has exercised the proper standard of care, all investments over which the individual had responsibility will be considered rather than a single investment.

VI.

AUTHORIZED SECURITIES INVESTMENTS

Subject to any limitations otherwise imposed by applicable law, regulations, bond indentures or other agreements, (including but not limited to Chapter 2256 Texas Government Code, the Public Funds Investment Act), the following securities and deposits are the only ones permitted as investments for the Town's funds:

- a. Direct obligations of the United States government with a maturity not to exceed five (5) years from the date of purchase; U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury Strips (book entry U.S. Treasury securities whose coupon has been removed).
- b. Debentures or discount notes with a maturity not to exceed five (5) years from the date of purchase issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). Principal-only and interest-only mortgage backed securities and collateralized mortgage obligations and real estate mortgage investment conduits are expressly prohibited.
- c. Bonds or other interest bearing obligations of which the principal and interest are guaranteed by the full faith and credit of the United States government with a stated maturity not to exceed five (5) years from the date of purchase. A security's "average life" does not constitute a stated maturity. Principal-only and interest-only mortgage backed securities and collateralized mortgage obligations and real estate mortgage investment conduits are expressly prohibited.

d. Time Certificates of Deposit with a maturity not to exceed three (3) years from the date of purchase, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, in depository institutions that have a main office or a branch office in the state of Texas which have been approved by the Town in accordance with Section XI of this Investment Policy.

In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principle and interest of each CD federally insured may be purchased through a selected depository institution with its main office or branch office in Texas. This depository shall act as the custodian for the various certificates on behalf of the Town.

e. Prime commercial paper with an original maturity of one hundred eighty (180) days or less which at the time of purchase, is rated at least:

A-1 by Standard & Poors,
P-1 by Moodys or
F1 by Fitch

(1) At the time of purchase, the commercial paper must be rated by at least two (2) of the above stated ratings agencies at the above stated minimum credit rating.

(2) If more than two (2) of the above stated agencies rates an issuer, all the rating agencies must rate the issuer in accordance with the above stated minimum credit criteria.

(3) If the commercial paper issuer has senior debt* outstanding, the senior debt must be rated by each service that publishes a rating of the issue at least:

A-1 by Moodys,
A+ by Standard and Poor's and
A+ by Fitch.

*Senior Debt is defined as the most senior secured or unsecured debt of an issuer with an original maturity exceeding one year.

If the commercial paper issuer is given a "plus (+) rating", the maximum maturity of two hundred seventy (270) days or less will be allowed.

f. Eligible Bankers Acceptances with original maturities not exceeding one hundred eighty (180) days, issued on domestic banks operating under the banking laws of the United States, whose senior long term debt is rated, at the time of purchase, A-1 or higher by Moodys, A+ by Standard and Poors, or A+ by Fitch.

g. Repurchase agreements with a defined termination date of ninety (90) days or less on U.S. Treasury and Federal Agency securities listed in items "a" and "c" above, collateralized initially at a minimum market value of one hundred two (102) percent of the dollar value of the transaction, with the accrued interest accumulated on the collateral included in the calculation.

If the market value of the collateral falls below one hundred one (101) percent of the dollar value of the transaction, the collateral will be required to be brought up to the one hundred two (102) percent initial maintenance level. A Repurchase Agreement is defined as a simultaneous agreement to buy, hold for ninety (90) days or less, and then sell back an obligation described in item (g) above, the principal and interest of which are guaranteed by the United States.

Repurchase Agreements shall be entered into only with dealers who: 1) are recognized as primary reporting dealers with the Market Reports Division of the Federal Reserve Board of New York; and 2) have an executed, Town approved Master Repurchase Agreement. Collateral (purchased securities) shall be held by the Town's

custodian bank as safekeeping agent and the market value of the collateral securities shall be marked-to-the market daily based on the bid price for the previous day as reported in the Wall Street Journal.

For the purpose of item “g” of this section, the term “collateral” shall mean “purchased securities” under the terms of the Town approved Master Repurchase Agreement. Collateral bearing no coupon will have a maturity not to exceed five (5) years. All other eligible collateral shall have a maturity limit of ten (10) years.

The term repurchase agreements include reverse repurchase agreements. The term of a reverse repurchase agreement shall not exceed ninety (90) days and any investments acquired with the proceeds from the reverse repurchase agreement shall not exceed the term of that agreement.

h. Money Market Funds meeting each of the following criteria:

- (1) Registered with and regulated by the Securities and Exchange Commission;
- (2) Has provided the Town with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940.
- (3) No commission fee shall be charged on purchases or sales of shares;
- (4) Have an objective of maintaining a constant daily net asset value of \$1.00 per share;
- (5) Limit assets of the fund to those securities listed in paragraphs “a”, “b”, “c” and “g” above; and
- (6) Have a maximum stated maturity of thirteen (13) months and dollar weighted average portfolio maturity of not more than ninety (90) days. A list of Town approved Money Market Funds shall be kept by the Director.

i. State investment pools organized under the Interlocal Cooperation Act that meet the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the Director and authorized by the City Council.

j. Local investment pools organized under the Interlocal Cooperation Act that meet the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the Director and authorized by the City Council.

k. Direct obligations of the State of Texas or its agencies rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maturity not to exceed two (2) years from the date of purchase.

l. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States with a maturity not to exceed two (2) years from the date of purchase.

VII.

OTHER INVESTMENT GUIDELINES

The Town seeks active management of its portfolio assets. In the effort of meeting the objectives of this Policy, the Town may from time to time sell securities that it owns in order to better position its portfolio assets. Sales of securities prior to maturity, shall be documented and approved by the Director before such a transaction is consummated. Sales of securities, yielding net proceeds less than ninety-eight (98) percent of the book value of the securities, must be approved in advance and in writing by both the City Manager and the Director.

Each investment transaction must be based upon competitive quotations received from at least three (3) broker/dealers who have been approved by the Town in accordance with Texas law.

The purchase and sale of all securities shall be on a delivery-versus-payment or payment-versus-delivery basis (i.e. for securities purchases, monies will not be released by the Town's safekeeping bank until securities are received at the Federal Reserve Bank for further credit to the Town's safekeeping bank. In the case of securities sales, monies will be received by the Town's safekeeping bank via the Federal Reserve Bank, as the securities are simultaneously released to the purchaser). In this manner, the Town will always have possession of either its securities or its monies.

An investment that requires a minimum credit rating does not qualify as an AUTHORIZED SECURITIES INVESTMENT during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

VIII.

PORTFOLIO MATURITIES

Maturities shall be selected which provide for both stability of income and reasonable liquidity.

At all times, the Town shall maintain ten (10) percent of its total investment portfolio in instruments maturing in ninety (90) days or less. The weighted average maturity of all securities and certificates of deposit in the Town's total investment portfolio at any given time (not including cash or demand deposits) shall not exceed one and one-half (1½) years.

In the case of callable securities, the first "call" date may be used as the "maturity" date for investment purposes in this section if in the opinion of the Director there is little doubt that the security will be called prior to maturity. At all times the stated final maturity shall be used in portfolio average life calculations and reported as outlined in this Policy.

Investment of bond proceeds shall be invested in the investment types listed in Section VI. "a", "b", "c", "h", "i", and "j" for a period of time not to exceed five (5) years. Additionally, bond proceeds may be invested in a repurchase agreement that exceeds ninety (90) days if reductions are allowed from the agreement without penalty for legitimate bond proceed expenditures and the final maturity is within the "temporary period" as defined by the Internal Revenue Service (this arrangement is commonly referred to as a "flexible repurchase agreement").

IX.

INVESTMENT LIMITS

It is the policy of the Town to avoid concentration of assets in a specific maturity, a specific issue, or a specific class of securities, with the exception of U.S. Treasury issues listed in Section VI "a." The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets.

The Town will not exceed the following maximum limits as a percentage of the total portfolio for each of the categories listed below:

- 20 percent in Money Market Funds as outlined in Section VI "h"
- 30 percent in Certificates of Deposit
- 30 percent in Commercial Paper
- 30 percent in Bankers Acceptances
- 40 percent in Local Government Investment Pools as authorized in Section VI "h" and "j"
- 70 percent in State Government Investment Pools as authorized in Section VI "i"
- 70 percent in Instrumentality securities described in Section VI "b"

In addition to the limitations set forth above the Town's investment in any single money market fund shall never exceed ten (10) percent of the total assets of the money market fund.

The Director shall evaluate how each security purchased fits into the Town's overall investment strategy.

The amount of investments in U.S. Treasury and Agency Securities and Repurchase Agreements backed by those securities as defined in section VI(a), VI(c) and VI(g), shall at no time be less than thirty (30) percent of the total portfolio. There shall be no maximum limits on these investments.

Bond proceeds shall be exempt from the maximum limitation stated above for State Government Pools, but only for the period of time required to develop a comprehensive draw-down schedule for the project for which the proceeds are intended, the maximum being sixty (60) days, at which time the funds representing bond proceeds must be prudently diversified.

X.

SELECTION OF BROKER/DEALERS

The Town shall maintain a list of approved security broker/dealers maintaining minimum capital of \$10,000,000 and being in business for at least five years. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Securities may only be purchased from those authorized institutions and firms identified in the above list.

Broker/dealers and other financial institutions will be selected by the Director on the basis of their financial stability, expertise in cash management and their ability to service the Town's account. Each broker/dealer, bank, or savings bank that has been authorized by the Town, shall be required to submit to the Town and annually update a Broker/Dealer Information Request form which includes the firm's most recent financial statements. The Director shall maintain a file which includes the most recent Broker/Dealer Information Request forms submitted by each firm approved for investment purposes. A copy of the submitted Broker/Dealer Information Request forms as well as a list of those broker/dealers approved by the Town shall be maintained by the Director.

The Director shall review the quality of service and financial stability of each broker/dealer and financial institution approved under this Section at least annually. Any approved broker/dealer or financial institution may be removed from the list of approved broker/dealers with the approval of the Director, if in the opinion of the Director, the firm has not performed adequately or its financial condition is considered inadequate. The City Council shall, at least annually, review, revise, and adopt the list of qualified broker/dealers and financial institutions which are authorized to engage in investment transactions with the Town.

All business organizations eligible to transact investment business with the Town shall be presented a written copy of this Policy. The qualified representative of the business organization seeking to transact investment business with the Town shall execute a written instrument substantially to the effect that the qualified representative has:

- 1) received and thoroughly reviewed this Policy, and
- 2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the Town.

The Town shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above. In addition, each Investment Advisor appointed by the Town shall execute the written instrument described above.

If the Council has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the Town. The advisor shall determine selection criteria. The advisor shall annually present a list of its authorized broker/dealers to the Town for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the Town's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the Town. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the Town as part of its standard trade documentation.

XI.

SELECTION OF DEPOSITORIES

The Town shall maintain a list of authorized banks and savings banks which are approved to provide Certificates of Deposit to the Town. To be eligible for authorization, a bank or savings bank must be a member of the FDIC and meet the minimum credit criteria (described below) of a credit analysis provided by a commercially available bank rating service such as Prudent Man Analysis, Inc., or Sheshunoff Public Finance Bank Rating Service. Banks or savings banks failing to meet the minimum criteria or, in the judgment of the Director, no longer offering adequate safety for the Town will be removed from the list.

Bank rating guidelines will be calculated using publicly available information obtained from the Federal Reserve, the Comptroller of the Currency, or the banking institution itself. Data obtained from bank rating services will include factors covering the following: overall rating, liquidity policy, credit risk policy, interest rate policy, profitability and capital policy. Financial institutions selected to issue certificates of deposit to the Town in excess of One Hundred Thousand Dollars (\$100,000.00) or that are selected as Safekeeping or Custodial agents for the Town shall meet the following criteria: 1) have a Sheshunoff Public Finance Peer Group Rating of thirty (30) or better on a scale of zero (0) to one hundred (100) with one hundred (100) being the highest rating at the time of selection; or 2) have a Prudent Man Express Analysis overall rating of three or better on a scale of one (1) to five (5) with one (1) being the highest quality for the most recent reporting quarter before the time of selection; and 3) qualify as a depository of public funds in the State of Texas.

The Director shall maintain a file of the credit rating analysis reports performed for each approved firm. Institutions that meet the above criteria and who wish to provide Certificates of Deposit to the Town are required to provide to the Director a copy of the institution's quarterly Consolidated Report of Conditions and Income (CALL Report). This report will be submitted to the Director within sixty (60) days following the end of each calendar quarter.

In addition to the foregoing requirements, with respect to bond proceeds and reserves or other funds maintained for debt service purposes, a depository of such funds must be selected by competitive bidding by three (3) banks located within the boundaries of the Town or if there are not three banks available within the Town's boundaries that are willing and able to accept such deposits, then at least three (3) bids must be obtained from banks situated in Dallas County that are willing and able to accept such deposits.

XII.

SAFEKEEPING AND CUSTODY

Investment securities purchased for the Town will be delivered by either book entry or physical delivery and shall be held in third-party safekeeping by a Federal Reserve Member financial institution designated as the Town's safekeeping and custodian bank. The Town may designate more than one (1) custodian bank. In no event will the Town's custodial or safekeeping institution also be a counterparty (broker or dealer) to the purchase or sale of those securities. The Town shall execute a written Safekeeping Agreement with each bank prior to utilizing the custodian's safekeeping services. Only a state or national bank located within the State of Texas, may be utilized as a custodian of securities pledged to secure certificates of deposit. The safekeeping agreement must provide that the safekeeping bank will immediately record the receipt of purchased or pledged securities in its books and promptly issue and deliver a signed safekeeping receipt showing the receipt and the identification of the security, as well as the Town's perfected interest.

The Director shall maintain a list of designated custodian banks and a copy of the Safekeeping Agreement executed with each custodian bank.

The Town must approve release of securities, in writing, prior to their removal from the custodial account. A telephonic facsimile of a written authorization shall be sufficient if the custodian orally confirms receipt of the transmission and an exact copy of the document is retained in the Town's files.

All securities shall be confirmed in the name of the Town and delivered to an approved custodial bank or carried at a Federal Reserve Bank in the name of the Town. The Custodian shall not otherwise deposit purchased or pledged securities. All book entry securities, owned by the Town, shall be evidenced by a safekeeping receipt issued to the Town and signed by the appropriate officer at the custodian bank stating that the securities are held in the Federal Reserve system in a CUSTOMER ACCOUNT naming the Town as the "customer". In addition, the custodian bank will, when requested, furnish a copy of the delivery advice received by the custodian bank from the Federal Reserve Bank.

All certificated securities (those transferred by physical delivery) shall: 1) be held by an approved custodian bank or any correspondent bank in New York City approved by the Director; and 2) the correspondent bank or the Town's safekeeping bank shall issue a safekeeping receipt to the Town evidencing that the securities are held by the correspondent bank for the Town.

The original safekeeping receipt for each transaction including purchased securities under a repurchase agreement and collateral securing deposits will be forwarded to the Director or his designee and held in a secured file by the Town.

XIII.

RECORDKEEPING AND REPORTING

A record shall be maintained of all bids and offerings for securities transactions in order to ensure that the Town receives competitive pricing. All transactions shall be documented by the person authorizing the transaction in a form that shows that person's name, the party instructed to execute the transaction, the date, a description of the transaction and a brief statement of the reason(s) for the transaction.

Each depository institution of the Town's funds and purchased securities shall maintain separate, accurate and complete records relating to all deposits of the Town's funds, the securities pledged to secure such deposits and all transactions relating to the pledged securities. Each approved custodian shall maintain separate, accurate and complete records relating to all securities received on behalf of the Town, whether pledged, purchased or subject to repurchase agreement, as well as all transactions related to such securities. In addition, each depository shall file all reports required by the Texas State Depository Board. Each depository and custodian shall agree to make all the records described in this paragraph available to the Director's designee and the Town's auditors at any reasonable time.

At least once each quarter, the Director shall verify that all securities owned by the Town or pledged to the Town are held in safekeeping in the Town's custodial bank with proper documentation. At least annually the Town's investment program, including the records of custodians and depositories, shall be audited by independent certified public accountants selected by the City Council. This annual audit shall include a compliance audit of the management controls on investments and adherence to the Town's Investment Policy and strategies.

All broker/dealers, custodians, depositories, and investment advisors shall maintain complete records of all transactions that they conducted on behalf of the Town and shall make those records available for inspection by the Director or other representatives designated by the City Council or City Manager.

All sales of securities for less than the book value of the security shall be approved by the Director and reported to the City Council at the next regular meeting. Sales of securities for less than ninety-eight (98) percent of the book value of the securities must be approved by both the City Manager and the Director.

All contracted Investment Advisors shall report at least monthly on the straight-line book value, the market value of investment holdings, and total investment return and such other information required by the Director. Unrealized profits or losses in the Town's investment portfolio will be disclosed but will not be used in the calculation of income earned for the month. Contracted Investment Advisors shall postmark their monthly reports to the Director no later than fifteen (15) business days following the close of the reporting month.

An investment report shall be prepared by the Director within forty five (45) days of the quarter end that:

- a) describes in detail the investment position of the Town,
- b) states the reporting period beginning book and market values, additions or changes to the book and market values during the period and ending book and market values for the period of each pooled fund group,
- c) states the reporting period beginning book and market value and ending book and market value for each investment security by asset type and fund type,
- d) states the maturity date of each investment security,
- e) states the fund for which each investment security was purchased,
- f) states fully accrued interest for the reporting period,
- g) states the compliance of the investment portfolio with the Town's Investment Policy, Investment Strategy Statement and the Public Funds Investment Act,
- h) summarizes quarterly transactions, including a detailed list of the gains and losses recognized, and
- i) explains the total investment return during the previous quarter and compares the portfolio's performance to other benchmarks of performance.

This report will be presented to the City Council and signed by all of the Town's Investment Officers. .

Market valuations of investments shall be provided by the Investment Advisor on a monthly basis. The Investment Advisor shall use independent market pricing sources including, but not limited to, Interactive Data Corporation (IDC) and Bloomberg, to monitor the market price of investments acquired with the Town's funds.

Within forty five (45) days after the end of the Town's fiscal year the Director shall prepare, sign and deliver to the City Manager and the City Council an annual report on the Town's investment program and investment activity which has also been signed by each officer and employee of the Town authorized to conduct any of the Town's investment activity. The annual report shall include full year and separate monthly comparisons of investment return. Such annual report shall include an analysis of the compliance with this Policy as well as changes in applicable laws and regulations during the previous year and may include any other items of significance related to the investment program.

If the Town places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council.

XIV.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees of the Town involved in the investment process shall refrain from personal business activity that involves any of the Town's approved custodians, depositories, broker/dealers, or investment advisors and shall refrain from investing in any security issue held by the Town. Employees and officers shall not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the Town's business for personal investment decisions, shall in all respects subordinate their personal investment transactions to those of the Town particularly with regard to the timing of purchases and sales and shall keep confidential all investment advice obtained on behalf of the Town, and all transactions contemplated and completed by the Town, except when disclosure is required by law.

All Investment Officers of the Town shall file with the Texas Ethics Commission and the City Council a statement disclosing any personal business relationship with business organization seeking to sell investments to the Town or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the Town.

XV.

COLLATERAL REQUIREMENTS

Any deposits exceeding FDIC insurance limits shall be fully collateralized by securities listed in items "a" and "b" below, and the collateral shall be held by the Town's third party custodian bank.

- a. Direct obligations of the United States government; U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury Strips (book entry U.S. Treasury securities whose coupon has been removed).
- b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). Principal-only and interest-only mortgage backed securities and collateralized mortgage obligations and real estate mortgage investment conduits are expressly prohibited.

Consistent with the requirements of State law, the Town requires all bank and savings bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as Town depositories will be required to sign a Security Agreement with the Town and the Town's custodian. The agreement shall define the Town's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- a. the Agreement must be in writing;
- b. the Agreement has to be executed by the Depository and the Town contemporaneously with the acquisition of the asset;
- c. the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the Town;
- d. the Agreement must be part of the Depository's "official record" continuously since its execution.

XVI.
POLICY REVISIONS

The Investment Policy and Investment Strategy Statements will be reviewed at least annually by the Director and the City Council and may be amended as conditions warrant by the City Council.

Council Agenda Item: #R8

SUMMARY:

Council approval is requested of a resolution that adopts the Town of Addison Investment Strategy for FY 2009.

FINANCIAL IMPACT:

There is no financial impact associated with the approval of the investment strategy.

BACKGROUND:

The Public Funds Investment Act (PFIA) requires the Council to annually review the Town's investment strategy. The Town's investment advisor, First Southwest Asset Management, has assisted staff with the development of the attached strategy. The investment strategy has been drafted to comply with all aspects of the PFIA.

For FY 2009, staff is not recommending any change to our investment strategy. The investment strategy has the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of the Town
- Preservation and safety of principal
- Liquidity
- Marketability of the investment if the need arises to liquidate the investment prior to maturity
- Diversification of the investment portfolio
- Yield

RECOMMENDATION:

Staff recommends that Council adopt the resolution approving the Town's FY 2009 investment strategy.

EXHIBIT A

TOWN OF ADDISON

INVESTMENT STRATEGY STATEMENT

For

FY 2008-09

Adopted:
September 23, 2008

PREFACE

It is the policy of the Town of Addison that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted Investment Policy.

In accordance with the Texas Public Funds Investment Act (Chapter 2256, Tex. Gov. Code), the City Council shall adopt Investment Strategy Statements that address the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of the Town;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield

Effective investment strategy development coordinates the primary objectives of the Town's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. Aggressive cash management shall be utilized to increase the available "investment period" for all Town funds. Investment security maturity selections shall be based on cash flow requirements and market conditions to take advantage of interest earnings as viable and material revenue to all Town funds. The Town's portfolios shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

Suitability – any investment eligible in the Investment Policy is suitable.

Safety of principal – all investments shall be of high quality securities with no perceived default risk. Market price fluctuations will, however, occur. By managing the weighted average days to maturity for the Operating fund portfolio to less than 270 days and restricting the maximum allowable maturity to five years, the price volatility of the overall portfolio will be minimized.

Liquidity – operating funds require the greatest short-term liquidity of any of the fund types. Short-term investment pools and money market mutual funds should provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability – securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification – investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Town. When conditions are favorable, market cycle risk will be reduced by diversifying the appropriate maturity structure out to three years. Adhering to the Investment Policy’s maximum investment-type limits (Section IX. INVESTMENT LIMITS) should restrict the exposure of the fund to any one-market sector.

Yield – attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio should be the minimum yield objective. The Town's Director of Financial and Strategic Services ("Director") may also compare the operating fund’s performance to other appropriate benchmarks.

The Investment Policy permits the Town to sell securities from time to time that it owns in order to better position its portfolio assets. Sales of securities prior to maturity shall be documented and approved by the Director before such a transaction is consummated. Sales of securities, yielding net proceeds less than ninety-eight (98) percent of the book value of the securities, must be approved in advance and in writing by both the City Manager and the Director.

Council Agenda Item: #R9

SUMMARY:

Council approval is requested of a contract with First Southwest Asset Management, Inc. for investment advisory services.

BACKGROUND:

The Town's investment policy requires the Council to review the investment advisory services contract every two years. To meet this requirement, Town staff solicited proposals for investment advisory services and received proposals from the following companies:

- First Southwest Asset Management (FSAM)
- Public Financial Management, Inc. (PFM Group)
- Bond Logistics, LLC (BLX)
- Frost Investment Advisors, LLC (FIA)
- Estrada-Hinojosa Investment Bankers
- Devenir Investment Advisors, LLC

These proposals were evaluated using the following weighted criteria:

- | | |
|--|-----|
| ➤ Quality and scope of the firm's written proposal and oral presentation | 30% |
| ➤ The firm's experience and performance on comparable engagements | 30% |
| ➤ Quality of the firm's personnel to be assigned to the engagement | 20% |
| ➤ Cost of advisory services | 20% |

FINANCIAL IMPACT:

Budgeted Amount: \$57,000

Anticipated Cost: \$57,000

The three finalists proposed varying fee structures. The annual cost of services based on a \$70 million dollar average portfolio balance are as follows:

- | | |
|------------------------------------|----------|
| ➤ First Southwest Asset Management | \$57,000 |
| ➤ PFM Group | \$50,500 |
| ➤ Estrada-Hinojosa | \$28,000 |

First Southwest Asset Management's fee structure is based on the average month ending balance of the portfolio:

Amount from \$0 - \$10,000,000	0.15%
Amount from \$10,000,001 to \$50,000,000	0.08%
Amount from \$50,000,001 to \$100,000,000	0.05%
Amount from \$100,000,000 and over	0.03%

The proposed fee structure is identical to the current contract in place.

RECOMMENDATION:

Based on the weighted criteria, staff determined that First Southwest Asset Management presented the best proposal for investment advisory services. The firm has considerable experience with Texas clients, and has successfully served as the Town's investment advisor since 1994.

Staff recommends that Council approve a contract with First Southwest Asset Management for investment advisory services.



300 West Sixth Street Suite 1940
Austin, Texas 78701

Scott D. McIntyre
Senior Vice President and
Senior Portfolio Manager

512.481.2009 Phone
800.575.3792 Toll Free
512.481.2020 Fax

smcintyre@firstsw.com

August 28, 2008

Brian Hogan, Financial Services Director
Ryan Adams, Director of Financial and Strategic Services
P.O. Box 9010
Addison, Texas 75001

Dear Messrs. Hogan and Adams,

On behalf of First Southwest Asset Management, Inc. ("FSAM"), an affiliate of First Southwest Company, I appreciate the opportunity to submit our proposal to continue providing investment management services to the Town of Addison (the "Town"). FSAM specializes in the management of public funds, and I believe the firm's long history of helping public sector issuers meet their financial goals and our proven expertise as investment advisor, highly qualify our firm to assist the Town in the range of investment services it seeks.

Understanding the Town's Needs. Being a trusted advisor to many public sector clients, including the Town of Addison, FSAM fully understands and can fulfill all of the Town's requirements. We understand that the Town seeks an advisor to manage its portfolio daily based on established investment policies, as well as to provide investment advice and training related to different debt instruments. Additionally, the Town seeks an advisor who has the knowledge and resources to develop tools to aid in the Town's investment strategy, such as cash flow projections, risk control measures, monthly earning and value statements, reports on mark-to-market valuation as required by GASB 31 and 40 and quarterly investment reports in full compliance with the Public Funds Investment Act. The Town requires an advisor to make presentations to the Town's governing body and to assist in risk control to ensure the ongoing safety of the Town's assets. We feel highly qualified to provide the advice, training, reports and personalized service the Town seeks. To that end, we hope you and your staff will consider FSAM for the following reasons:

Trust. Since 1946, First Southwest Company has been providing quality financial services and peace of mind to its clients. In addition, we have served as the Town's investment advisor since November 1994. As conservative investment managers, we consider safety of principal to be of paramount importance. As long as we have been working with the Town, we have never purchased a security that lost money, nor have we ever purchased an investment that was not in compliance with the Texas Public Funds Investment Act or the Town's written policy.

Public Funds Knowledge. FSAM works exclusively with the public sector. As of June 30, 2008, FSAM actively managed \$7.2 billion for dozens of local governments. In addition, we served as the investment advisor for an additional \$5.1 billion, participating in strategy development, market and economic analysis, and selection of prudent security alternatives.

Personal Attention and Service. FSAM's advisory clients are highly important to us, and we are committed to our responsibilities. Because we manage a relatively small number of accounts, we are able to take the time to understand our clients' individual needs and objectives. We know your portfolio. We know your staff. Through frequent communication of relevant market news, interest rates, and specific securities, we will continue to offer each person on the Town's staff the opportunity to develop his or her own investment skills.

Management Expertise. FSAM's service extends far beyond providing assistance in the management of funds. As Certified Cash Managers, we are able to provide valuable experience in the formulation of prudent investment policies as well as effective strategies and useful cash flow forecasts. In addition, each member of our Investment Management Services Group has an investment accounting background – a useful resource when linking earnings to ledgers.

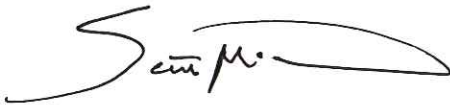
Exceptional Reporting Capabilities. FSAM produces timely and comprehensive reports designed to aid the Town in quickly understanding and assessing its portfolio position. We also provide regular market and economic updates that will help inform the Town's staff of news and events that affect the investment portfolio.

Scope of Services. FSAM offers in-house continuing disclosure and arbitrage rebate calculations in addition to investment advisory services. The knowledge and experience of the entire firm is available as a resource to all of our valued clients.

Our commitment is to consistently maintain the highest level of integrity in the financial industry while safely providing above-average investment returns. By design, we provide services to a relatively small number of accounts, allowing us to work individually with each. With this high level of service and commitment, we are able to maximize the objectives of the Town.

FSAM is grateful for the Town's consideration. We would be honored to continue working with the Town in this position of trust. If you have any questions during the selection process or need additional information, please do not hesitate to contact me.

Sincerely yours,



Scott D. McIntyre
Senior Vice President and
Senior Portfolio Manager

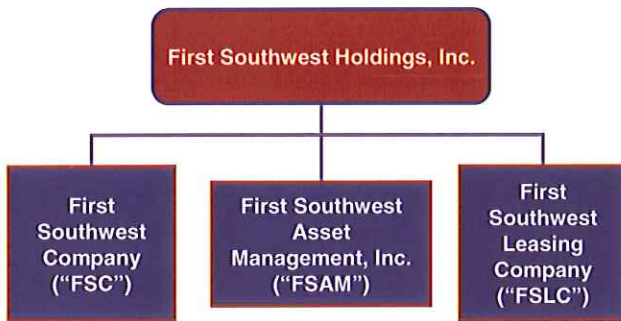
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A. FIRM DESCRIPTION

1) Describe your firm, including date founded, ownership, and any subsidiary relationships or relationships with other financial institutions.

ABOUT FIRST SOUTHWEST ASSET MANAGEMENT, INC.

FSAM, founded in 1988, is a wholly owned subsidiary of First Southwest Holdings, Inc. ("Holdings"). Holdings has two other wholly owned subsidiaries, First Southwest Company and First Southwest Leasing Company ("FSLC"). Holdings, First Southwest, FSAM, and FSLC are based in Dallas, Texas. Holdings is owned by approximately 75 of its employees, officers, and directors.



FSAM and its affiliates provide full service to clients in the areas of not only asset management, but also public finance, funds management, corporate finance, trading and underwriting of debt and equity securities, institutional sales, correspondent clearing, and consulting, as well as other highly specialized investment banking services.

FSAM was formed as an independent investment advisor in 1991. The Arbitrage Rebate Compliance Services Group, originally created in 1987, and the Investment Management Services Group, created in 1988, became part of the newly formed affiliate. In 1997, FSAM expanded to include the Investment Pool Participant Services Department, which currently provides customer service and marketing for two local government investment pools: the Texas Short-Term Asset Reserve Program ("TexSTAR") and the Local Government Investment Cooperative ("LOGIC"). FSAM serves as Co-Administrator with J.P. Morgan Investment Management, Inc. on both joint investment pools.

As a registered investment advisor, FSAM does not act as a broker or a dealer in securities. Our affiliate, First Southwest Company, serves as broker in securities for investments made by some local government clients. However, to maintain our independence, and prevent conflicts of interest, FSAM does not solicit bids, nor purchase any investments from our affiliate. All investment transactions made for our investment management clients are performed on a competitive, best execution basis with non-affiliated brokers/dealers.

There are no other business affiliations that will affect our investment management or performance. We will not pay any finders' fees or share any revenues with other firms. First Southwest does not receive any soft-dollar compensation.

First Southwest has not experienced any significant change in organizational structure, ownership or management during the past three years.

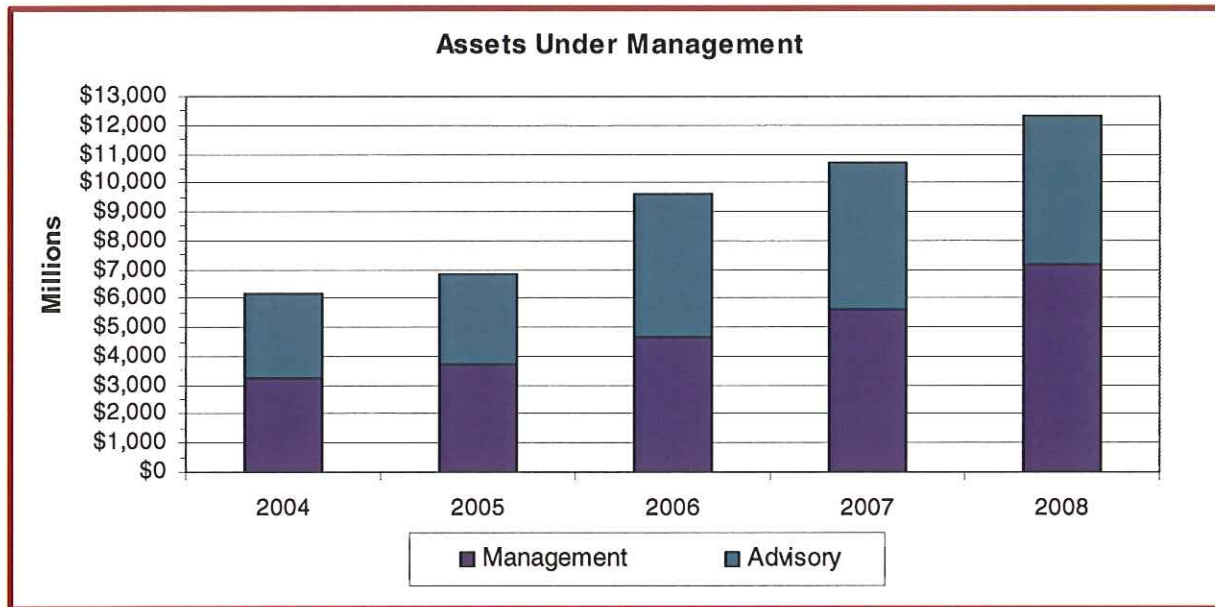
2) Describe any SEC regulatory censure or litigation related to services your firm provides.

There has been no SEC regulatory censure or litigation related to services FSAM provides.

3) State the dollar value of the assets and the number of portfolios your firm has under direct and continuous management, categorized between public sector and other clients.

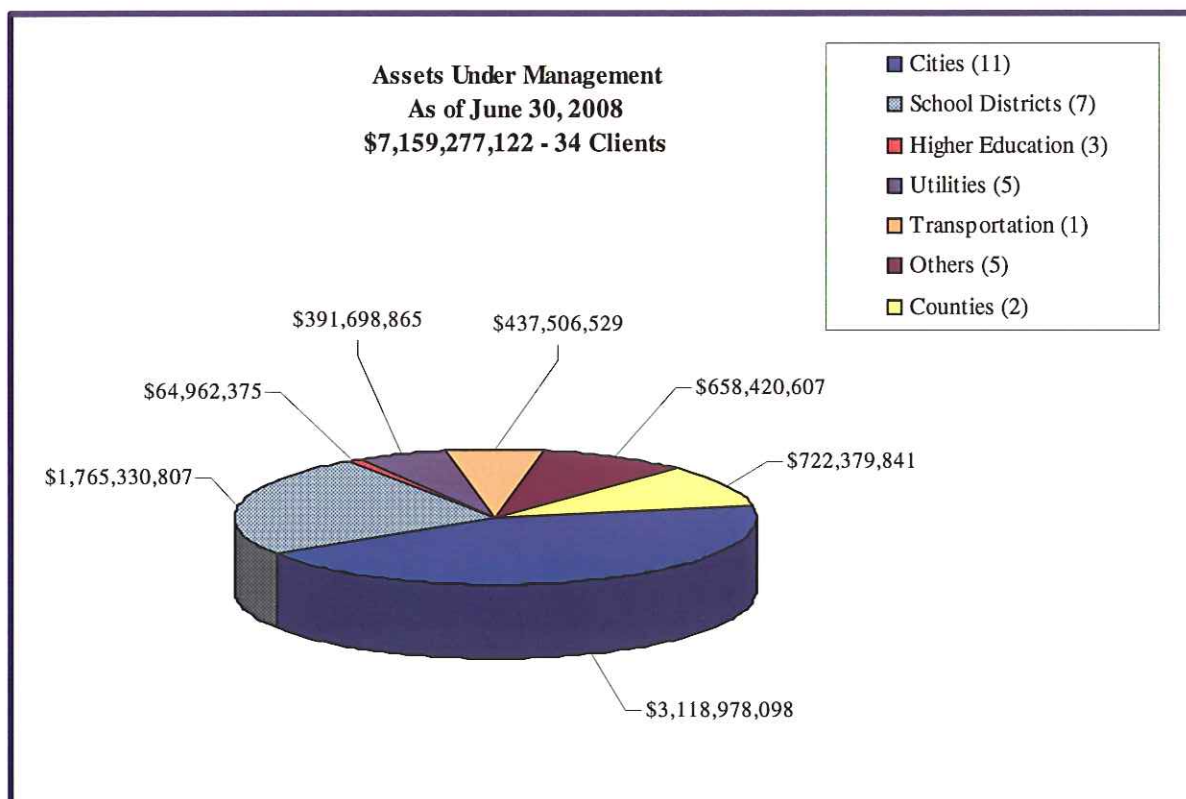
ASSETS UNDER MANAGEMENT

All funds under FSAM's management are managed for institutional local governments. In addition, all funds are considered short-term in nature. The following graph summarizes the total fixed income assets under our management or advisory experience as of June 30 for each of the last five years. Importantly, the amounts under management were for separate client portfolios rather than pooled funds in a local government investment pool. FSAM specializes in the management of institutional funds for public sector clients, and all funds under management are for public entities. In addition, with few exceptions, investments are concentrated on the short end of the yield curve, primarily in the zero to three-year range.



Source: Internal Database

The following graph reflects the breakdown of assets under management by client type. As indicated, FSAM currently has assets under management for 34 public sector clients, totaling \$7.2 billion, \$3.1 billion of which is for our **11 city clients**. As detailed in the chart below, cities comprise the majority of our investment management clients.



Source: Internal Database

- 4) Describe the experience of your firm in providing investment management services to the public sector.

COMMITMENT TO THE PUBLIC SECTOR

FSAM, as well as our affiliates, deals almost exclusively with clients in the public sector. Our investment management staff consists of three full-time portfolio managers who combined have 53 years of experience in investment management – most of which was gained in the public sector. As described above, we currently provide investment management services for 34 public sector clients.

We believe our long history of assisting local governments with the prudent investment of their funds distinguishes us from other firms and lies at the core of FSAM's corporate culture. Because of our commitment to issuers in the public sector, the Town will receive attention from all areas of First Southwest.

- 5) Provide a list of relevant client references (preferably public sector clients of similar size) including contact person and telephone number. Include at least three (3) current clients and two (2) former clients.

As the current investment advisor for the Town of Addison perhaps our best reference will be the Town itself. The following Texas public sector clients utilize our complete investment management services. We manage all the funds for these clients on a non-discretionary basis in a manner that is very similar to that used for the Town.

THE REFERENCES LISTED AS FOLLOWS ARE CONSIDERED CONFIDENTIAL INFORMATION AND MAY NOT BE DISTRIBUTED AS PART OF ANY OPEN RECORDS REQUEST OR OTHERWISE DISSEMINATED WITHOUT OUR PRIOR WRITTEN CONSENT.

Current Clients:



City of Waco, Texas

Ms. Janice Andrews
Finance Director
300 Austin Avenue
Waco TX 76701
(254) 750-5769



CITY OF DALLAS

City of Dallas, Texas

Ms. Corrine Steeger
Treasury Manager
1500 Marilla, Room 4F South
Dallas, TX 75201
(214) 670-3676



City of Frisco, Texas

Ms. Anita Cothran
Director of Finance
6101 Frisco Square Blvd.
Frisco, TX 75034
(972) 292-5510

Teamwork for Excellence



Plano ISD, Texas

Ms. Linda Madon
Exec. Director of Financial Services
2700 W. 15th
Plano, TX 75075
(469) 752-8118

Prior Clients:



Denton County Transportation Authority

Mr. Terry Howerter
Dir. of Finance & Administration
1660 South Stemmons, Suite 250
Lewisville, TX 75067
(972) 316-6090



Dallas-Fort Worth International Airport

Denise De La Vega
Cash & Investment Manager
3200 East Airfield Drive
P.O. Drawer 619428
DFW Airport, TX 75261
(972) 973-5416

- 6) Describe the type and amount of insurance coverage your firm maintains with respect to investment management services.

First Southwest maintains liability insurance in an amount that we consider sufficient to hold harmless, indemnify, and defend the Town for losses, costs, and expenses arising from claims resulting from the alleged negligence of First Southwest, our officers, employees, and subcontractors. We maintain general liability insurance with a general aggregate limit of \$2 million. In addition, the combined single limit of our firm's automobile liability insurance is \$1 million, and First Southwest maintains workers' compensation and employer's liability insurance with a limit of \$500,000. We also maintain professional liability insurance as a licensed broker/dealer, with an aggregate limit of \$2 million. We also carry umbrella insurance on the above policies. Certificates for our liability insurance can be found in **Appendix A**.

B. PERSONNEL

- 7) Identify the key personnel who would be directly involved in providing services to the Town. Include a copy of their resumes and describe their experience in the investment business and specifically their public sector experience in the State of Texas.

PROPOSED TEAM

Senior Portfolio Manager **Mr. Scott D. McIntyre** will assume the lead role, and he will be responsible for coordinating and supervising all services performed. Portfolio Manager **Mr. Greg Warner** will provide primary daily contact with Town staff and manage duties such as analyzing the portfolio, assessing market conditions, evaluating investment opportunities, executing transactions, and preparing all documentation related to the account. Portfolio Manager **Mr. Alexander Arellano** will assist Mr. Warner in all aspects with a particular focus on trade execution. Reporting Coordinator **Ms. Jodi K. Jones** will assume investment reporting and other support functions. New portfolio analyst **Mr. Nathan Smith**, formerly a fixed income trader with the *Lower Colorado River Authority*, has recently been hired to support and supplement our existing team.

KEY PERSONNEL QUALIFICATIONS

First Southwest Asset Management has a total of 28 financial professionals serving public entities in the State of Texas. The investment division currently employs three portfolio managers, one portfolio analyst and one reporting coordinator. Key investment personnel who will work with the Town are listed in the following table.

Client Service Team Experience			
Name and Position	Years with FSAM	Investment Experience	Public Sector
Scott D. McIntyre, CFA <i>Sr. Portfolio Manager</i>	10	22	19
Greg Warner, CTP <i>Portfolio Manager</i>	10	18	10
Alexander Arellano <i>Asst. Portfolio Manager</i>	3	13	3
Jodi K. Jones <i>Reporting Coordinator</i>	2		
Nathan Smith <i>Portfolio Analyst</i>	<1	1½	1½



Scott D. McIntyre, CFA, CCM
Senior Vice President and Senior Portfolio Manager
 300 West Sixth Street, Suite 1940
 Austin, Texas 78701
 Toll Free: 800.575.3792
 Direct: 512.481.2009
 Fax: 512.481.2020
 smcintyre@firstsw.com

Experience: Mr. Scott McIntyre joined First Southwest in June 1998 as Senior Portfolio Manager. He provides investment advice and consulting, as well as portfolio management exclusively to local governments. Mr. McIntyre reviews public fund investment policies, assists in overall strategy formulation, analyzes cash flows, presents investment ideas and evaluates account performance. He is the primary manager of FSAM's Investment Management Division and oversees the daily operations of the group.

State of Texas Public Sector Experience: Mr. McIntyre has spent the last 19 years serving public sector clients, primarily within the State of Texas. The last ten of those years have been spent at FSAM, where all of the clients are public sector and most are in Texas. Prior to joining First Southwest, Mr. McIntyre spent four years as a partner in an Austin-based investment advisory and consulting firm specializing in the management of public funds. Scott also spent five years as a Senior Investment Officer for the Texas State Treasury, where his responsibilities included market and securities analysis, management of the mortgage-backed securities portfolio and active trading of short Treasury positions. His background also includes several years of portfolio management, security analysis, accounting, financial reporting and asset/liability management for Texas financial institutions.

Professional Activities and Memberships: Mr. McIntyre earned the Chartered Financial Analyst (CFA) designation from the CFA Institute and the Certified Cash Manager (CCM) designation from the Association for Financial Professionals. Scott is member of the Austin Society of Financial Analysts, the Government Treasurers Organization of Texas and the Association for Financial Professionals.

Education: Mr. McIntyre earned a Bachelor of Science degree in Management from Texas State University.

Licenses: Mr. McIntyre is a Registered Representative of the Financial Industry Regulatory Authority (FINRA), and is licensed as a General Securities Representative (Series 7), General Securities Principal (Series 24), and Uniform Investment Adviser (Series 65).

2001 as one of the top eight scorers in the U.S. and Canada for the 2000-2001 testing season.

Education: Mr. Warner earned a Bachelor of Business Administration degree from the University of Texas at Austin in 1988.

Licenses Held: Mr. Warner is a Registered Representative of the FINRA, and is licensed as a General Securities Representative (Series 7), Uniform Securities Agent (Series 63), and Uniform Investment Adviser (Series 65).

	<p>Greg Warner, CTP <i>Vice President and Portfolio Manager</i> 300 West Sixth Street, Suite 1940 Austin, Texas 78701 Toll Free: 800.575.3792 Direct: 512.481.2012 Fax: 512.481.2020 gwarner@firstsw.com</p>
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Experience: Mr. Greg Warner joined FSAM in October 1998 and performs a wide range of activities within the Investment Management Services Group. His primary responsibilities at FSAM include analyzing portfolios, evaluating securities, coordinating the reinvestment of upcoming security maturities, executing trades, reviewing investment policies and investment strategies, monitoring broker/dealer relationships, and valuing investment portfolios. Mr. Warner works closely with clients to create and then implement appropriate investment strategies. He is responsible for documentation relating to client accounts and supervises the investment reporting function. He is a frequent presenter on investment topics at industry conferences.

Mr. Warner began his career in the banking industry, working in the accounting and investment management divisions of banks in Chicago, Illinois, and Austin, Texas. Prior to joining FSAM, his work experience included portfolio management, asset/liability management, investment accounting, mortgage banking, and extensive analysis and reporting on fixed income investment portfolios.

State of Texas Public Sector Experience: Mr. Warner's Texas experience mirrors his ten years of experience with FSAM as the majority of FSAM's clients are Texas based and all are public sector.

Professional Activities and Memberships: Mr. Warner earned the Certified Treasury Professional ("CTP") designation from the AFP and was recognized in October

	<p>Alexander Arellano, MBA <i>Portfolio Manager</i> 300 West Sixth Street, Suite 1940 Austin, Texas 78701 Toll Free: 800.575.3792 Direct: 512.481.2016 Fax: 512.481.2020 aarellano@firstsw.com</p>
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Experience: Mr. Alex Arellano joined First Southwest's Investment Management division in November 2005. As Portfolio Manager his responsibilities include trade execution, portfolio analysis, security evaluation, cash flow analysis, research, monitoring of broker/dealer compliance and relations, as well as supporting the reporting function and working on consulting projects.

Prior to joining First Southwest, Mr. Arellano spent eight years working as a Securities Broker and Financial Advisor. He has extensive experience utilizing equity and fixed income securities, as well as insurance products to construct portfolios to meet client objectives.

State of Texas Public Sector Experience: As with Mr. McIntyre and Mr. Warner, Mr. Arellano's three years at FSAM has been spent serving mostly Texas based public sector clients.

Education: Mr. Arellano earned a Masters in Business Administration with dual concentrations in Corporate Finance and Accounting from St. Edward's University in 2005 and a Bachelor of Business Administration in Finance from The University of Texas at Austin in 1996.

Professional Activities and Memberships: Mr. Arellano is a member of the Association for Financial Professionals (AFP), the Texas Society of CPAs (TSCPA) and the American Institute of CPAs (AICPA).

Licenses Held: Mr. Arellano is a FINRA Registered General Securities Representative (Series 7), General Securities Sales Supervisor (Series 8), Uniform Securities Agent (Series 63), Municipal Securities Representative (Series 52).and Uniform Investment Adviser (Series 65).

Jodi K. Jones

Reporting Coordinator
300 West Sixth Street, Suite 1940
Austin, Texas 78701
Toll Free: 800.575.3792
Direct: 512.481.2076
Fax: 512.481.2020
jjones@firstsw.com

Experience: Ms. Jodi K. Jones joined FSAM in February 2007 to manage and maintain client accounts through the Advent Axys™ (“Advent”) investment portfolio reporting system. Her responsibilities include generating monthly/quarterly reports for all investment management clients and assisting in trade operations and security documentation. She is involved in the creation of custom client reports, investment-related consulting projects and other special assignments.

Ms. Jones was employed for two years at Baxter & Schwartz, a real estate law firm in Houston where she was a Post Foreclosure Sales Specialist. Past employment includes practical experience in bookkeeping, accounting, reporting, and project research.

Education: Ms. Jones earned a Bachelor of Business Administration in Accounting and Finance from the University of Houston in 2006. She was named to the University of Houston and Bauer College Dean’s List in Spring and Fall 2006 and was a member of the National Dean’s List 2004/2005.

C. INVESTMENT MANAGEMENT APPROACH

- 8) Describe the types of investment research your firm utilizes and the methodology used to recommend investment decisions.

Investment Research

At FSAM, we gather much of our research through the Bloomberg Financial Markets system (“Bloomberg”). Bloomberg provides fixed income research capabilities and resources ranging from up-to-the-minute news and economic commentary to security analysis and historical

pricing. FSAM has invested considerable capital in providing all of our investment managers with this system, which allows us to assess market conditions quickly and determine the effect that they are likely to have on our clients’ portfolios. ***Through Bloomberg, we are privy to the opinions of top economists from virtually every primary dealer firm on Wall Street.*** In addition, the Bloomberg system allows us to stay current on credit ratings and provides us with security offerings from dozens of the top financial companies across the country.

Our relationships with the institutional trading desks and representatives from a widely diverse number of Wall Street dealers also provide us with timely fixed income research and commentary on a daily basis. These include economic analysis, relative value comparisons, sector selections and specific trade recommendations. In this way, we are able to reap the full benefit of impressive external research personnel for all of the portfolios we manage.

Maturity selection depends largely on the individual cash flow of our clients. A cyclical cash flow pattern generally dictates a smaller core amount of funds that can be invested beyond 12 months. When considering maturity points on the curve, we consider a number of factors. The first consideration is the forecasted interest rate direction. If we believe that interest rates will be falling in the near future, we advocate locking in fixed income yields, even when the yield curve is inverted. On the other hand, if we expect rates to rise, we may advocate that a higher percentage of funds be concentrated on the short end. However, in all cases we stress diversification, which necessitates spreading out portfolio maturities. The actual positioning of the maturities is dependent on the value we perceive at different points along the curve.

Sector selection depends on the relative value offered at any given point in time. For instance, if a one-year bullet agency were trading at a spread of only +12 to the comparable Treasury when history dictates that an agency in this range should trade at a +25 spread, we would hesitate to recommend the expensive security. We may choose to keep a larger portion liquid or suggest a discount note, callable agency, or municipal offering. Because we are watching the market daily, we have the advantage of recognizing relative value from one issue to another. We also have the advantage in that we deal with

dozens of brokers and are consistently able to find the most competitive value in the market

9) Describe your firm's daily procedures for portfolio review, investment management and client contact.

DAILY PORTFOLIO REVIEW

We recognize that our clients simply do not have the time to research the economy and the securities markets on a daily basis, and as a result often allow investment opportunities and significant income to slip by. As investment advisors, we assume this role and relay market news and information to our clients. This client contact is a critical aspect of the investment management process.

Portfolio Review: FSAM enters on a daily basis all transactions into the trade system, creating an up-to-date portfolio record at all times. On a weekly basis, FSAM prints and adds portfolios to the desktop reference for review prior to enacting any transaction. We also maintain a trade log on the trading desk. We review client portfolios weekly, regardless of the level of trading activity in the account, to ensure adequate diversification.

Investment Management: The daily procedure for analyzing securities begins each morning by searching the inventories of numerous broker/dealer firms for the best values in each investment type and maturity sector. We compile this information into a "Relative Value Report," an example of which is included on the following page. From our prior conversations with clients, we are aware of available cash positions as well as upcoming

maturities. If we determine exceptional value in a security type or maturity range, we contact those clients having cash balances to discuss cash flow and determine whether funds potentially can be invested out along the curve. One or two days before any security matures, we call clients to discuss reinvestment options.

If the client agrees to invest funds, our managers will double check investment policy and contact the dealers for security offerings. On a competitive basis, we select the most advantageous offering and execute the trade. After confirmation with the counterparty, we fax a trade ticket to the client. Depending on individual procedures, we may send a duplicate confirmation ticket to the client's custodian. The client is responsible for moving funds into place for settlement. At this point, FSAM will follow up with the dealer to ensure that delivery is made on settlement date. The trade is fully documented and maintained on file for audit purposes.

Client Contact: First Southwest portfolio managers are always available to our clients. We utilize a team approach so that each of our managers will be familiar with the client's portfolio and able to speak intelligently about economic conditions and the specific portfolio. We will generally contact clients by phone to discuss upcoming maturities or if we see investment opportunities that we believe are a good fit for that particular client. We also utilize e-mail as a means of communicating important information without unnecessarily interrupting our clients with phone calls.

First Southwest Asset Management

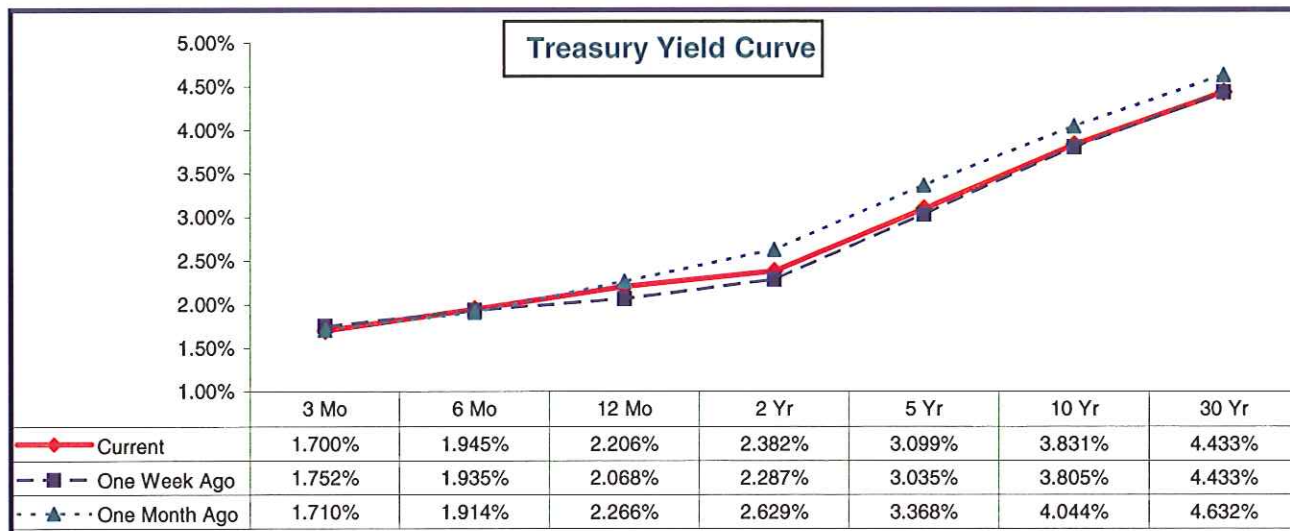
Relative Value Report

Today's Date: 27-Aug-08
Settlement Date: 28-Aug-08

DISCLAIMER: Securities listed here represent the best market offers as of early morning on this date. All information is subject to change at any time without notice. This report is intended for informational purposes only, and is in no way a solicitation or offer to sell any securities or services. This information has been obtained from sources believed to be reliable, but we do not warrant or guarantee the accuracy or timeliness of this information. There are no warranties, expressed or implied, as to accuracy, completeness, or results obtained from this information.

MATURITY DATE	SECURITY TYPE	DISCOUNT/SPREAD	YIELD
Agency Discount Notes			
29-Sep-08	FHLB	2.320%	2.357%
29-Oct-08	FHLB	2.470%	2.515%
26-Nov-08	FNMA	2.600%	2.653%
24-Dec-08	FNMA	2.670%	2.731%
26-Jan-09	FHLMC	2.770%	2.841%
23-Feb-09	FHLMC	2.855%	2.936%
27-Mar-09	FNMA	2.840%	2.922%
27-Apr-09	FHLMC	2.870%	2.956%
29-May-09	FNMA	2.891%	2.982%
26-Jun-09	FNMA	2.880%	2.975%
27-Jul-09	FHLB	2.890%	2.990%
27-Aug-09	FHLB	2.900%	3.007%
Commercial Paper			
26-Sep-08	General Electric Co	2.230%	2.265%
28-Oct-08	Toyota Motor Credit	2.420%	2.464%
26-Nov-08	Toyota Motor Credit	2.540%	2.592%
26-Dec-08	Toyota Motor Credit	2.630%	2.690%
23-Jan-09	GE Capital Corp	2.750%	2.820%
25-Feb-09	GE Capital Corp	2.840%	2.921%
26-May-09	GE Capital Corp	2.860%	2.949%
Agency Bullets			
18-Aug-09	FHLB 3.75	+61.0	2.992%
18-Nov-09	FHLMC 4.125	+66.0	3.042%
4-Feb-10	FNMA 3.10	+74.0	3.122%
14-May-10	FHLB 7.625	+81.0	3.192%
15-Aug-10	FNMA 4.25	+85.3	3.235%
25-Feb-11	FHLMC 3.25	+108.0	3.462%
15-Aug-11	FFCB 3.80	+130.0	3.682%
(Spread versus 2-Year Treasury)			

Investment Pool Yields:		TexPool	TexSTAR
Previous Day:		2.2856%	2.2082%
7 Day Moving Avg:		2.2749%	2.1954%
Agency Discount Note Yields			
	Current	Week Ago	Month Ago
1 Mo	2.357%	2.265%	2.255%
2 Mo	2.515%	2.402%	2.402%
3 Mo	2.653%	2.581%	2.489%
6 Mo	2.936%	2.854%	2.703%
9 Mo	2.982%	2.908%	2.834%
12 Mo	3.007%	3.006%	2.900%
Commercial Paper Yields			
	Current	Week Ago	Month Ago
1 Mo	2.265%	2.245%	2.428%
2 Mo	2.464%	2.464%	2.607%
3 Mo	2.592%	2.581%	2.787%
4 Mo	2.690%	2.711%	2.955%
5 Mo	2.820%	2.830%	2.955%
6 Mo	2.921%	2.921%	3.067%
9 Mo	2.949%	2.960%	3.075%
Agency Bullet Yields			
	Current	Week Ago	Month Ago
1 Yr	2.992%	2.962%	2.889%
1.5 Yr	3.122%	3.007%	3.159%
2 Yr	3.235%	3.177%	3.344%
2.5 Yr	3.462%	3.382%	3.484%
3 Yr	3.682%	3.597%	3.689%



D. REPORTING CAPABILITIES

- 10) Submit samples of reports that would be provided. The report must meet the minimum requirements of the Texas Public Funds Investment Act.

REPORTING CAPABILITIES

For the past ten years, FSAM has used the industry-leading Advent portfolio management software system. We believe Advent provides a high level of accuracy and flexibility to our clients. The Advent system provides our clients with:

- Accurate, timely data for investment decision-making.
- Sophisticated accounting and performance measurement for many different types of securities, including fixed income securities.
- Reports that are comprehensive and easy to understand.
- Customizable reporting and graphics.
- Reports that comply with national accounting standards and state laws, if applicable.
- GASB 31 and GASB 40 compliance.

We obtain all security market prices from independent sources. We currently subscribe to Interactive Data Corporation ("IDC") to price investment securities, and use Bloomberg Financial Markets for pricing commercial paper. All client data and the Advent system are stored on a secure network file server and backed up nightly.

All of FSAM's reports are designed to comply with the specific reporting requirements of public entities. We produce trade tickets following each transaction and fax them to clients prior to settlement. We produce complete Advent reporting packages on a quarterly basis and may produce them more frequently upon client request.

A sample report package is included with this proposal as **Appendix B**.

- 11) Describe the process the firm would go through to assist the Town in identifying an appropriate industry benchmarks.

PERFORMANCE BENCHMARKS

The industry benchmark selected will be unique to the Town and will reflect the Town's individual policy, strategy and risk profile. This benchmark should be easily understood and be fully verifiable through an independent outside source. In addition, the benchmark

should be reflective of both the target maturity and the asset composition of the Town's portfolio. For these reasons, we often advocate a U.S. Treasury benchmark. For example, based on the Town's maximum maturity limit of one year, if the Town invests primarily in U.S. government agencies with an average maturity of 180 days, the recommended benchmark might be the six-month Constant Maturity Treasury yield.

E. FEES

- 12) Provide the fee schedule that would apply to this account.

FEE PROPOSAL

First Southwest recognizes the extreme budget constraints faced by most municipalities. Our price structure is designed to provide extensive professional services at a very reasonable cost. By specializing in public sector clients we are able to take advantage of economies of scale, and pass the savings along to all of our clients.

We propose to maintain the Town's current fee structure. This is known as an asset-based fee whereby the cost for services is calculated as a percentage of the assets under management. The proposed fee provides breakpoint pricing. For the initial \$10 million of portfolio value, a fifteen (15) basis point fee would be assessed; portfolio value above \$10 million and up to \$50 million would be assessed at eight (8) basis points; above \$50 million and up to \$100 million at five (5) basis points; and amounts over \$100 million at three (3) basis points. The table below summarizes this fee schedule.

Average Portfolio Balance	Fee
\$0 to \$10,000,000	0.15%
\$10,000,001 to \$50,000,000	0.08%
\$50,000,001 to \$100,000,000	0.05%
Over \$100,000,000	0.03%

For purposes of fee calculation the value of the portfolio shall be the month end book value. On the Town's current portfolio balance of approximately \$55 million the annual fee under this structure is less than 9 basis points (0.09%). The minimum fee under this structure is \$15,000 per calendar year.

Alternate Investment of Bond Proceeds:

Upon direction of the Town, certain bond proceeds may be invested into a competitively bid flexible repurchase agreement ("flex repo"). First Southwest Company, acting as bidding agent on the Town's behalf, would then receive a *one-time fee not to exceed \$34,000 paid by the winning counterparty* to the agreement, as compensation for the additional duties performed in its role as bidding agent. Funds invested in this manner would then be excluded from the portfolio value used in the above billing calculation.

- 13) Identify any expenses that would not be covered through the fee structure and would be required in order to implement your firm's program.

The proposed fee includes all costs associated with providing the investment advisory services outlined in this proposal, including reasonable travel expenses for periodic visits. No additional fees or costs are contemplated.

F. OTHER CONSIDERATIONS

- 14) Describe your firm's approach to managing relationships with the broker/dealer community.

Most of our broker/dealer relationships are the result of years of working closely with our sales representatives. In this manner, FSAM is able to gain a high level of trust with the brokers with which we work. We maintain a list of approved brokers and only transact business with those entities. We perform due diligence on brokers by utilizing a comprehensive questionnaire and reviewing regulatory filings. The use of delivery-versus-payment settlement greatly reduces the risk of trade problems. Further, because all transactions require a minimum of three competitive bids or offers, the client is always assured of obtaining the highest yield available.

As a registered investment advisor, FSAM does not act as a broker or a dealer in securities. Our affiliate, First Southwest Company, serves as broker in securities for investments made by some local government clients. However, to maintain our independence, and prevent conflicts of interest, FSAM does not solicit bids, nor purchase any investments from our affiliate. All investment transactions made for our investment management clients are performed on a competitive, best execution basis with non-affiliated brokers/dealers. There are no other business affiliations that will affect our investment management or performance. We will not pay

any finders' fees or share any revenues with other firms. First Southwest does not receive any soft-dollar compensation.

- 15) Describe any assistance your firm would provide in reviewing custodial and safekeeping agreements.

As investment managers who deal directly with many of our clients' safekeeping banks, as well as being part of a firm that operates a large clearing operation, we offer years of real-world experience in evaluating custody arrangements and are more than happy to assist the Town in the review and selection of its safekeeping agent.

- 16) Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions.

Effective credit research is conducted through the formal ratings process whereby only top-tier credits are selected for inclusion in the portfolio. By limiting the investments to a select group of issuers we are able to continually monitor issuers credit conditions. Credit analysis is provided through subscription to Bloomberg Financial Markets, access to rating agency reports, and broker/dealer analysis. Mr. McIntyre, Senior Portfolio Manager, and Mr. Warner, Portfolio Manager, will have primary responsibility for monitoring security credits in the portfolio, but will assign additional credit research to other experts within the firm if needed. Formal credit ratings, as assigned by Standard & Poor's, Moody's, and Fitch, are individually verified prior to purchase on each municipal or commercial paper offering. In many cases we are also able to obtain the credit reports on issuers from these rating agencies. Through our broker/dealer contacts we are privy to the proprietary credit research and opinions of many Wall Street firms. FSAM also maintains an approved list of domestic commercial paper issuers that are subject to ongoing due diligence from our portfolio managers.

- 17) Describe the nature and frequency of meetings that your firm would recommend to keep Town staff informed.

MEETINGS

We seek to keep our clients informed on a daily basis through e-mail correspondence and regular phone conversations. Our managers will convey relevant market information as it is released, and discuss specific security information and information affecting the Town's investments. We further recommend formal conference calls that will allow us to convey strategies and to suggest any needed changes in asset allocation. We

anticipate visiting the Town three to four times each year, but we are available at the Town's request. ***These meetings will always be attended by one of our portfolio managers, not a service representative.***

G. OTHER INFORMATION

18) Provide a copy of your firm's Form ADV, Parts I & II, as on file with the SEC.

First Southwest's Form ADV, Parts I & II is included as ***Appendix C.***

19) Provide proof of state registration as an investment advisor.

First Southwest's proof of state registration as an investment advisor is included as ***Appendix D.***

20) Provide a sample or proposed contract for services.

A sample contract for services is included as ***Appendix E.***

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ESTRADA ■ HINOJOSA

I N V E S T M E N T · B A N K E R S

August 29, 2008

Mr. Brian Hogan
Financial Services Director
Town of Addison
P.O. Box 9010
Addison, TX 75001

Dear Mr. Hogan:

On behalf of Estrada Hinojosa & Company, Inc. (*Estrada Hinojosa*), I thank the Town of Addison (*Town*) for this opportunity to present our credentials for providing investment advisory services.

Estrada Hinojosa will provide comprehensive service highlighted by:

- Strategic portfolio advice to achieve the Town's investment objectives,
- Regular investment policy and procedure review and modification,
- Complete analysis of investment types, pools and money market funds,
- Thorough communication, reporting and training,
- Integration of bond proceed investment, and
- Long range portfolio strategy development.

Estrada Hinojosa successfully performs these services by considering itself a "part-time" staff member working to assist the Town through:

Personal Commitment - Estrada Hinojosa's commitment to client service has made it a leading financial advisor. The establishment of investment advisor services builds on that commitment and dedicates the efforts of investment professionals with years and billions of dollars of experience.

Education - Estrada Hinojosa believes in solid, educated clients. Full discussion of portfolio decisions, development of beneficial broker/dealer relationships, and continuing education build better clients. The Town may want to take the investment management function back "in-house", and having the necessary tools will be paramount.

Independence - Estrada Hinojosa is uniquely positioned to independently assist in security/pool/fund analysis and bond proceeds investment. There are no promotional advantages to any investment option, nor hidden agendas or back door marketing efforts that would compromise recommendations.

Experience - The team that the Company has assigned to this engagement has a combined 75+ years of experience in public sector investment management and each member is considered to be among the most recognized experts in the industry.

ESTRADA HINOJOSA & COMPANY, INC.

1717 Main Street

47th Floor, Lockbox 47 ■ Dallas, Texas 75201

(214) 658-1670 ■ (800) 676-5352 ■ Fax (214) 658-1671

Member NASD/SIPC

DALLAS

HOUSTON

MIAMI

SAN ANTONIO

SAN DIEGO

Our investment advisor role will function to educate and assist the Town in policy and strategy development and implementation. We will interact, on behalf of the Town, with the broker/dealer community. We will also accurately and timely report the status and overall performance of the selected and implemented strategies.

It is important that the Town receive advantageous service at a reasonable cost. Estrada Hinojosa offers services with a variety of fee structures. Generally, for the investment advisory services requested in the RFP, a fee based on assets under managements is customary. The Company would propose an annual fee of 4 basis points for all services outlined in this proposal. Please consider the subject of fees and fee structure negotiable.

By submission of this proposal, Estrada Hinojosa agrees that this proposal is valid for at least ninety (90) days from the date of submittal or until a final contract is approved, whichever occurs first.

I hope that the information provided accurately outlines our capabilities and our desire to provide effective, responsive service to the Town. Please call me at (214) 658-1670 if there are any questions.

Sincerely,



Robert A. Estrada
Chairman

Acknowledgment:

STATE OF TEXAS
COUNTY OF DALLAS

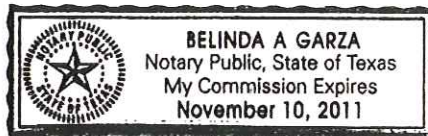
The foregoing instrument was acknowledged before me this 29th day of August, 2008 by Robert A. Estrada, who is personally known to me or who has produced identification.

Belinda A. Garza

Signature of person taking acknowledgment

Belinda A. Garza

Name (Typed, Printed, or Stamped)



My Commission Expires:

11-10 2011

CORPORATE SEAL:

ESTRADA HINOJOSA & COMPANY, INC.
1717 Main Street
47th Floor, Lockbox 47 ■ Dallas, Texas 75201
(214) 658-1670 ■ (800) 676-5352 ■ Fax (214) 658-1671
Member NASD/SIPC

DALLAS HOUSTON MIAMI SAN ANTONIO SAN DIEGO

A. Firm Description

1. Describe your firm, including date founded, ownership, and any subsidiary relationships or relationships with other financial institutions.

Estrada Hinojosa & Company, Inc. ("Estrada Hinojosa" or "Company") was originally established in 1990 under the name of Estrada Securities, Inc. by Robert A. Estrada. In January of 1992, Mr. Noe Hinojosa, Jr. joined the firm as a shareholder with Mr. Estrada and the firm's name was changed to Estrada Hinojosa & Company, Inc. The firm specializes in client-focused financial services, with particular strength in municipal underwritings and financial advisory services.

Estrada Hinojosa is fully registered as an investment advisor with the Securities and Exchange Commission and as a broker/dealer with the Financial Institution Regulatory Authority ("FINRA"), and is a member of the Securities Investor Protection Corporation ("SIPC"). Mr. Estrada's prior accomplishments as a bond lawyer and bond underwriter, and Mr. Hinojosa's extensive banking experience serving numerous municipalities in every aspect of their financial needs, together with sixteen other professionals totally dedicated to public finance, positions Estrada Hinojosa to be the preeminent Hispanic-owned investment banking firm in the nation. The firm is fully certified as a minority business enterprise (MBE) with various political subdivisions included in the States of Arizona, California, Colorado, Florida, New Mexico, and Texas.

Estrada Hinojosa is in full compliance with all licensing and other requirements of the Securities and Exchange Commission, the Financial Institution Regulatory Authority, and the Municipal Securities Rulemaking Board.

Estrada Hinojosa has no subsidiaries, joint ventures, or "soft dollar" arrangements with brokers or any other organizations. The Company strives to provide independent advice and consultation.

2. Describe any SEC regulatory censure or litigation related to services your firm provides.

Neither Estrada Hinojosa nor any members of the advisory team have been subject to any SEC regulatory censure or litigation related to services the firm provides.

3. State the dollar value of the assets and the number of portfolios your firm has under direct and continuous management, categorized between public sector and other clients.

Estrada Hinojosa's business plan offers a variety of advisory and consulting services exclusively to public entities similar to the Town. Managing extremely large client portfolios or investment pools are not part of that business plan. Providing client-specific service will not be jeopardized by the whims of the "800 pound gorilla" that demands attention.

Estrada Hinojosa's business plan will provide service to a limited number of entities with portfolios roughly sized from \$10,000,000 to \$200,000,000. True value-added advice and consultation requires a consistent and dedicated focus. The Town is a prime candidate to receive value from such a relationship.

Richard Long, Susan Anderson, and William Koch, jointly develop, manage, and support assets for Estrada Hinojosa & Company, Inc. The business plan for the firm selectively targets public fund clients that gain value from the services offered. Estrada Hinojosa currently has 13 clients under direct and continuous management with combined assets of over \$1.1 billion. All of these clients are in the public sector.

Additionally, Estrada Hinojosa and its professionals provide substantial "other consulting" that includes cash and investment-related projects, but does not meet the definition of investment advisory service. These have direct application to performing the Town's services. For example, Mr. Long and Ms. Anderson assisted the University of North Texas - Center for Public Management in providing Public Funds Investment Act (*PFLA*) training during over 30 investment workshops in 2007.

- | |
|---|
| 4. Describe the experience of your firm in providing investment management services to the public sector. |
|---|

Estrada Hinojosa solely provides investment and consulting services to public entities. Dedicated service to individual clients builds each relationship and ensures that the resulting program is the one that will be most effective for that client. Although we draw from our vast experience with similar clients, the program that will be developed for the Town will be custom designed for the Town's needs.

The team that the Company has assigned to this engagement has a combined 75+ years of experience in public sector investment management and each member is considered to be among the most recognized experts in the industry. Richard Long will serve as the Chief Investment Officer and will oversee all portfolio activities to ensure compliance with policy and strategy guidelines. Susan Anderson will provide portfolio analysis, portfolio execution and reporting services. William Koch will assist the team by reviewing bank and custodial relationships and by providing back up and portfolio support. Together the team will work with the Town to develop portfolio strategy and to identify the optimal structure to enhance investment performance. The team is fully capable of assessing the needs of the Town, examining the current cash management policies and practices, reviewing bank contracts, reviewing bond covenants, and developing effective and comprehensive investment strategies that are fully compliant with all federal, state and local requirements. Each member of the team will be fully involved in the activities of the Town's portfolio and will be available to present portfolio reports and investment information to staff and the governing body.

Estrada Hinojosa's list of satisfied Texas clients continues to grow. Such diverse public sector entities as the City of Laredo, JPS Health Network, United Independent School District, Laguna Madre Water District, the Town of South

Padre Island, and the City of San Antonio received advisory and consulting services. Additionally, Susan Anderson, our newest team member, has managed portfolios for the City of Austin, the State of Texas, Austin Community College, the State Bar of Texas, Dripping Springs Independent School District, and Capital Metropolitan Transportation Authority, to name a few.

The Public Funds Investment Act (the "Act") is the cornerstone of local government investment management. Throughout their careers in public fund management, the Estrada Hinojosa team has worked extensively with the Act. Ms. Anderson served on a blue ribbon committee established by the Chair of a State Legislative Committee to review the Act and offer suggested amendments during her tenure as City Treasurer for the City of Austin. As adjunct faculty to the University of North Texas – Center for Public Management, Mr. Long and Ms. Anderson regularly address PFIA compliance and investment issues. During 2007, both served as instructors for over thirty, combined training workshops specifically applying to the PFIA. Additional training and presentation venues were provided to the Government Finance Officers' Association of Texas, the Government Treasurers' Organization of Texas, the Texas Association of Community College Business Officers, the County Treasurers' Organization and the Texas Association of School Business Officers.

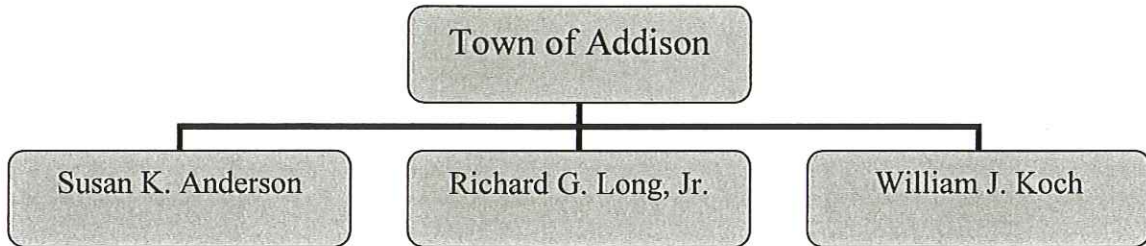
The Estrada Hinojosa team focuses on public funds investment. Mr. Long began with a major Dallas bank in 1981, performing a variety of sales, trading, underwriting, and financial advisory roles, started First Southwest Company's public funds investment unit in 1988, and Ambac, Inc.'s Texas investment services in 1996. His current efforts provide diversified cash and investment services to well over \$1 billion of public entity funds.

Susan Anderson began in 1971 with the City of Austin where she served over twenty-five years in the Financial Services Division. As Treasurer of the City of Austin, she was responsible for the \$1.5 billion investment portfolio, the \$3.3 billion debt portfolio and all cash management programs. Following her retirement from the City of Austin, she served as Chief Investment Officer for the State of Texas where she was responsible for the management of \$35 billion of combined operating, endowment and trust funds. After her public service, she joined the PFM Group, a national financial and investment advisory firm. Ms. Anderson joined Estrada Hinojosa in 2008 to bring her expertise to the Estrada Hinojosa team.

William Koch has an extensive background in finance and cash management, currently specializing in public entities. With many varied engagements as a consultant, he has gained specialty experiences that have broadened his capabilities. Services provided to public sector organizations include: Preliminary Review of Cash Management Systems, Financial Opportunity Assessment, Investment Policy Services, Investment Reporting, Cash Management System Enhancements, Cash Flow Projections, Cash Requirements Forecasts, Cash Management System Documentation, Bank Depository Contract Services, Resolution of Audit Management Letter Issues of Internal Controls, Compliance Audits, Fixed Asset Studies, Interim Finance Department Operations Staffing, Annual Audit Preparation Services, Finance Department Comparative Staffing Analysis, Accounts Receivable Function Analysis and Documentation, Lockbox Performance and Cost Analysis, and Purchasing Card Proposal Analysis. Mr. Koch will support the investment

program services and will assist in any specialized reviews that are identified by Ms. Anderson or Mr. Long.

Estrada Hinojosa is pleased to offer this team whose members will each play an integral role in providing their expertise to fulfill the contract objectives of the Town. As illustrated in the following organizational chart, Mr. Long will oversee the portfolio activities and investment transactions to ensure contract compliance is maintained.



As illustrated in the organizational chart above, Ms. Anderson, Mr. Long, and Mr. Koch will function as an integrated team. Duties will be assigned and shared to provide comprehensive and consistent client service. On some specific tasks, an individual’s unique experience may place them in the “lead” position, however the team will maintain an overall ability to meet the Town’s objectives. As Chief Investment Officer and Chief Compliance Officer, Mr. Long will oversee all portfolio activities and investment transactions to ensure contract compliance is maintained.

More complete resumes are included in the *Personnel* section.

5. Provide a list of relevant client references (preferably public sector clients of similar size) including person and telephone number. Include at least three (3) current clients and two (2) former clients.

Estrada Hinojosa’s current clients include:

Randy Rogers, Interim CFO	Rosario Cabello, Finance Director
JPS Health Network	City of Laredo
1500 South Main Street	1110 Houston Street
Fort Worth, TX 76104	Laredo, TX 78040
(817) 927-1239	(956) 791-7425

Sam Flores, Director of Accounting	Flor Ayala, Director of Financial Mgt.
United ISD	Laredo ISD
201 Lindenwood Drive	1702 Houston Street
Laredo, TX 78045	Laredo, TX 78040
(956) 473-6368	(956) 795-3250

Estrada Hinojosa does not have any former investment advisory clients. There are project-based clients that used Estrada Hinojosa for temporary assignments. If the Town desires, we can provide contact information.

6. Describe the type and amount of insurance coverage your firm maintains with respect to investment management services.

Texas public entities have not required Estrada Hinojosa to provide insurance coverage, primarily for the following reasons:

1. Estrada Hinojosa provides only advice and consultation;
2. Control of the Town's funds and investments remains with Town's staff;
3. All transactions are non-discretionary and require advance Town approval; and
4. Independent parties routinely verify Estrada Hinojosa-provided information (e.g. Custodian, Auditor, Broker/Dealers).

However, Estrada Hinojosa can and will comply with the Town's insurance requirements. See Attachment A. – Certificate of Insurance.

B. Personnel

7. Identify the key personnel who would be directly involved in providing services to the Town. Include a copy of their resumes and describe their experience in the investment business and specifically their public sector experience in the State of Texas.

As stated earlier, the Town's dedicated team will consist of Richard Long, Susan Anderson, and William Koch. Additionally, Lawrence Jordan, will be a resource to the team to provide specific relevant expertise as required.

Richard Long, Jr.

- Senior Vice President, Estrada Hinojosa & Company, Inc.
- Manager, Valley View Consulting, L.L.C.
- Investment representative beginning 1981

- Started First Southwest Company's public funds investment efforts in 1988
- Started Ambac Investment Management, Inc.'s Texas investment efforts in 1996

Mr. Long's background includes extensive Texas-public entity investment management (he is currently responsible for in excess of \$1 billion of public funds). He has been actively involved in the Public Funds Investment Act; investment policies and strategies; cash flow-based investment portfolios; eligible investment options; appropriate asset allocations; investment transaction settlement and safekeeping procedures; bank service agreements; and arbitrage rebate regulation.

Mr. Long founded Valley View Consulting, L.L.C., in the fall of 1998 and became registered with the SEC as an investment advisor firm effective January 1999. At his previous employers (First Southwest Company and Ambac Investment Management, Inc.) he established and managed their Texas investment management efforts. In his previous capacities with MBank Capital Markets and First RepublicBank, Mr. Long originated corporate, asset backed and tax-exempt securities, managed a government trading operation, and distributed both public and private securities.

Mr. Long also currently serves on a part-time basis as Chief Investment Officer for Estrada Hinojosa & Company, Inc., a registered investment adviser firm.

Mr. Long earned a Bachelor of Science, Business Administration degree in Finance from Colorado State University and a Masters of Business Administration degree from the University of Dallas. Mr. Long has served on numerous Municipal Securities Rulemaking Board Arbitration panels and presented information to multiple investment management organizations including GFOAT, GTOT, TAC, CTA, TASBO, TASB, and TML.

Susan K. Anderson

- Vice President, Estrada Hinojosa & Company, Inc.
- Chief Executive Officer, Anderson Financial Management, L.L.C.
- Investing Public Funds since 1981
- Former City of Austin Treasurer & Investment Officer
- Served as Chief Investment Officer for State of Texas
- Investment Manager, The PFM Group for 9 years

Ms. Anderson has extensive public fund experience, beginning in 1971 with her first government position at the City of Austin. Ms. Anderson served the City in the Financial Services Division for over twenty-five years. The last twenty years were specifically dedicated to the management of the investment, debt and cash resources of the City. As Treasurer of the City of Austin, she was responsible for the \$1.5 billion investment portfolio, the \$3.3 billion debt portfolio and all cash management programs, including collections and bank relations. Additional relevant responsibilities included serving as liaison to all three of the City's pension programs and as Trustee on the City of Austin Firemen's Relief and Retirement Fund, and Board Member of the City of Austin Deferred Compensation

Fund. Investment strategies developed for City funds, pension funds and deferred compensation funds spanned the entire spectrum of public-eligible investment products, including fixed income, equity and international funds.

Following her retirement from the City of Austin, she served as Chief Investment Officer for the State of Texas where she was responsible for the management of \$35 billion of combined operating, endowment and trust funds. After her public service, she joined the national financial and investment advisory firm, The PFM Group, where she continued to develop her knowledge of public fund investment. The stint at PFM allowed Ms. Anderson to be exposed to a myriad of government clients with unique needs and requirements and to hone her skills to identify problems and find the appropriate solutions for her clients.

Throughout her career, Ms. Anderson has been involved in professional organizations for public sector officials. She has been a member of the Government Finance Officers' Association (Texas and national), held officer positions in the Government Treasurers' Organization of Texas (also chaired their Legislative Committee), and the Texas Association of School Business Officials.

Ms. Anderson earned a Bachelor of Science, Business Administration degree in Finance from St. Edward's University. She is a Certified Cash Manager and a registered investment advisor representative.

William J. Koch

- Vice President, Estrada Hinojosa & Company, Inc.
- President, Avalon Financial Services
- Public-sector consulting since 1990
- Over forty years financial management experience

Mr. Koch is a capable and versatile financial professional with extensive management and operational credentials that include a strong background in accounting, cash management, treasury, and information systems. He has broad industry experience with both publicly traded and privately held firms, including international market activities, and public sector organizations. His career has included management positions with Fortune magazine ranked firms in which he was responsible for accounting and financial reporting, treasury, and information services.

For the past fifteen years, Mr. Koch has been a management consultant providing specialized financial services primarily to public sector organizations, including municipalities, school districts, colleges, hospital districts, and regional transportation authorities. With proven financial expertise, solidly versed in statutes and legal requirements, and extensive knowledge of banking systems and services, he has a unique blend of capabilities to offer his clients.

Mr. Koch is a registered investment adviser representative.

Formerly a partner with a regional consulting group, Mr. Koch founded Avalon Financial Services in 1996 and serves as its president. Mr. Koch is a graduate of Texas A&M University.

Lawrence E. Jordan

- Managing Director, Estrada Hinojosa & Company, Inc.
- Extensive Investment Banker experience with Texas public sector entities
- Headed Public Banking department at First Southwest Company

Mr. Jordan is a Managing Director in the Dallas, Texas headquarters of Estrada Hinojosa & Company, Inc. and serves on the Company's Board of Directors and Management Committee. Before joining Estrada Hinojosa, Mr. Jordan spent ten years as an investment banker and five years as a public administrator.

As an investment banker at First Southwest Company, he closed over \$6 billion in financing for businesses, governments, and not-for-profits, handling all sizes and types of issues for all sizes and types of issuers. Mr. Jordan co-headed the Public Banking department, with nine offices and 50 employees, and headed the Special Clients group, with 15 employees, where he led the airport, healthcare, higher education, industrial development, public power, and transportation practices. Also, he led the Company's national expansion and international infrastructure financing efforts.

Previously, Mr. Jordan spent four years at the North Central Texas Council of Governments, where he managed a department with 10 employees that provided demographic and economic data for a 16-county metropolitan area, and one year for the City of Phoenix, where he assisted in preparing a \$500 million budget, conducted management studies, and implemented productivity improvements. Mr. Jordan has a Bachelor's degree in City Planning from the University of Virginia and a Master's degree in Public Administration from Syracuse University, with a concentration in Finance. Also, he completed Level II of the Chartered Financial Analyst (CFA) program and holds General Securities Principal, Series 24, and Registered Representative, Series 7 licenses from FINRA (formerly NASD).

C. Investment Management Approach

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| 8. Describe the types of investment research your firm utilizes and the methodology used to recommend investment decisions. |
|---|

Estrada Hinojosa utilizes a broad range of market research information to develop investment recommendations for our clients. While we have access to all the analytic and market pricing capabilities provided by Bloomberg, we also have a network of financial institution and brokerage analysts that regularly submit research pieces and economic perspectives. We synthesize all information to extract pertinent market information for our client's portfolios.

Public funds require a different investment approach and fiduciary responsibility to adequately judge appropriate risk/return opportunities. The Town has many essential functions to effectively serve its citizens. Investing is usually considered a secondary activity. Our service objective ensures the level of attention and commitment to effectively manage the Town's funds. We believe in the principles stressed by the PFIA and the Town's Investment Policy:

- Preservation of Principal;
- Safety;
- Liquidity;
- Public Trust;
- Risk-Appropriate Yield; and
- Diversification.

Credit Risk - The PFIA specifically manages and restricts the exposure to credit risk. Assuming large amounts (some would argue any amount) of credit risk is inconsistent with the Act's main objectives to "primarily emphasize safety of principal and liquidity." All securities contain incremental credit risk; although the markets believe certain security issuers have little or no real credit risk. The PFIA does allow specific securities with true credit risk, but generally restricts that risk based on measurements of nationally recognized credit rating agencies.

Properly collateralized deposits or repurchase agreements, secured in accordance with the PFIA, Public Funds Collateral Act, the Town's Investment Policy, and federal banking regulations essentially eliminate the inherent credit risk of the financial institution. Focused document preparation, prior to the deposit, manages the institution's risk. Regular review of collateral values (monthly, unless other concerns arise) and financial institution strength (annual, unless other concerns arise) ensures that any exposure remains minimal.

The PFIA also allows local government investment pools and mutual funds to directly invest in securities with real credit risk (e.g. commercial paper). Prior to investment, accurate identification of the pool/fund's investment criteria, and analysis of the historical risk/return relationship, will determine if the Town will potentially receive adequate return for any increased risk.

The portfolios of these options are very fluid and monitoring is required. If pools/funds are selected that allow non-government securities, the portfolio mix should be reviewed monthly to establish overall trends and a complete list of securities held by the fund should be reviewed at least annually. There are many competitive pool/fund options. If perceived risk exceeds potential yield advantage, or just exceeds the Town's comfort zone, a more suitable pool/fund should be found.

Market/Opportunity Risk - The restriction of most credit risks focuses portfolio management on controlling market risk and opportunity risk. Working with the yield curve, issuer yield spreads, and cash flow requirements manages these two risks.

Appropriate yield curve positioning, with limited interest rate cycle timing, provides the most effective and consistent yield enhancement. Our services will include the

research and analysis necessary to assist the Town in formulating strategy recommendations and we will participate in any presentation (formal or informal) designed to gain approval to implement the desired strategy.

The steepest section of the curve is Overnight to Two Years. It flattens slightly through five years, and then flattens further out to ten years and beyond. Investing on the steepest part of the curve increases potential yield the most with the least increase in market risk.

For the non-bond proceeds portion of the portfolio, our services include:

- Reviewing and recommending modifications to the Town's Investment Policy,
- Assisting in cash flow forecasting,
- Analyzing available products and institutions,
- Interpreting market conditions and trends,
- Determining appropriate asset allocations,
- Advising on long range strategy selection,
- Implementing strategy within a competitive pricing environment,
- Preparing appropriate calculations and reports,
- Providing independent sources for investment market valuations,
- Complying with Investment Policy and state and federal regulations,
- Monitoring broker/dealer and safekeeping relationships,
- Attending regularly scheduled meetings, and
- Educating Town staff on pertinent investment topics.

Bond proceeds need additional care in strategy selection (especially proceeds subject to the arbitrage rebate regulations). Estrada Hinojosa takes special care to ensure that bond fund investments are compliant with the bond covenants and with the Town's Investment Policy.

Bond proceeds investment guidance includes:

- Developing and analyzing projected expenditure patterns,
- Estimating expenditure period interest earnings,
- Determining any appropriate Investment Policy changes,
- Analyzing the potential arbitrage liability of various investment strategies,
- Developing the *optimum* strategy,
- Reviewing the draw schedule and portfolio performance as the projects progress,
- Identifying potential arbitrage concerns, and
- Implementing any reserve or debt service fund investment strategies.

Analyzing specific operating and bond proceeds strategies combine effective and appropriate investment selection for both types of funds.

Cash Flow Analysis - No matter the objective or funding source of the portfolio, cash flow predictability creates the baseline for investment strategy development. Keeping current-use funds in expenditure-related maturities or liquid alternatives, while positioning stable and longer range funds further out the yield curve, provides overall portfolio enhancement. The higher yield advantage of extended maturities most safely manifests itself in increased interest earnings and not speculative gains.

Historically, Treasury yields, over time and through a variety of market conditions, generate higher yields as maturities lengthen. Even during periods of market volatility and inverted yield curves, placement of assets out along the yield curve will generally result in more favorable returns over the long run. Actively pursuing this yield enhancement, however takes time, energy and dedicated attention to market conditions and projections.

Since the PFIA specifically prohibits extension for speculative purposes, cash flow forecasting must be the cornerstone of the investment program. Estrada Hinojosa will work with the Town to develop forecasts that will guide the investment strategy for each fund to ensure the appropriate mix of liquidity and longer-term asset allocation.

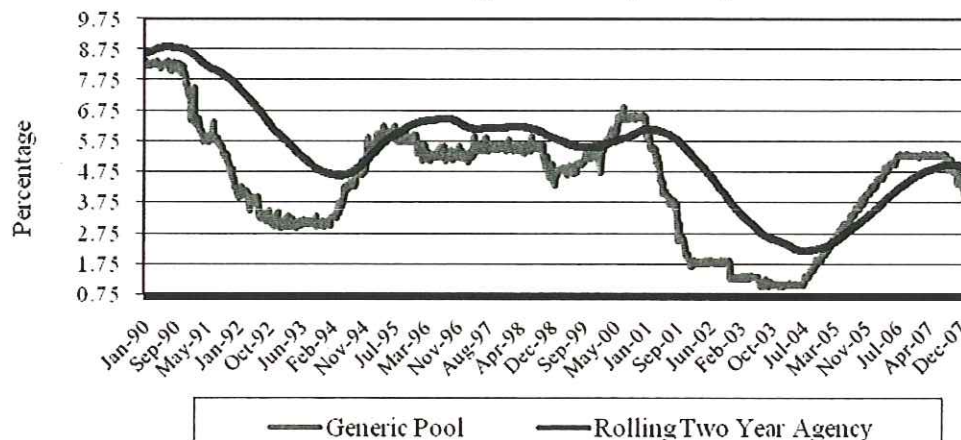
The resulting cash flow forecast and analysis will help identify the appropriate investment strategy and help control risks. Our assistance to the Town could combine the following steps to achieve the Town’s portfolio objectives:

- Actively managing the portfolio to maintain appropriate cash levels,
- Conservatively estimating cash flows and minimum cash balances,
- Appropriately diversifying maturity and security mix,
- Timely and regular market interaction to smooth price fluctuations,
- Maintaining minimum positions in highly liquid security types, and
- Strictly adhering to the prohibition on speculative maturity extension.

Regular review of proper procedures and internal controls complete the process. Portfolio risk is managed by proper strategy selection. Procedures and controls help to mitigate fraud, lost funds or securities, broker/dealer/financial institution failure and many other non-securities related risks.

Combining all of these concepts into active portfolio management will enhance portfolio return over the long run. A simple model easily depicts the advantage of active portfolio management and strategic yield curve positioning. The following graph, highlights that over time and through a variety of market conditions, effective yield curve position increases portfolio yield.

Strategic Maturity Comparison



As depicted in the graph, portfolios that remain passive and keep their funds in overly liquid positions generally under-perform. Since 1990, the rolling two-year Agency position has experienced an average yield of 5.37% compared to the average pool yield of 4.50%. Historically, the Agency portfolio had an annual return advantage of 87 basis points over pool investment.

While past market performance does not ensure similar future results, over time through a variety of market conditions, the potential advantage of cash flow-based portfolio extension has provided substantial value.

Managing Market Risk by Limiting Investment Maturities – Selecting appropriate yield curve positions for fixed income securities must include an analysis of the potential valuation risk of that particular maturity. Even though the Town’s Investment Policy allows a maximum weighted average maturity of 1 1/2 years and the Town does not invest for speculation (i.e. investments are purchased with the intent to hold until maturity), the Policy recognizes that the market value of security positions will vary from the date of purchase until maturity. Longer-term maturities will be much more volatile than shorter-term positions and an assessment must be made prior to purchase as to whether the potential variance is worth the incremental yield of the longer maturities.

One strategy to mitigate the impact of changing market environments is to maintain a disciplined approach of regular security purchases through a variety of market conditions. This discipline generally allows the portfolio to offset unrealized losses with unrealized gains with the strategy objective to reach a net mark-to-market spread that is lower than that of any individual security.

Adjusting to Market Movements – Current yields have fallen dramatically over the past few months as the FOMC tries to orchestrate market equilibrium following the sub-prime mortgage meltdown and the resulting credit and liquidity crisis. Those investors that had practiced a disciplined laddering approach for their fixed income portfolios find that their portfolios are much more likely to weather the worst of this economic storm. But where will interest rates be when new cash flows occur or portfolio positions mature or are called and how can the portfolio be managed as the markets continue to move? If anyone could accurately predict when and by how much yields will change, strategy implementation could be perfectly timed. Unfortunately, predicting is difficult and two potential market scenarios reduce future portfolio performance – yields remain stable at low levels or yields continue to fall. Gradual targeted implementation of portfolio strategy hedges the portfolio against the uncertainty and allows the portfolio to build towards its optimum long-term yield curve position. At the same time, however, the portfolio’s weighted average maturity can be strategically adjusted to anticipate and accommodate economic market movements. Estrada Hinojosa will work with the Town to identify the appropriate maturity allocation during any given market environment.

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| <p>9. Describe your firm’s daily procedures for portfolio review, investment management and client contact.</p> |
|---|

The Estrada Hinojosa investment advisory team is continuously involved in the review of client portfolios. Frequent interaction takes place to ensure that all members are intimately aware of portfolio activities and changing economic conditions. Strategy discussions involve team members prior to client recommendations with research materials and current market events thoroughly discussed to justify the recommendation. Once the recommendation is agreed to, the client is contacted and briefed on the rationale and options considered in the proposed strategy/action.

The Company's internal systems identify cash flows from maturing positions and frequent client contact helps identify other cash flows that will impact the portfolio. The team will utilize results from cash flow models that are prepared and continuously updated throughout the engagement.

The frequency of client contact will depend upon the desires of the individual customer. While some customers prefer to be contacted only when portfolio activities or transactions are recommended, others prefer to have regular interaction to apprise them of market conditions and general economic expectations.

D. Reporting Capabilities

10. Submit samples of reports that would be provided. The report must meet the minimum requirements of the Texas Public Funds Investment Act.

Samples of reports are included as Attachment B.

11. Describe the process the firm would go through to assist the Town in identifying an appropriate industry benchmark.

For most public entities simple, easy standards provide the best comparison. Utilizing comparable risk/strategy indicators will highlight if the portfolio is generating a risk adjusted rate of return. Appropriate benchmarks therefore are strategy specific.

Selecting appropriate benchmarks requires an analysis of the Town's selected strategies. They should represent (1) a minimum effort strategy choice (e.g. bank CDs, local government investment pool) and (2) a minimum risk/strategy choice (e.g. similar maturity rolling Treasury portfolio). If the portfolio out performs the benchmarks, over time, by more than the effort and cost, then the active management had advantage.

Currently, the Town's, and many other Texas public entities', default investment choice is a local government investment pool. Using pool yields as one potential benchmark provides two advantages:

1. Commonly known to the staff, Council and public, and
2. Highlights the added value of more proactive investing.

The Town has additionally provided three Constant Maturity Treasury averages in its performance report. While these averages offer the reader a glimpse of the range of short-term Treasury rates, they may not offer the reader an effective comparison of the most relevant benchmark based upon the Town's specific investment strategy. Selection of the Town's benchmark should be based upon an analysis of acceptable risk and the optimal allocation of assets based upon that level of risk. Once the portfolio strategy is selected and fully implemented, an additional benchmark should also consider the comparable levels of risk. Depending upon the selected strategy, realized incremental risk could be minimal or substantial. GASB 31's annual mark-to-market requirement encourages strategy appropriate benchmarks.

After initiation of the contract and selection of specific portfolio strategies, several benchmark options will be presented to the Town. At that time, the Town would select one or more appropriate benchmarks.

E. Fees

12. Provide the fee schedule that would apply to this account.

As with all Estrada Hinojosa contracts, a mutually agreed upon fee will provide the Town with good value for the cost and adequate compensation for our efforts and expertise. Please consider the subject of fees and fee structure negotiable.

Estrada Hinojosa offers services with a variety of fee structures. Generally, for the investment advisory services requested in the RFP, a fee based on assets under management is customary. The Company would propose the following fee arrangement:

Investment Advisory Services = 4 basis points, annually based on assets under management.

13. Identify any expenses that would not be covered through the fee structure and would be required in order to implement your firm's program.

The proposed fees include all costs of services, account systems, and all reasonable travel and business expenses related to the performance of these services. Although none are anticipated, any other reimbursable expenses incurred by Estrada Hinojosa would be subject to prior Town approval.

The Town may incur transactional expenses (such as bank wire fees, etc.) in the execution of its investment strategy. Estrada Hinojosa will assist the Town in minimizing all such transactional expenses or any other normal business expenses that might be incurred by the Town in the management of its funds.

F. Other Considerations

14. Describe your firm's approach to managing relationships with the broker/dealer community.

Three criteria guide Estrada Hinojosa's approach to managing broker/dealer relationships. They must:

1. Understand and accept the unique objectives of investing public funds,
2. Provide competitive pricing, and
3. Respond appropriately to the needs of the client.

There are many broker/dealers that meet these basic requirements. A competitive environment is difficult to achieve with too few broker/dealers. Too many are cumbersome, increase the risk of missed trades, and restrict the Town's business with any one broker/dealer (unfortunately, broker/dealers lose interest in client service without some reward). The optimum number is entity-specific, however the overall objective is to establish a competitive yet workable transaction environment.

Many times an investment advisor only transacts with its "list" of broker/dealers and the client loses identity to the broker/dealer community. Estrada Hinojosa's approach clearly communicates the client's role in broker/dealer selection, encourages complete knowledge of each participant, and provides direct contact information to both parties. If the Town re-internalized the investment management function, the Town and its broker/dealers would be prepared.

Ocasionally an investment adviser uses a related-broker/dealer to "clear" client transactions. Regulatory bodies generally discouraged these arrangements as they do not always allow full transparency of transaction costs, fees or mark-ups. The arrangement may also reduce adviser independence on strategy and security recommendations as the related-broker/dealer's situation could create conflicts. Even more than only using adviser list broker/dealers, the client has no direct market contact and loses all identity.

If needed, Estrada Hinojosa can provide recommendations of broker/dealers currently used by other clients. Or a selection process to independently identify and recommend potentially beneficial broker/dealers could be implemented. The Town's governing body or finance/investment committee would ultimately approve any adjustments to the list.

Additionally, Estrada Hinojosa will assist the Town in complying with the selection and review criteria required in the Investment Policy.

15. Describe any assistance your firm would provide in reviewing custodial and safekeeping agreements.

With a primary focus on managing public funds, Estrada Hinojosa regularly and extensively assists in the development, modification and implementation of investment policies, depository contracts, safekeeping agreements, and other

investment-related documentation. Those functions are essential to the effective fulfillment of our contract and Estrada Hinojosa will work with the Town as requested.

Custodial and safekeeping agreements manage part of the non-market risk components inherent in cash and investment management. Estrada Hinojosa regularly reviews these agreements and believes proper documentation is vital to effective risk management and contract fulfillment.

Many times the entities depository bank provides safekeeping services as part of the overall contract. As investment portfolios become more active, sometimes entering into separate safekeeping contracts enhance procedure and process efficiency. If the Town needed to select custodian or safekeeping service providers, Estrada Hinojosa would assist in that process.

Additionally, we often provide periodic reviews of the:

- pledged collateral to determine its adequacy and compliance with the terms of the Bank Depository Agreement.
- Bank account analysis statements to confirm compliance with the Bank Depository Agreement with respect to ECR application, usage of services and associated volumes, and unit costs.

16. Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions.

The PFIA significantly restricts the credit risk a public entity can directly assume. The Town's Investment Policy tightens that risk even further. As a result, financial institution structure risk supplants most credit risk analysis.

Properly collateralized deposits, secured in accordance with the PFIA, Public Funds Collateral Act, the Investment Policy, and federal banking regulations essentially eliminate the inherent credit risk of the financial institution. As emphasized in this RFP, focused document preparation, prior to the deposit, manages the institution's risk. Regular review of collateral values (monthly, unless other concerns arise) and financial institution strength (annually, unless other concerns arise) ensures that any exposure remains minimal.

The Investment Policy allows local government investment pools and money market mutual funds to directly invest in securities with elevated credit risk (e.g. commercial paper). Prior to investment, accurate identification of the pool/fund's investment criteria, and analysis of the historical risk/return relationship, will determine if the Town will potentially receive adequate compensation for any increased risk. On a regular basis after investment (monthly unless other concerns arise), the pool/fund should be monitored to detect strategy and risk changes and risk/return performance.

As mentioned above, the PFIA specifically manages and restricts the exposure to credit risk. Assuming large amounts (some would argue any amount) of credit risk is inconsistent with the Act's main objectives to "primarily emphasize safety of principal and liquidity." All securities contain incremental credit risk; although the

markets believe certain security issuers have little or no real credit risk. The PFIA does allow specific securities with true credit risk. The Act generally restricts that risk based on measurements of nationally recognized credit rating agencies.

Improperly secured deposits or repurchase agreements and securities that are **not** “obligations of the United States or its agencies and instrumentalities” provide obvious examples of credit risk exposure. Most governmental entities properly secure their deposits and repurchase agreements, so that credit risk level is very low. State and municipal entities generally issue tax-exempt debt, reducing their attractiveness for public funds investment. Bankers’ Acceptances are scarce in today’s markets. However, commercial paper and certain money market mutual funds create openings for credit risk assumption.

Commercial paper is a prime example of credit risk. Commercial paper is an unsecured promissory note. Only the financial strength of the creditor provides the resources to pay off the debt. In many cases, the creditor is a stand-alone entity, or can be additionally backed by a letter or line of credit, or other form of guarantee. In corporate commercial paper issues there is no government or taxing authority to pay-off the debt if there is a problem.

The initial credit risk questions for an Investment Officer include:

- Do you have any credit risk exposure?
- What types of securities are allowed by your investment policy?
- Does your policy allow securities with recognized credit risk?
- Is your deposit or repurchase agreement properly collateralized?
- What credit risks are hidden in your investment pools or money market mutual funds?

Credit risk analysis usually falls into two categories: short term and long term. Analysts review available materials to ascertain the ability of the creditor to meet its financial obligations. Short-term ratings “grade” the creditor’s financial strength to meet near term obligations, while long-term ratings project future payment capabilities. Most governmental entities that issue bonded debt receive long-term credit ratings.

Typical short-term rating grades include:

	“Highest”	“Satisfactory”	“Adequate”	“Speculative”	“Defaulted”
Moody’s	P-1	P-2	P-3	NP	NP
Standard & Poor’s	A1+, A1	A-2	A-3	B, C	D
Fitch	F1+, F1	F-2	F-3	F-5	D
Duff & Phelps	Duff 1+, Duff 1, Duff 1-	Duff 2	Duff 3	Duff 4	Duff 5

The PFIA restricts commercial paper holdings to securities rated in the "Highest" short term rating category. Long-term financial strength and credit rating influence the probable short-term category and may be used to judge potential shifts in short term ratings.

Another important credit risk assessment of a commercial paper issuer relates to the nature of the firm's line of business. A manufacturing company with lots of equity and solid assets possesses a different risk profile than a financial institution with a highly leveraged balance sheet and very few hard assets.

The increase in conduit issuers complicates commercial paper risk analysis. The conduit or asset-backed issuers are generally created to finance a described type of financial instrument (e.g. consumer debt, trade receivables, equipment financing). That underlying financial instrument, on its own, is usually riskier than the publicly issued commercial paper. The structuring agent uses historical statistical analysis to construct a variety of investor classes. This commercial paper class can be rated "safest," but is wholly dependent on the credit worthiness of the underlying instruments and the statistical analysis.

As issuers' financial conditions evolve, they are sometimes subject to changes in rating status. Their rating may be changed outright or they may be placed on "credit watch" as the rating agency monitors their position. Rating agencies may issue changes in rating status for either the issuer's long-term (L/T) or short-term (S/T) debt instruments, but such actions should be analyzed by prospective investors to determine whether the risk is appropriate. Unfavorable scenarios could include:

1. L/T downgrade; S/T no change
2. S/T downgrade; L/T no change
3. S/T downgrade; L/T downgrade

Any security with credit risk also includes the "headline risk" of unexpected news. That extra risk results from credit watch listings, actual S/T and L/T downgrades, falling bid sides, and local public relations issues.

The PFIA requires a written investment policy that addresses the specific needs for risk management. This written policy incorporates the authorization to assume credit risk and the techniques to manage it. The GFOA Cash Management Committee has established six minimum procedures to manage credit risk:

1. Diversify by issuer and industry sector;
2. Limit the total portfolio's exposure;
3. Limit the exposure to any one credit;
4. Require "highest" short term credit ratings (see earlier table);
5. Manage credit enhancement use, acceptance, and exposure; and,
6. Analyze ratings outlooks (i.e. credit watch).

Additional considerations include setting minimum long-term credit rating standards, analyzing long-term ratings outlooks, and establishing maximum maturity limitations. Long term ratings and outlooks may provide some precursor to

potential short-term problems. Shorter maturities allow less time for changes in credit quality.

Credit risk is highly fluid and changes quickly with the times. Changes may be good or bad. Continuing risk management is vitally important. Monitoring ratings and credit outlooks may only need to occur on a monthly basis. Or in less certain situations, weekly or daily review might be required. The various credit watches may present outlooks that impact short-term obligations, long-term obligations, or both. In difficult credit times, checking the bid side of any security provides a strong indicator of adverse concerns.

A diversified, well-managed and monitored portfolio will spread the risk of any individual credit risk and potentially offset larger portfolio problems. However, in a credit downgrade situation "first loss may be best loss" and a pre-determined exit strategy could prove beneficial.

17. Describe the nature and frequency of meeting that your firm would recommend to keep Town staff informed.

As a "part-time" employee of the Town, Estrada Hinojosa believes steady, direct interaction creates an optimum decision environment. Frequent discussion communicates market conditions, anticipated trends, Town cash needs, available investment options, strategy effectiveness, and policy compliance. Effectively handled, the Town's staff and Estrada Hinojosa should function singularly, not as separate organizations.

The needs and desires of the Town will dictate the optimum schedule for interaction. The following minimum portfolio review schedule is consistent with the terms of this RFP:

- Quarterly strategy/portfolio review and
- Annual performance review.

Initially, cash flow analysis, strategy development and broker/dealer review will require additional interaction with the Town's staff. Market cycles and the Town's cash flow schedule will largely determine appropriate ongoing interaction. Regular communication (phone, fax, email, conference calls, and on-site meetings) will focus on:

- Current cash requirements,
- Specific security opportunities,
- Market information,
- Appropriate transaction execution levels,
- Transaction settlement status, and
- Investment reporting.

Major market shifts or portfolio modifications may also require emergency meetings or conference calls to review market trends and appropriately adjust strategies.

Estrada Hinojosa is committed to effective and timely response to the Town's needs and if additional meetings are necessary, we will be available.

G. Other Information

18. Provide a copy of your firm's Form ADV, Parts I and II, as on file with the SEC.

See Attachment C for the most current copy of Estrada Hinojosa's Form ADV, Parts I and II.

19. Provide proof of state registration as an investment advisor.

See Attachment D for proof of Texas registration.

20. Provide a sample of proposed contract for services.

See Attachment D for a sample of the proposed contract for services.



The PFM Group

Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

300 S. Orange Avenue
Suite 1170
Orlando, FL 32801

407 648-2208
407 648-1323 fax
www.pfm.com

August 29, 2008

Mr. Brian Hogan
Financial Services Director
Town of Addison, Texas
P.O. Box 9010
Addison, TX 75001

Dear Mr. Hogan:

PFM Asset Management LLC ("PFM") is very pleased to propose to the Town of Addison (the "Town") for Investment Advisory Services. PFM looks forward to the opportunity to serve the Town in the coming years, as such; we are submitting our proposal to the Town for Investment Advisory Services.

PFM is the nation's leading financial and investment advisory firm, with broad experience providing investment and debt management services to public agencies and a successful record of work for many local governments and educational institutions. We are independent investment advisors and not a bank, insurance company or broker/dealers. We sell investment advisory services not products. Our business is to provide a full range of customized investment advisory services to organizations just like the Town of Addison. PFM will perform these services for the Town in accordance with Federal, Texas Public Funds Investment Act ("PFIA") and the Town's Investment Policy. We believe that our proposal is distinguished by the following:

- **Firm Experience**

PFM's mission is to provide the best possible financial and investment advice to public sector entities. We have been directing the management of public-sector funds since 1980 and currently manage approximately \$34 billion in assets. PFM is ranked in the top 52 U.S. Tax-Exempt Money Managers for 2007 as listed in the May 2008 issue of Pensions and Investments magazine. Unlike most other investment advisors, PFM manages and consults primarily on governmental and not-for-profit organizations and not unrelated assets for other purposes. PFM is an *independent advisor* providing investment advisory services to state and local governmental agencies. PFM is chartered to do business in the State of Texas.

PFM has been a pioneer in the development of government investment pools. PFM currently manages nearly \$14 billion in assets for 15 AAA Rated government investment pools throughout the United States. The first, established in Pennsylvania in 1980, now has over 2,600 local government participants. PFM is the investment advisor and/or administrator to thirteen statewide local government investment pools and two registered mutual funds in twelve states.

- PFM administers, manages, or advises on 15 AAA Rated LGIPs, more than any other firm in nation
- PFM manages LGIPs for local governments in Texas.
- PFM has helped create more LGIPs than any other firm in nation
- In addition to our LGIP experience, PFM manages over \$14 billion in separately managed accounts, including \$4 billion in separately managed accounts for towns and cities.



- **Experience and Qualification of Personnel**

PFM has participated in the development and implementation of formal Treasury and Investment Management programs for many local governments in Texas and throughout the South. PFM also has a variety of experience in managing bond proceeds for construction projects. In fact, many local governments utilize the general format for investment policies and internal control documents that were originally created by PFM for our clients.

PFM has a comprehensive understanding of the Town's overall cash and investment program. Mr. Ken Couch, located in the PFM Austin, Texas office, has over twelve years of experience in working with local governments throughout Texas, Louisiana, Alabama, Georgia, Indiana and Wisconsin, becoming familiar with each state's investment statutes. During this time, he has worked with various governmental entities ranging from townships, county, city, school district, universities and colleges, as well as special districts. Mr. Couch is a member of the Government Finance Officers' Association (GFOA), Government Finance Officers' Association of Texas (GFOAT) and Government Treasurer's Organization of Texas (GTOT). Mr. Steven Alexander authored Florida's Investment Policy Statute, which stresses the safety of public investment funds. Additionally, Mr. Alexander served as the Treasury Manager for one of the largest counties in the nation and was responsible for the management of the cash and investment portfolio, banking, debt administration and revenue collection functions. This combination of over 20 years of experience allows us to provide the Town with a broad base of services and support. PFM's Investment Management Philosophy of Safety of the Principal of the Assets first, has been rated AAA by S&P for Hillsborough County. **The S&P Press Release is provided behind the transmittal letter.**

- **Girard Miller has joined PFM as a Senior Strategist**

Mr. Miller is an expert on public employee retirement systems and their investments. He is a former voting member of the Governmental Accounting Standards Board (GASB), where he completed his service on July 31, 2008. Mr. Miller is a former president of the Janus Mutual Funds and former chief operating officer of Janus Capital Group in Denver. He is also a former president and CEO of ICMA Retirement Corporation in Washington, D. C. as well as a former head of Fidelity Investments public funds group. Mr. Miller writes and publishes extensively in the field of public finance, investments and benefits management.

- **PFM Services to the Town**

PFM will provide the Town with a number of services, work products and general support each year. Below is a summary of the services we will provide and represents the kind of services we are proposing for the future.

- Actively manage an investment portfolio to out-perform the benchmark with only a modest exposure to risk and market fluctuations.
- For any bond issues, we will provide the Town with an investment strategy report that will present the Town with a number of investment choices and in compliance with all arbitrage rebate requirements.
- Provide the Town with Cash Flow Analysis for each account to identify funds that need to be kept liquid and funds that are available for longer term investments.
- PFM will meet with the Finance staff on a quarterly basis to review the market, cash flows and the quarterly investment performance reports, and provide the Town with an annual report.
- Review and provide recommendations on the Investment Policy for the Town.
- Review and provide the Town with an Internal Controls and Operations Procedures Manual.



- Prepare GASB 40 Notes annually.
 - Assist the Town with accounting entries for the investments.
 - Provide annual investment training in accordance with PFIA requirements as well as specific needs of the Town.
 - Month end investment statements provide detailed security information including the CUSIP.
 - PFM regularly conducts special assignments for clients, including, custodial RFP's, banking services RFPs, review of specific investment products, strategies and market developments and will assist in any other projects to meet the Town's needs.
- **PFM's Investment Credit Watch Services**

An example of our credit watch services, PFM was proactive in the review of the Florida State Pool ("Florida SBA") holdings and notified our clients of the risky pool investment strategy which prevented our clients from being exposed to inaccessible funds within the pool, before the national press articles.
 - **Reporting and Record Keeping**

As part of our accounting functions, PFM provides all of our clients with a monthly investment summary, which details holdings, realized, and unrealized earnings for the month, and reports of all purchases, sales, maturities, interest deposits and withdrawals for the month. Daily detail portfolio holdings and monthly statements are available over the Internet by logging on PFM's web page which are compliant with GASB 31 and 40. All of the performance and yield calculations used by PFM are within the national standards of the CFA Institute; formerly known as the Association for Investment Management and Research ("AIMR").
 - **PFM's Commitment to the Town**

We believe that the Town's investment program will continue to be successful in future years because of our strong commitment to ensuring the safety and liquidity first and then the investment return of the portfolio. PFM understands the importance of protecting valuable public funds from risky and unsuitable investments; and this comes from our 28 years of experience managing only public organization funds and providing cash management services.
 - As you will see from the detailed proposal that follows, PFM is dedicated to the investment and cash management of public funds and has a strong commitment to the success of the Town. **PFM agrees that all information contained in the submitted proposal is valid for at least (90) days from the date of submittal or until a final contract is approved, whichever occurs first.** Please contact me at 300 South Orange Avenue, Suite 1170, Orlando, FL 32801, Phone: (407) 648-2208, Toll Free (800) 695-4736, fax (407) 648-1323, email: alexanders@pfm.com. We hope we will have the opportunity to work with you, and your staff.

Sincerely,
PFM Asset Management LLC

A handwritten signature in blue ink, appearing to read "S. Alexander".

Steven Alexander, CTP, CGFO
Managing Director/ Partner



A. Firm Background

1) Describe your firm, including date founded, ownership, and any subsidiary relationships or relationships with other financial institutions.

Public Financial Management, Inc. was founded in 1975 and has been providing investment management services since 1980. We are the leading independent municipal financial and investment advisory company in the United States, with 32 offices throughout the country. Headquartered in Philadelphia, we have offices in Albany, Ann Arbor, Arlington, Atlanta, **Austin**, Boston, Charlotte, Chicago, Cleveland, Des Moines, Fargo, Ft. Myers, Harrisburg, Long Island, Los Angeles, Malvern, Memphis, Miami, Milwaukee, Minneapolis, Newport Beach, New York, Oakland, Orlando, Phoenix, Philadelphia, Princeton, Pittsburgh, San Francisco, Seattle, St. Louis, and Washington D.C.

In 2001, PFM Asset Management LLC was created as the entity under which investment advisory services are provided. Both Public Financial Management, Inc. and PFM Asset Management LLC (referred to collectively as "PFM") are owned and managed by 53 managing directors who, as a group, set overall strategic direction.

PFM has not experienced significant ownership or management changes in the last three years. No outside entity owns or controls any interest in PFM. Individual managing directors are responsible for specific practice areas, such as investment management, or regional practices and also manage specific engagements. Our clients benefit from our focus and attention to the special needs of public funds and our business strategy calls for us to continue to be specialized in this area.

Investment Management

Since the firm began offering investment advisory services in 1980, PFM's main focus has been managing public sector fixed-income accounts, just like the Town of Addison's (the "Town") investment portfolio. A majority of the accounts under our management consist of operating funds, bond proceeds, working capital funds, insurance reserves and other governmental funds with an investment horizon of one day to ten years.

PFM has no affiliated or parent organizations, does not serve its clients in a broker/dealer, investment banking, or insurance company capacity, and we do not have any "soft dollar" arrangements with brokers. PFM has no conflicts of interest with regard to the management of this account. We do not have any business activities or relationships that would affect our management of the Town's account. **As an independent investment advisor, PFM would not pay a finder's fee to any third party for business related to the Town of Addison, or for business related to any of our clients.**

PFM Asset Management LLC is a registered investment advisor under the Investment Advisor's Act of 1940. PFM reports to the Securities Exchange Commission (SEC) and the Municipal Securities Rules Making Board (MSRB). PFM is also compliant with all national, state and local regulatory bodies including the CFA Institute (AIMR), GASB, and GFOA. PFM's Securities and Exchange Commission's Uniform Application for Investment Adviser Registration (Form ADV Parts I and II) are provided **in Tab A in the Appendix.**

PFM has a number of employees who are Chartered Financial Analysts (CFAs). These CFA's abide by the CFA's Code of Ethics and Standards of Professional Conduct. In addition, PFM has its own Code of Ethics which is applicable to all employees of PFM, including CFA's. Both of these codes are designed to assist and guide PFM employees to act with integrity in a professional and ethical manner. PFM's Code of Ethics is provided **in Tab B in the Appendix.**

2) Describe any SEC regulatory censure or litigation related to services your firm provides.

PFM Asset Management LLC or any of its employees have not been subject to any SEC regulatory censure or litigation related to services our firm provides.



A. Firm Background

3) State the dollar value of the assets and the number of portfolios your firm has under direct and continuous management, categorized between public sector and other clients.

The following chart shows the growth of PFM from December 31, 2003 to June 30, 2008. As of today, PFM currently manages approximately \$34 billion dollars in government organization assets and has 1,690 portfolios under management.

Public Funds	
Date	Total Assets Under Management (\$ Billions)
6/30/2008	\$34.9 Billion
3/31/2008	\$35.1 Billion
12/31/2007	\$33.6 Billion
12/31/2006*	\$26.5 Billion
12/31/2005	\$24.2 Billion
12/31/2004	\$20.9 Billion
12/31/2003**	\$14.7 Billion

* A considerable portion of the non-discretionary assets were reclassified investment consulting assets during 2006.

** PFM acquired Spagnola-Cosack, Inc. Investment Consultants in 2003 (PFM Advisors). PFM acquired CADRE Financial Services, a subsidiary of AMBAC Assurance Corp in 2004.

4) Describe the experience of your firm in providing investment management services to the public sector.

Texas Investment Management Experience

PFM provides investment management services to over 195 Texas local municipalities and public agencies. The accounts under management consist of operating funds, working capital funds, insurance reserves, bond proceeds and other governmental funds with an investment horizon of one day to ten years. Most recently, PFM has been advising local municipalities and public agencies on managing and funding their OPEB liability.

National Investment Management Experience

Since the firm began offering investment advisory services in 1980, PFM's primary focus has been managing both individual public sector fixed-income portfolios designed to earn competitive yields, while maximizing safety and liquidity and Local Government Investment Pools (LGIPs). We currently manage \$32 billion of high quality fixed income accounts. Over the years we have also provided strategic advice to a host of state and local governments concerning problematic investments. PFM provides investment management services to local municipalities and public agencies. The accounts under management consist of operating funds, working capital funds, insurance reserves, bond proceeds and other governmental funds with an investment horizon of one day to ten years.

Pooled Fund Management Experience

PFM has been a pioneer in the development of government investment pools. The first, established in Pennsylvania in 1980, now has over 2,600 local government participants. Now PFM is the investment advisor and/or administrator to thirteen statewide local government investment pools and two registered mutual funds in twelve states.

- PFM administers, manages, or advises 15 AAA Rated LGIPs, more than any other firm
- PFM has helped create more LGIPs than any other firm

PFM currently manages nearly \$14 billion in assets for government investment pools throughout the United States. PFM has been involved in the creation and/or management of public sector investment pools in California, Oregon, Texas, Illinois, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey,

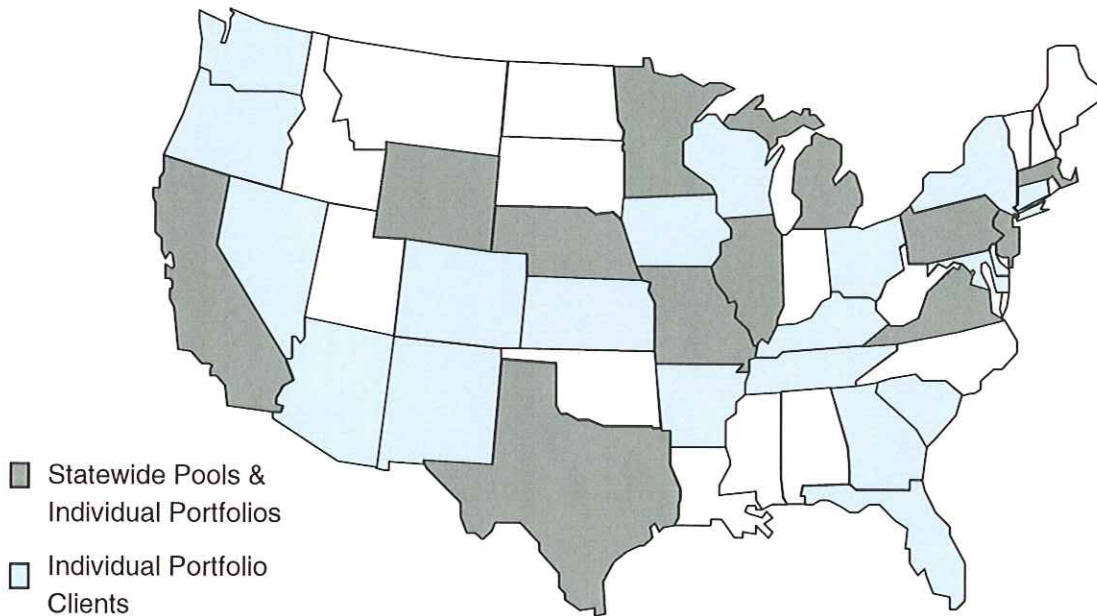


A. Firm Background

Pennsylvania, Florida, Virginia, the Virgin Islands, and Wyoming. For each of these pools, we have developed investment strategies, policies, operating rules, procedures for identifying interest rate and credit risk, and formats for regular reporting.

PFM States with Managed Pools and/or Portfolios:

One of PFM's prime objectives in managing our investment pools is to maintain a stable NAV. **PFM has never managed a money market pool where the NAV has deviated from the designated constant value; we have never had to waive expenses, contribute to capital, or buy back securities from a pool to achieve this objective.** We use proprietary analytic tools to stress test portfolios to project the effects of changes in interest rates or sector spreads on NAV. We actively manage the average maturity of the portfolio within the limits established by the pool's investment policy and rating agencies to maintain a constant NAV of \$1.00 and simultaneously achieve our primary objective of preserving principal. We are also vigilant when it comes to monitoring the performance of our portfolio's securities. **PFM has never bought a security that has realized a loss of principal or interest through default. Our record of safety is unblemished.**





A. Firm Background

PFM manages 15 AAA rated investment portfolios. In fact, PFM pioneered the practice of receiving ratings for local government investment pools when we received the first rating of an LGIP in 1989 for the VA (Virginia) SNAP program. Prior to our work with the rating agencies only mutual funds registered with the Securities and Exchange Commission had been rated. PFM worked with Standard & Poor's to develop specific investment parameters that apply to public agency commingled funds. PFM has established the systems and controls to maintain and operate these funds to AAA standards; this is central to our investment management approach.

Non-Discretionary Management Experience

Investment Policy Review

PFM has helped hundreds of governmental entities to develop, update and improve their written investment policies. Investment policies written by PFM are designed to enable clients to meet their objectives of safety and liquidity while also providing flexibility to meet performance objectives.

When helping entities develop or update an investment policy, our objective is to make the document an effective tool for managing the investment program, regardless of market conditions. A description of our approach to investment policy review follows.

- **Investment Constraints and Limitations**

PFM analyzes state statutes, government regulations and bond covenants to identify permitted investments and to ensure that the investment policy accurately describes investment constraints. PFM also identifies the client's specific security limitations involving term structures, credit quality, and collateralization requirements.

- **Assess Asset Allocation and Risk**

PFM assesses the investment approach, as described in the investment policy, in order to determine if the level of risk is consistent with our understanding of the client's objectives. This review considers asset allocation, returns on allowable investments, and implementation. In this evaluation we focus on security limitations regarding (1) specific asset classes, (2) diversification, (3) maturity limitations, and (4) use of illiquid securities. If appropriate, PFM suggests changes to the policy to reduce risk and/or enhance return within legal and statutory constraints.

- **Form of Policy**

PFM also comments on whether the investment policy is an effective tool for managing the client's investment program. We determine if the policy provides an appropriate level of flexibility and control and if it presents necessary information in a concise manner. We highlight any areas where the investment policy is either unclear or ambiguous.

Performance Benchmark

Our philosophy is that a performance benchmark should reflect the client's cash flow requirements and desired balance between risk and return. Further, the benchmark should offer an independent representation of the market or a particular market segment and should be readily available. A wide variety of standardized indices exist, and it is also possible to create a custom index tailored to a specific portfolio or investment strategy.

PFM is prepared to work with the Town to evaluate the current benchmark, and, if appropriate, recommend an alternate index that provides a more accurate representation of the current investment strategy. Choosing the appropriate benchmark will help the Town to accurately assess performance results and can help prevent the portfolio manager(s) from taking inappropriate risks while seeking to outperform a poorly selected benchmark.

Review and Monitor Manager Performance

PFM will evaluate historical performance by comparing manager performance to established benchmarks and manager peer groups. We will determine whether the actual investment performance meets benchmark and peer group standards, and, if not, evaluate the circumstances and market conditions at the time. This will give us a better understanding of overall investment performance and the cause of any over- or under-performance.



A. Firm Background

Performance Review of Manager

At the end of the engagement, PFM will provide the Town with a comprehensive, understandable review of performance, including an assessment of the overall investment strategies and a review of investment manager performance compared to specified benchmarks and manager peer groups. This analysis will include a risk/return assessment of the portfolio's strategy as well as an attribution analysis. We will include our recommendations for improvements as necessary.

Portfolio Review

PFM has developed tools to analyze specific aspects of client portfolios including sector composition, maturity structure and duration, and risks (credit, market, liquidity, and basis). We also look specifically at securities that tend to be most volatile and model their behavior under several possible interest rate scenarios. Additionally, we highlight any areas in which the portfolio may not be in compliance with the client's investment policy. The result of this analysis is a clearer picture of the portfolio's risks and expected performance, as well as a better understanding of the issues that require ongoing monitoring.

The results of the investment portfolio analysis will allow the Town to answer the following questions:

- Is the current investment strategy meeting the Town's stated investment objectives?
- Is the return consistent with the level of risk in the portfolio?
- Is the Town exposed to an inappropriate level of risk?
- How can the Town increase the safety of the portfolio?
- How can the Town increase the return of the portfolio?
- Does the portfolio provide adequate liquidity?
- How can portfolio returns be enhanced without increasing the amount of risk?
- Are there critical problems that require immediate attention?
- Is the asset allocation optimal in the current market?

The following case studies demonstrate the past successes of PFM's investment portfolio review practice.

Capital Metropolitan Transportation Authority, Austin, Texas



PFM was awarded a temporary contract with the Capital Metropolitan Transportation Authority (the "Authority") to restructure its portfolio in May 1998 and was later awarded a permanent investment advisory contract in September 1998. This client had developed a portfolio that subjected it to a great deal of market risk by concentrating in mortgage-backed securities (40%) and overnight positions (60%). PFM performed an asset allocation analysis as part of the temporary contract and, upon approval by the Authority, executed the restructuring. PFM continues to advise the Authority and has helped the Authority to consistently outperform its benchmark even during the volatile interest rate cycles experienced in the last several years.



A. Firm Background

King County, Washington



PFM was retained by King County, Washington (the "County") in September 2007 to review its asset-backed commercial paper holdings and investment process in light of the current credit crisis. The King County pool held debt securities that were linked to subprime mortgages, and the County's administration tasked PFM with evaluating these assets and recommending new investment practices that would be designed to avoid such investments in the future.

PFM's observations and insights related to the County's investments in commercial paper and the commercial paper market in general. We categorized each of the County's commercial paper investments by the level of potential risk based on maturity dates, financial information, credit agency reports, and other readily available information. The County was already aware of two distressed holdings in their portfolio and asked PFM to focus our efforts on reviewing and identifying risks present in the remaining holdings. While options for mitigating risks were few, PFM evaluated all possible alternatives and presented the County with an overall strategic approach for risk mitigation based on then current financial market conditions. Finally, PFM recommended creation of a more formal credit review process and development of an approved credit list to be employed for any future investment in commercial paper or other credit instruments.

PFM has been recently re-engaged by the County administration to assist in the evaluation of any restructuring proposals related to distressed securities held in the County pool and to provide periodic review and advice on the pool's overall investment strategies given the continuing volatility in the global credit markets.

Establishing Investment Objectives and Constraints

Investment Objectives

Our first step in establishing an investment management policy is to communicate with the Town to determine the Town's investment objectives.

Discussions would focus on the following key areas:

- Investment constraints
- Tolerance for risk
- Unwritten policies
- Portfolio oversight/review
- Cash flow and liquidity requirements
- Manager selection and monitoring

These objectives are then fully documented in the investment policy and manager guidelines.

Performance Benchmark Evaluation

A wide variety of standardized indices exists, and it is also possible to create a custom index tailored to a specific portfolio or investment strategy. Choosing the appropriate benchmark will help the Town to accurately assess performance results and can help prevent the portfolio manager from taking inappropriate risks while seeking to outperform a poorly selected benchmark.

The results of the performance benchmark analysis will allow the Town to answer the following questions:

- What benchmark should be used to evaluate the performance of external investment managers?
- Is the return of the portfolio consistent with the level of risk incurred?
- Should the Town use a "standard" benchmark or develop a custom benchmark?
- Should performance be computed on a "book" or "total return" basis?



A. Firm Background

- How often should performance be computed? Reported?

Manager Performance

PFM uses "best-of-breed" software in evaluating manager performance and asset allocation. Significant investments have been made in both purchasing and building the necessary infrastructure to provide PFM's research group with the best possible tools available. Software utilized includes: eVestment Alliance, PSN M-Search and Ibbotson as well as an internally built database which we use to track manager performance and strategies. Additionally, as members of the Investment Consultants Cooperative, we are able to tap into a database consisting of over \$1 trillion in institutional assets to compare and contrast our clients' portfolios and managers.

The following case studies demonstrate the PFM's past successes in assisting our clients to establish investment objectives and select an appropriate benchmark.

Gwinnett County, Georgia



PFM was engaged by Gwinnett County, Georgia, (the "County") in 2005 to perform a comprehensive review of the County's investment program. This review included an assessment of the current investment strategy for operating funds and bond proceeds, updating the County's investment policy, instituting an approval process for potential broker/dealers, and establishing benchmarks to assess performance. PFM provided the County with a number of recommendations which ultimately increased investment earnings by \$1 million without subjecting the portfolio to undue risks. PFM suggested changes to conform the investment policy to standards set by the Government Finance Officers Association (GFOA) and the Association of Public Treasurers of United States and Canada (APT US&C).

Cuyahoga County, Ohio



PFM was engaged by Cuyahoga County, Ohio, (the "County") in December 1997 to provide investment advice and investment strategy recommendations, aid in the development of an effective cash flow model, review and suggest changes to the investment policy, enhance internal controls and assist with broker/dealer credit analysis. Since our engagement, PFM has helped the County to enhance portfolio management by restructuring the portfolio in accordance with cash flow requirements and current market conditions. We have also worked closely with the County to rewrite the investment policy to expand the list of permitted investments. As part of this project, we advised on the calculation and reporting of investment performance and have recommended performance benchmarks.

An important part of our engagement has been to review internal controls and work with County staff to strengthen internal operations and reporting. This has permitted the County to expand the investment program, diversify holdings and improve return – without subjecting the portfolio to an inappropriate level of risk. PFM has also helped the County to improve trade execution by broadening the list of creditworthy counterparties. Overall, we believe that the County has been able to strengthen its investment program and improve returns by drawing on the depth of services offered by PFM.



A. Firm Background

Norfolk Airport Authority, Virginia



In 2003, PFM was hired by the Norfolk Airport Authority ("NAA") to provide investment consulting services that included reviewing and updating the Authority's Investment Policy, competitively procuring banking services, and providing strategic advice related to their investments. As the Authority's investment consultant, NAA asked PFM to help solicit and review proposals from qualified investment management firms.

PFM monitors the performance of the external manager and verifies compliance with the investment policy. We also provide strategic advice. Over the course of the engagement, PFM has conducted cash flow analyses that identified sources and amounts of funds available for longer-term investment.

We have also provided guidance on the constraints under which the investment manager is expected to operate. At the inception of the engagement, interest rates were at historic lows. Our initial recommendation was to adopt a more conservative approach targeting a 1 year investment strategy. When interest rates returned to more traditional levels in 2007, we recommended shifting the funds into a longer 1 to 3 year strategy and adjusted the benchmark accordingly.

Bond Funds Investment Experience

While industry statistics are not maintained for investment management and advisory services provided for gross proceeds of tax-exempt bond issues, we are unaware of any industry participant with more experience in this area than PFM. In the last two years alone, PFM executed approximately 820 bond proceeds-related structured transactions totaling \$75 billion in asset and related debt notional amounts. In addition to our bond proceeds-related engagements that resulted in these transactions, we provided advice and implementation services for several hundred other fact patterns that ultimately resulted in proceeds being invested in traditional fixed income portfolios and/or a variety of pooled investment funds.

Cash Flow Analysis and Forecasting for Bond Proceeds

PFM has worked with the Town and developed cash flow analyses specifically designed for capital funds and bond proceeds. Of course the nature of capital funds and bond proceeds is that these assets will diminish over time as the proceeds are utilized to fund the projects for which they were intended. Since the expenditure of capital funds and bond proceeds is a dynamic process with variables such as adjustments in the timing of project expenditures, PFM utilizes an on-going approach for the investment of these proceeds to ensure the appropriate investment strategy is in place at the time of bond closing or receipt of capital funds and throughout the life of these assets. This approach results in an investment strategy that is as fluid as the timing of the expenditures for the projects that the proceeds are funding.

Also, PFM monitors the expenditures to determine whether the IRS spend down requirements are met for each interval, and PFM has a fully staffed in-house Arbitrage Rebate Group that can provide arbitrage rebate calculations for the Town.

PFM's Arbitrage Rebate Group

PFM bids all security transactions for our clients' portfolios and documents all comparison bids on the trade ticket which also provides all necessary detail for auditing purposes. This multiple bid approach ensures our clients receive the optimal pricing on all transactions, and demonstrates the securities were purchased or sold at fair market value.

PFM's Arbitrage Rebate Group provides and participates in training sessions on various tax-exempt bond related topics. This experience enables PFM to enhance our level of understanding regarding client needs, preferences, and general questions and therefore enables us to better tailor our services to more appropriately serve the tax-



A. Firm Background

exempt bond community. In addition, PFM carefully scrutinizes information released by the IRS. We also communicate and meet with our extensive legal contacts to discuss their interpretation of such information.

PFM's approach to providing arbitrage compliance services is focused on two primary objectives, compliance with the provisions of the Internal Revenue Code and related Treasury Regulations, and arbitrage rebate liability minimization. Our primary objective is, of course, to assist our clients in complying with the stringent tax law requirements imposed upon tax-exempt bond proceeds. However, under certain circumstances, we are able to implement legally permissible approaches and methodologies that reduce our clients' arbitrage rebate liabilities by the hundreds of thousands and, in some cases, millions of dollars. We therefore provide the following scope of services with a view toward achieving both of these objectives.

Identifying Key Dates, such as the issue date, end of temporary period date, and the bond year anniversary date to determine when arbitrage rebate and yield reduction payments would be due.

Determining If the Bonds Constitute One Issue For Arbitrage Compliance Purposes, or should be treated as an aggregate issue with other bonds.

Identifying the Sources and Uses of Proceeds and Other Amounts. For example, for refunding proceeds we would determine when such amounts were used to redeem prior bonds and if the proceeds allocable to the prior bonds were fully expended or need to be treated as transferred proceeds of the refunding bonds. If the refunding proceeds were deposited in a "mixed escrow", we would identify how the refunding proceeds were allocated to investments and expenditures to properly compute transferred proceeds factors.

Determining If The Bonds Are "Fixed Yield" Bonds Or "Variable Yield" Bonds.

Identifying Any Qualified Guarantee Fees, such as insurance premiums, payments for a letter of credit, or payments for a liquidity facility that may be included in the arbitrage yield calculation.

Data Review and Analysis. We would carefully review the investment and expenditure records provided, to identify if proceeds are "commingled" or separately accounted for, the timing of expenditures of bond proceeds that are eligible to be used for the same project(s), the investments acquired by bond proceeds, and items that may require further examination or follow-up with staff.

Computing/Verifying the Allowable Yield Limit for the Issues. We would compute the arbitrage yield for each bond issue.

Computing/Verifying the Amount of Excess Earnings, If Any. We would calculate the arbitrage rebate liability, and if applicable, yield reduction payment liability on the bonds and provide detailed schedules with our calculations.

Submit Final Reports To The Town Showing The Calculation Method(s) Used, Assumptions, And Conclusions. Our reports are designed to inform issuers of their arbitrage rebate compliance status as well as to provide a significant amount of information that is useful from both an investment management and debt management perspective. The reports we submit include:

- An executive summary describing the issue's arbitrage rebate status, the methodology employed, and major assumptions;
- Summary schedules that detail the sources and uses of proceeds, bond production, and semi-annual debt service;
- An arbitrage yield calculation;
- An investment balance analysis for each fund with gross proceeds subject to the rebate and/or yield restriction requirements. The analysis shows the valuation of each non-purpose investment held by each fund as of specific valuation dates;



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- Arbitrage rebate, and as appropriate, yield restriction compliance calculations for each fund subject to these requirements; and
- As appropriate, summary schedules that provide additional analysis. Examples include transferred proceeds analysis, bond valuation analysis, universal cap analysis, replacement proceeds allocation analysis, commingled funds analysis, and exception compliance analysis. An example "commingled" funds analysis is provided below. This analysis clearly indicates how expenditures and investments were allocated for purposes of computing the arbitrage rebate liability. This level of detail provides a clear audit trail and enables the issuer to evaluate the impact of future investment and expenditure allocation strategies.

Date	Total Cash Flow						Proceeds Allocable to 1982 Reserve Fund					
	Begin Tex Pool Balance	Portfolio Cash Flow	Tex Pool Interest	Transfers to Debt Service	End Tex Pool Balance	Avg. Tex Pool Balance	Begin Tex Pool Balance	Portfolio Cash Flow	Tex Pool Interest	Transfers to Debt Service	End Tex Pool Balance	Avg. Tex Pool Balance
9/30/2003	3,212.34				3,212.34		3,212.34				3,212.34	
10/1/2003	3,212.34		552.55	(552.55)	3,212.34		3,212.34	23.21	(23.21)	3,212.34		
11/1/2003	3,212.34		2.80	(2.80)	3,212.34	3,212.34	3,212.34	2.80	(2.80)	3,212.34	3,212.34	
11/17/2003	3,212.34	390,274.15		(390,274.15)	3,212.34		3,212.34	390,274.15	(390,274.15)	3,212.34		
11/17/2003	3,212.34	1,415,906.25		(398,107.34)	1,021,011.25		3,212.34	1,415,906.25	(1,415,906.25)	3,212.34		
11/17/2003	1,021,011.25	1,059,375.00		(1,059,375.00)	1,021,011.25		3,212.34			3,212.34		
11/17/2003	1,021,011.25	51,875.00		(51,875.00)	1,021,011.25		3,212.34			3,212.34		
11/17/2003	1,021,011.25	682,500.00		(682,500.00)	1,021,011.25		3,212.34			3,212.34		
11/17/2003	1,021,011.25	90,000.00		(90,000.00)	1,021,011.25		3,212.34			3,212.34		
11/17/2003	1,021,011.25	115,975.83		(115,975.83)	1,021,011.25		3,212.34			3,212.34		
12/1/2003	1,021,011.25		403.71	(403.71)	1,021,011.25	478,185.16	3,212.34	2.71	(2.71)	3,212.34	3,212.34	
12/15/2003	1,021,011.25	151,892.77		(151,892.77)	1,021,011.25		3,212.34	151,892.77	(151,892.77)	3,212.34		
12/15/2003	1,021,011.25	49,982.23		(49,982.23)	1,021,011.25		3,212.34			3,212.34		
1/1/2004	1,021,011.25		895.50	(895.50)	1,021,011.25	1,021,011.25	3,212.34	2.82	(2.82)	3,212.34	3,212.34	
1/12/2004	1,021,011.25	7,687.50		(7,687.50)	1,021,011.25		3,212.34	7,687.50	(7,687.50)	3,212.34		
1/15/2004	1,021,011.25	13,306.44		(13,306.44)	1,021,011.25		3,212.34	13,306.44	(13,306.44)	3,212.34		
1/15/2004	1,021,011.25	259,693.58		(259,693.58)	1,021,011.25		3,212.34			3,212.34		
1/16/2004	1,021,011.25	9,375.00		(9,375.00)	1,021,011.25		3,212.34			3,212.34		
2/1/2004	1,021,011.25		883.35	(883.35)	1,021,011.25	1,021,011.25	3,212.34	2.78	(2.78)	3,212.34	3,212.34	
2/13/2004	1,021,011.25	4,577.92		(4,577.92)	1,021,011.25		3,212.34	4,577.92	(4,577.92)	3,212.34		
2/13/2004	1,021,011.25	30,297.07		(30,297.07)	1,021,011.25		3,212.34			3,212.34		
2/15/2004	1,021,011.25	290,250.00		(290,250.00)	1,021,011.25		3,212.34			3,212.34		
3/1/2004	1,021,011.25		833.18	(833.18)	1,021,011.25	1,021,011.25	3,212.34	2.62	(2.62)	3,212.34	3,212.34	
3/22/2004	1,021,011.25	5,137,375.00		(179,171.87)	5,979,214.38		3,212.34			3,212.34		
4/1/2004	5,979,214.38		2,294.41	(2,294.41)	5,979,214.38	2,620,431.61	3,212.34	2.81	(2.81)	3,212.34	3,212.34	
5/1/2004	5,979,214.38		4,994.26	(4,994.26)	5,979,214.38	5,979,214.38	3,212.34	2.68	(2.68)	3,212.34	3,212.34	
5/15/2004	5,979,214.38	390,274.15		(390,274.15)	5,979,214.38		3,212.34	390,274.15	(390,274.15)	3,212.34		
5/15/2004	5,979,214.38	1,415,906.25		(1,415,906.25)	5,979,214.38		3,212.34	1,415,906.25	(1,415,906.25)	3,212.34		
5/15/2004	5,979,214.38	51,875.00		(51,875.00)	5,979,214.38		3,212.34			3,212.34		
5/15/2004	5,979,214.38	90,000.00		(90,000.00)	5,979,214.38		3,212.34			3,212.34		
5/15/2004	5,979,214.38	115,975.83		(115,975.83)	5,979,214.38		3,212.34			3,212.34		
5/15/2004	5,979,214.38	26,682,500.00		(851,500.00)	31,810,214.38	2,700,290.37	3,212.34			3,212.34	1,450.73	
5/20/2004	31,810,214.38	1,229,999.70		(9,451.57)	33,030,762.51		3,212.34	45,858.70	(352.39)	48,718.65		
6/1/2004	33,030,762.51		16,545.91	(16,545.91)	33,030,762.51	20,617,071.72	48,718.65	16.71	(16.71)	48,718.65	20,827.69	

Coordinate the Filing of IRS Form 8038-T and Provide Instructions for Payment

For bond issues requiring arbitrage rebate or yield reduction payments, PFM prepares the IRS Form 8038-T, and provides filing instructions to assist with the remittance process.

Provide All Supporting Documentation Used To Prepare Calculations In The Event Of an Audit

PFM maintains copies of all the documents used to prepare arbitrage rebate calculations. We are currently undertaking an extensive effort to scan all such records so that all records can be maintained electronically and would be easier to retrieve in the event of an audit.

Assist As Necessary In The Event Of an IRS Inquiry

PFM would assist as necessary and appropriate on arbitrage rebate compliance matters related to bond issues for which PFM prepared arbitrage rebate compliance analyses.

Post-Report Follow-Up

PFM staff would be available to answer any general questions and to discuss the results of a particular analysis.

Transition from Previous Arbitrage Consultant / Reliance upon Prior Consultant's Calculations

PFM has successfully transitioned several client relationships from prior rebate calculation agents. We have found this transition to be relatively seamless. We typically rely on the prior rebate agent's calculation results,



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notes and assumptions, and cash flows to prepare future analyses. As a result, our calculations typically begin from the prior calculation date. However, we occasionally identify an oversight with respect to the prior analysis and therefore will make adjustments to our calculations, as appropriate.

Format for Data Transmission

PFM prefers to receive data in electronic format via email or some other electronic transfer process, such as from a Trust Bank's Internet based system. However, PFM also continues to prepare rebate calculations based on paper statements.

Information and Assistance

PFM expects the issuer to provide us with copies of prior rebate calculations, complete investment and expenditure records, and certain bond documents that we are required to examine in order to undertake our analysis. Bond documents would include copies of the Official Statement, IRS Form 8038G, Tax Certificate, Verification Report (if the issue is a refunding issue,) Guaranteed Investment Contract, Letter of Credit Agreement, Standby Bond Purchase Agreement, and Swap Confirmation.

From time to time, PFM may identify a particular cash flow, investment, or other transaction that requires follow-up to ensure proper treatment in our rebate calculations. We first conduct our own examination to attempt to resolve the matter without imposing on the client's time. However, if we are unable to achieve resolution without client assistance, we turn to the client for clarification and work closely with the client until the matter is resolved.

PFM recognizes the importance of understanding and addressing tax law implications in the context of providing financial and investment advisory services. We also recognize the challenges faced by issuers in complying with the requirements imposed by the Internal Revenue Code and the related Treasury Regulations, which is why we have been providing the tax-exempt bond community with arbitrage rebate services since 1989.

Since 1989, PFM has assisted hundreds of authorities, cities, counties, health care and higher education systems, school districts, states, and other 501(c)(3) organizations with their arbitrage rebate compliance needs. Over this 17 year period, our practice has grown significantly. As indicated in the table below, we are currently providing arbitrage rebate services to more than 2,000 tax-exempt bond issues that were issued by more than 700 public entities. Several of our clients have multiple bond issues outstanding, each with numerous funds. This experience has equipped PFM to handle the accounting and investment tracking challenges associated with the Town's debt.

Summary of PFM Arbitrage Rebate Practice	
Number of Current Clients:	700+
Number of Actively Monitored Issues:	3,000+

PFM's approach to providing arbitrage rebate compliance services is designed to achieve three primary objectives:

Compliance – Our utmost goal is to assist issuers in their efforts to remain in compliance with the Internal Revenue Code and related Treasury Regulations.

Optimization – We work to achieve the lowest arbitrage rebate liability or the best after-tax result for each issue.

Strategy enhancement – We work with the issuer and their representatives and advisors to integrate the arbitrage status of each issue into overall debt and investment strategies.

Properly interpreting the Code and related regulations and understanding how to perform arbitrage rebate calculations is only one of several skills required to provide issuers with the optimal solution to their



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complicated tax compliance challenges. The increasing complexity of debt and investment markets requires arbitrage rebate providers to be experts, or have experts, in several areas of public finance, including:

- 1. Debt Structures** – Understanding the structure of a particular bond issue enables the arbitrage rebate analyst to address several key tax issues, including: a) whether or not the bonds are fixed or variable rate bonds; b) if the bonds were sold at the same time as another issue; c) the treatment of an interest rate swap in the arbitrage yield calculation; d) how to analyze the credit enhancement agreement fees; and e) what arbitrage issues or exceptions should be considered based on the purpose of the issue. **To maintain our position as a leading independently owned financial advisory firm in the nation, PFM provides rigorous training to its professional staff in this area. All the members of PFM’s Arbitrage Rebate Group have undergone such intensive training.**
- 2. Investments** – Arbitrage rebate liabilities are the result of the investments made with the proceeds of tax-exempt bonds. Therefore, it is critical to understand how such investments are initially priced, valued, and return cash flows. PFM has managed and currently manages billions of dollars of bond proceeds in traditional money market funds and fixed income securities portfolios. We also annually assist issuers with the procurement of customized investment agreements (e.g., forward purchase agreements, flexible repurchase agreements, and guaranteed investment contracts) for billions of dollars of construction fund, debt service fund, and debt service reserve fund proceeds. **Our experience and expertise in the development, implementation, and investment management of bond proceeds enables the PFM Arbitrage Rebate Group to fully understand the intricacies of every investment acquired with bond proceeds.**
- 3. Investment Accounting** – PFM internally provides comprehensive investment accounting services for all of the assets we manage. In order to provide such services, PFM utilizes sophisticated technology to download investment activity from each client’s custody bank, track investment cash flows, and value securities. **The Arbitrage Rebate Group leverages this technology to acquire information from trust banks, research individual investment characteristics, and to evaluate permitted investment valuation methods with the objective of identifying the valuation method that results in the lowest overall rebate liability.**
- 4. Refunding Escrows** – PFM maintains a group of professionals that are dedicated to structuring and, in certain cases, restructuring refunding escrows. Our experience in this area of public finance is unparalleled. Over the past 25 years, we have developed methodologies to assist issuers in recouping millions of dollars of negative arbitrage. **This extensive experience allows PFM’s Arbitrage Rebate Group to identify and properly analyze the nuances of refunding escrows, particularly escrows that are “mixed”, or that were funded by proceeds of more than one bond issue and potentially by non-bond proceeds.**
- 5. Interest Rate Swaps** – PFM has served as swap advisor for more than 574 swaps and derivative transactions. **Our knowledge and expertise is of particular value in circumstances where an issuer has entered into an interest rate swap and that swap is “integrated” with the bonds for purposes of calculating the arbitrage yield, especially if the issuer later decides to “terminate” the swap.**

It is the combination of our extensive knowledge of the arbitrage rebate regulations, and our experience as financial and investment advisors that enables PFM to consistently provide arbitrage rebate solutions that properly account for future debt and investment strategies in addition to achieving compliance with the arbitrage rebate requirements.

We believe our experience and understanding of how to apply the more complex aspects of the Regulations, coupled with our broad public finance expertise, distinguishes PFM from other arbitrage rebate service providers.



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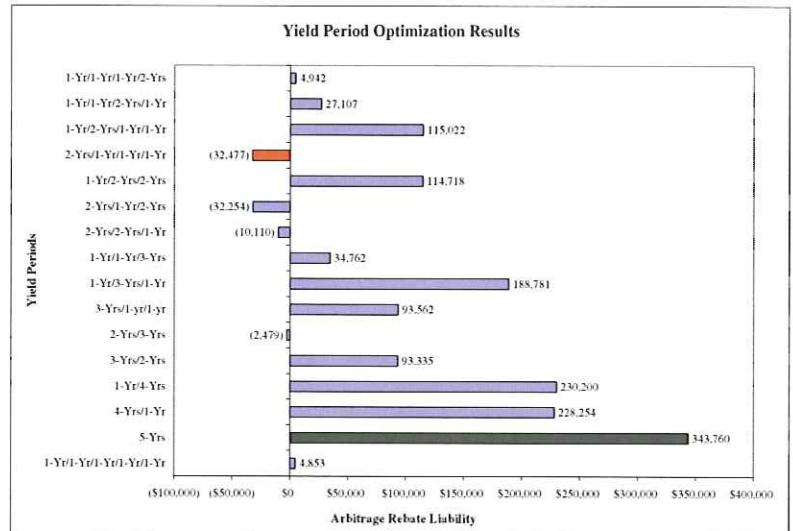
PFM has developed proprietary arbitrage rebate models with the flexibility to evaluate circumstances that allow for methodological discretion. As evidenced in the case studies below, our in-depth understanding of permitted alternative approaches has resulted in significant savings for our clients.

Case Study #1 – Expenditure Allocation Strategies

An issuer engaged a competitor to provide arbitrage rebate services for two of their outstanding bond issues. The issuer commingled its bond proceeds for investment and accounting purposes. The expenditure allocation method employed by the competitor to “un-commingle” the issuer’s bond proceeds resulted in a positive arbitrage rebate liability of \$190,000. The issuer requested a second opinion from PFM. Upon reviewing the analysis, we discovered that while a mathematically and legally accurate method was applied, the expenditure allocation methodology used did not provide the issuer with the best, or lowest rebate liability.

After conveying the results of our preliminary assessment to the issuer, we contacted the issuer’s bond counsel to discuss the use of alternative expenditure allocation methods. Bond counsel agreed with our preliminary assessment that the use of alternative expenditure allocation approaches was permitted under the Regulations.

With the issuer’s and bond counsel approval, PFM evaluated the potential benefits associated with applying an alternative expenditure allocation methodology. The results of our analysis indicated that a specific tracing expenditure methodology would enable the issuer’s bond issues to satisfy the requirements of the two-year spending exception to arbitrage rebate. **We therefore implemented a specific tracing expenditure methodology, which enabled the issuer to retain \$190,000 of positive arbitrage.**



Case Study #2 – Yield Computation Period Optimization

A client issued variable rate Bonds in 1999. The client initially invested the construction fund in a guaranteed investment contract earning 4.86% for the first two years. When the contract expired, the remaining proceeds were invested in a money market fund.

The Regulations require issuers to calculate the arbitrage yield for variable rate bonds in yield periods of not greater than five years. In the first five-year period, the Regulations permit issuers to calculate the arbitrage yield for any period that begins and ends on a bond-year anniversary date.

Consequently, in the first five-year period, the arbitrage rebate liability may be computed based on 16 different yield period combinations. This latitude allows issuers to match periods of higher investment returns with periods of higher Bond interest payments.

For this particular bond issue, calculating the arbitrage rebate liability based on an arbitrage yield for the full five-year period would have resulted in a liability of \$343,760.

However, by utilizing our proprietary model to calculate the arbitrage rebate liability for each of the 16 yield period combinations, we determined that calculating the arbitrage liability using a two-year / one-year / one-year / one-year combination resulted in negative arbitrage, or a **\$0 arbitrage rebate liability.**



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PFM's investment advisors routinely leverage the firm's arbitrage rebate expertise to identify, develop, and implement arbitrage rebate optimization strategies for our clients. In the planning and post issuance stages, PFM's advisors:

- (1) **Review Cash Flow Expectations** – PFM carefully reviews each issue's expenditure forecast to determine the likelihood that the issue will meet an exception to arbitrage rebate. If the issue is expected to meet a spending exception, and positive arbitrage can be earned, PFM will work with the Issuer to structure a plan that seeks to maximize return within the parameters of first providing for safety and liquidity.
- (2) **Analyze Multiple Funding Sources** – If the issuer intends to pay for the project(s) from the proceeds of more than one bond issue, PFM works with the issuer to identify a spending plan that will result in the best overall arbitrage rebate outcome for the bond issues funding the project. Considerations include the extent to which one or more issues can meet an exception to arbitrage rebate, the extent to which one or more issues can earn positive arbitrage, and whether or not a delay in expenditures from any particular source would result in a yield restriction compliance problem.
- (3) **Provide Pre-Issuance Tax Elections Advice** – Prior to the delivery date of a bond issue, PFM's Arbitrage Group assists our investment advisory clients in considering elections under the Arbitrage Regulations that better position our clients to maximize retainable earnings. For example, from time-to-time, it may be sensible to waive a three-year temporary period related to a construction fund with a long draw-down forecast to prevent a future yield restriction liability.
- (4) **Evaluate the Arbitrage Yield vs. Current Market Conditions** – Is the bond issue expected to earn positive arbitrage? If the proceeds of the bonds can be invested above the arbitrage yield, PFM will help the issuer identify the most cost effective strategy to achieve this objective within the constraints of that issue's bond covenants, and the issuer's policy constraints and cash flow forecast.
- (5) **Restructure the Investment Plan** – As the project progresses and market conditions change, PFM will work with the client to determine if the initial investment strategy needs to be modified to better fit a changing cash flow forecast and arbitrage rebate expectations.

PFM's integrated approach to providing investment advisory services for tax-exempt bond proceeds results in customized strategies that better position our clients to achieve their investment objectives, optimize post-arbitrage rebate investment income, while achieving compliance with federal tax law.

Arbitrage Rebate Experience

PFM has been providing the tax-exempt bond community with arbitrage rebate compliance services since 1989. Since 1989 we have assisted hundreds of authorities, cities, counties, health care and higher education systems, school districts, states, and other 501(c)(3) organizations with their arbitrage rebate compliance needs. We are currently providing arbitrage rebate services to over 700 issuers for whom we provide the following services:

- (1) Arbitrage rebate calculations
- (2) Yield restriction liability calculations
- (3) Arbitrage yield calculations and verification
- (4) Spending exception compliance analysis
- (5) Bona fide debt service fund compliance analysis
- (6) Commingled funds expenditure and investment earnings allocations
- (7) Yield restriction compliance monitoring
- (8) Liability optimization with respect to variable rate bonds
- (9) Investment valuation and allocation analysis and optimization
- (10) Refund requests
- (11) Late rebate payment filings
- (12) Transferred proceeds analysis
- (13) Universal cap analysis



A. Firm Background

- (14) Liability projections
- (15) Training

PFM is committed to providing high quality arbitrage rebate services to the tax-exempt bond community, and especially to Texas based issuers. We have provided or are in the process of completing arbitrage rebate compliance projects for tax-exempt bonds issued by the Texas.

Understanding of Arbitrage Regulations & Laws

PFM's team of arbitrage rebate professionals is fully trained, experienced, and knowledgeable with respect to the Code, related Regulations and their application. Our team is also fully trained in the following areas: (1) debt structures, (2) fixed-income investments, (3) interest rate swaps, (4) refunding escrows, and (5) structured investment agreements. The combination of our arbitrage rebate consulting experience, arbitrage rebate training, and knowledge and experience of tax-exempt debt and fixed income investments well positions PFM's Arbitrage Group to provide high-quality and comprehensive services to each issuer we serve.

Discretionary Total Return Management Experience

PFM manages more than \$34 billion (as of June 30, 2008), including more than \$ 14 billion of individual actively managed portfolios in which our portfolio managers have discretion with regard to the investment strategy of each portfolio within the constraints imposed by our clients' objectives of preserving principal and providing liquidity. Active portfolio management for discretionary total return portfolios permits the investment manager to respond to changes in the markets and changes in payment or draw schedules. This dynamic, yet disciplined approach means that the portfolio return can be enhanced through prudent trading and portfolio restructuring without subjecting the portfolio to unnecessary risk. Active management calls for assets and liabilities to be monitored on a regular basis so that a portfolio manager can take advantage of opportunities presented by the market.

Because we manage only public sector funds, our style and approach emphasize avoiding credit risk, minimizing market risk and return volatility. Credit analysis is an integral part of all of our decisions to buy, hold or sell securities. The average quality of all of our portfolios is AA or AAA, and we will generally seek to reduce risk by emphasizing U.S. Treasury and Federal Agency obligations that have lower volatility than comparable-maturity corporate securities. We monitor the performance of each security in the portfolio. The sources of our information include on-line economic services and publications distributed by Moody's and Standard & Poor's, major banks, securities dealers and issuers.

PFM's investment methodology is distinctive because, unlike other investment advisors, every security we buy must be suitable for a public entity. The strategy is designed with the primary objective of avoiding credit risk and minimizing market risk, since these are the objectives that are generally emphasized by our public sector clients; hence, our strategy makes no use of complex derivatives. In order of priority, our investment objectives are to:

- (i) preserve capital*
- (ii) provide needed liquidity*
- (iii) optimize earnings, within the parameters set forth in (i) and (ii)*

The specific strategy PFM employs for each portfolio is a function of the type of funds being managed (e.g. operating funds, reserves, etc.), current interest rates, permitted investments, and liquidity requirements. For the longer-term "Core" Funds that are measured against a benchmark like a Merrill Lynch 1-3 Year Index, PFM's portfolio managers focus on duration management, yield curve placement and sector weighting.

Bond Funds Investment Experience

While industry statistics are not maintained for investment management and advisory services provided for gross proceeds of tax-exempt bond issues, we are unaware of any industry participant with more experience in this area than PFM. In the last two years alone, PFM executed approximately 820 bond proceeds-related structured transactions totaling \$75 billion in asset and related debt notional amounts. In addition to our bond proceeds-related engagements that resulted in these transactions, we provided advice and implementation services for



A. Firm Background

several hundred other fact patterns that ultimately resulted in proceeds being invested in traditional fixed income portfolios and/or a variety of pooled investment funds.

- 5) Provide a list of relevant client references (preferably public sector clients of similar size) including contact person and telephone number. Include three (3) current clients and two (2) former clients.

Firm/ Entity	Contact Name	Address/ Phone/Email	Services Provided
City of Rowlett (Since 2004)	Mr. Brian Funderburk Director	4000 Main St., Rowlett, TX 75088 972-412-6128 bfunderburk@rowlett.com	<ol style="list-style-type: none"> 1. Investment Advisory 2. Investment of Bond Proceeds 3. Total Return Portfolio 4. Investment Policy Review 5. Banking RFP 6. Internal Control Procedures Manual 7. Assisted in selection and implementation of Custodial Services 8. Cash Flow Analysis 9. Investment General Ledger Entries
Capital Metro Transportation Authority (Since 1999)	Ms. Pamela Laine	2910 E. 5 th St., Austin, TX 78702 512-389-7564 pamela.laine@capmetro.org	<ol style="list-style-type: none"> 1. Investment Advisory 2. Investment Policy review 3. Cash flow analysis 4. Bond proceeds management
Texas State Bar Association (Since 2006)	Ms. Cheryl Howell	1414 Colorado St., Suite 303, Austin, TX 78711 512-427-1521 chowell@texasbar.com	<ol style="list-style-type: none"> 1. Investment Advisory 2. Investment Policy review 3. Cash flow analysis
City of Hollywood (From 2001 - 2006)	Mr. Carlos Garcia Director of Financial Services	2600 Hollywood Boulevard Hollywood, FL 33020 Phone : (954) 921-3231 Fax: (954) 316-3801	<ol style="list-style-type: none"> 1. Investment Management 2. Investment Policy Development 3. Cash Flow Analysis 4. Internal Controls Development
City of Coral Springs (From 1998 - 2005)	Mr. David Russek Director of Financial Management	9551 W. Sample Rd. Coral Springs, FL 33065 Phone: (954) 344-1088 Fax: (954) 344-1198	<ol style="list-style-type: none"> 1. Investment Management 2. Investment Accounting Procedures 3. Internal Controls & Procedure Report 4. Investment of Bond Proceeds 5. Investment Policy Development 6. Cash Flow Analysis 7. Prepared Banking and Custody Services RFP

- 6) Describe the type and amount of insurance coverage your firm maintains with respect to investment management services.

PFM has a complete insurance program including property, casualty, comprehensive general liability, errors and omissions, automobile liability and workers compensation. PFM maintains Commercial General Liability and Fidelity Bond coverage at \$10 million each and Professional Liability coverage at \$15 million. PFM's Insurance Certificates are provided in **Tab C of the Appendix**



B. Personnel

- 7) Identify the key personnel who would be directly involved in providing services to the Town. Include a copy of their resumes and describe their experience in the investment business and specifically their public sector experience in the State of Texas.

The Town's Investment Advisory Team

The Town will primarily be served from our Austin, Orlando and Harrisburg offices. PFM's primary contact, and the account manager for the Town, will be **Ken Couch**, a Senior Managing Consultant with over 12 years of experience in public finance, located in the Austin office. **Steven Alexander, CTP, CGFO**, Managing Director, with more than 22 years experience in investment advice and portfolio management services to institutional investors will be the Town's Investment Advisor. **Lesley Cregger**, Consultant, will provide technical and analytical resources, including investment and cash flow analysis and arbitrage rebate compliance. **Mel Hamilton**, Senior Managing Consultant, with more than 24 years experience in investment advice and portfolio management services to institutional investors also will be an Investment Advisor to the Town. **Rebecca Dole**, a Consultant, also located in Orlando, will provide technical and analytical resources, including investment and cash flow analysis and arbitrage rebate compliance. **Melissa Lindman**, an Associate in the Orlando office will provide support to Mr. Couch, Mr. Alexander and Mr. Hamilton for the Town.

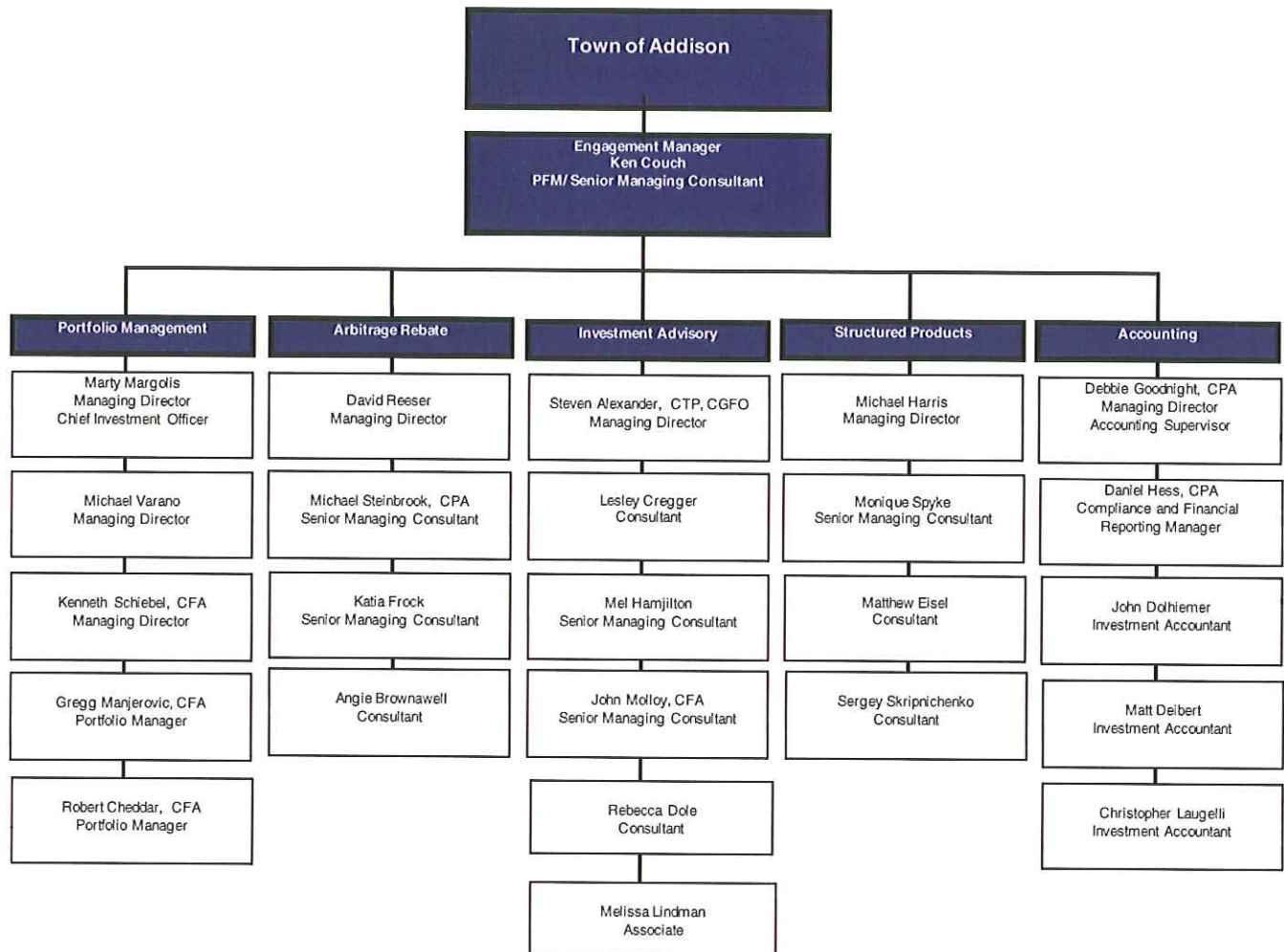
The Town's Portfolio Management Team

Marty Margolis, a Managing Director and Chief Investment Officer with more than 26 years experience, will be responsible for overseeing investment management decisions. **Gregg Manjerovic, CFA**, a Senior Portfolio Manager, will be assigned to handle day-to-day portfolio management responsibilities. **Michael Varano**, a Managing Director, and **Robert Cheddar, CFA**, Senior Portfolio Manager, will assist **Gregg Manjerovic, CFA** in the management of the Town's portfolio. **Mike Harris**, Managing Director, specializes in Structured Products and **Debbie Goodnight, CPA**, Managing Director, will provide advice regarding accounting standards ("GASB"). Marty, David, Gregg, Mike and Debbie are located in PFM's Harrisburg office.



B. Personnel

PFM's organizational chart of the project team that will support the Town's account is provided below.



Formal Arbitrage Rebate Computation: PFM's in house Arbitrage Rebate Group is lead by **David Reeser**, Managing Director and is structured as a team approach that works together to review clients' debt and investments to identify opportunities for clients to manage their finances more effectively. The PFM team reviews bond transactions from both legal and financial perspectives.

Structured Products Advice: PFM's Structured Products Group, lead by **Michael Harris**, Managing Director, provides public sector clients with independent advice ranging, from strategic policy and federal tax issues, to the utilization, structuring and procurement of structured investment products, interest rate swaps and other capital markets products. Our capital markets access and experience, coupled with outstanding technical capabilities and expertise in financial modeling and federal tax law, enable PFM to offer unmatched depth and context as an advisor for the Town.

Accounting Services: **Debbie Goodnight, CPA**, Managing Director will provide advice regarding accounting standards ("GASB"). Ms. Goodnight is responsible for accounting and administration for PFM Asset Management LLC and oversees PFM's compliance to AIMR, GASB, SEC and federal and state regulations.

Team Approach to Portfolio Management

Client portfolios are managed by individual portfolio managers who are supported by a team of professionals. The investment team would consist of several professionals dedicated to the Town's account, with several other members of PFM available for specific projects. Each portfolio manager/trader team handles approximately 20-

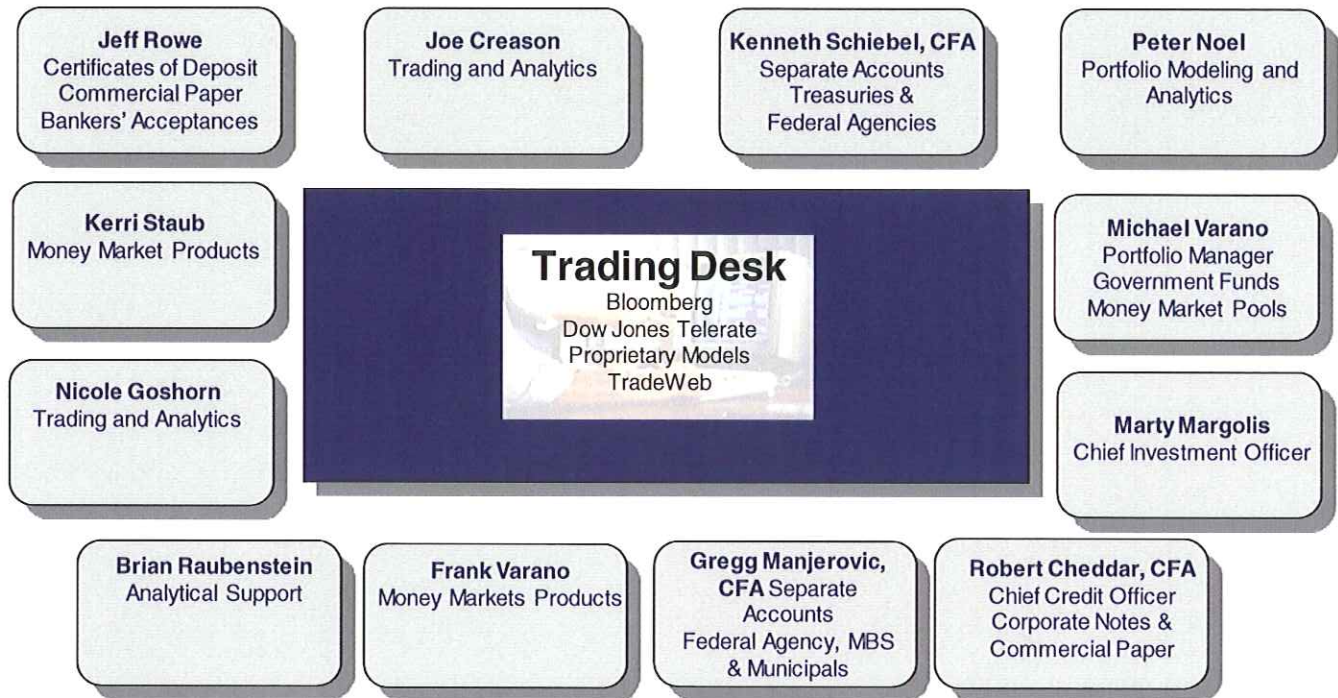


B. Personnel



B. Personnel

25 **actively** managed accounts. The portfolio sizes managed by PFM's team of portfolio managers ranges from approximately \$5 million to \$600 million. In addition to the portfolio manager, each client is assigned an engagement manager(s) and each portfolio manager works with a trading assistant. Therefore, at all times there are at least three people who are very familiar with each client and the unique requirements of each portfolio.



PFM's portfolio management team consists of 11 individuals who work together directly on PFM's trading desk. The Town's portfolio managers include Marty Margolis, Managing Director and Chief Investment Officer, 28 years with PFM, Michael Varano, Senior Portfolio Manager/Managing Director with 18 years with PFM, Kenneth Schiebel, CFA, Senior Portfolio Manager/Managing Director with 10 years with PFM, Gregg Manjerovic, CFA, Senior Portfolio Manager with 6 years with PFM and Robert Cheddar, Senior Portfolio Manager who joined PFM in 2005. In addition, to the 11 portfolio managers, traders and research analysts shown above, PFM has several other individuals dedicated to the execution research and administration of trades.

The following table provides brief resumes for key PFM professionals who will be responsible for the Town's account. The table also provides the years of experience for each team member with PFM and within the industry. PFM's primary contact, and the account manager for the Town, will be Ken Couch, a Senior Managing Consultant with over 12 years of experience in public finance, located in the Austin office. Detailed resumes are located in **Tab D in the Appendix**.

Team Member/Title	Years in Field/ with PFM	Role	Experience
Ken Couch <i>Senior Managing Consultant</i> Location: Austin, TX Office Phone: (512) 472-7194 ENGAGEMENT MANAGER	12/3	Liaison to Town	<ul style="list-style-type: none"> Assists clients in identifying short and long term investment options, while working with client portfolios ranging from \$10 million to over \$1 billion. Mr. Couch has helped structure client's portfolios for bond proceeds investing, tax anticipation notes and contractual obligations. Mr. Couch is a member of the Government Finance Officers' Association (GFOA), GFOAT, GTOT, TASB and TASBO. Instructor at the Southwest School of Government Finance and has taught PFIA training throughout the state. Mr. Couch earned a bachelor's degree from the University of Texas. Holds Series 6 and 63 licenses.



B. Personnel

Team Member/Title	Years in Field/ with PFM	Role	Experience
Steven Alexander, CTP, CGFO <i>Managing Director</i> Location: Orlando, FL Office Phone: (407) 648-2208 INVESTMENT ADVISOR	23/11	Manager South Client Services	<ul style="list-style-type: none"> Provides specialized cash, investment and arbitrage management consulting services to public sector clients in South. Responsible for the administration of PFM's investment advisory services and consulting in South. Previously served as Treasury Manager for Orange County, Florida where he was responsible for management of the County's \$800 million cash and investment portfolio. Authored Florida's Investment Policy Statute. Serves on the Association of Public Treasurer Investment Policy Certification Committee. Worked for the Governor's Emergency Financial Oversight Board for City of Miami. Serves as an instructor for the Florida GFOA's School of Governmental Finance. Completed a credit review of the SBA LGIP holdings and notified our clients of the risky SBA investment strategy which prevented our clients from being exposed to inaccessible funds within the SBA.
Mel Hamilton <i>Senior Managing Consultant</i> Location: Orlando, FL Office Phone: (407) 648-2208 INVESTMENT ADVISOR	24/ Started May 6, 2008	Investment Advisor	<ul style="list-style-type: none"> Provides specialized cash, investment management advisory consulting services to public sector clients in the South. Prior to joining PFM, Mr. Hamilton directed the not-for-profit business development efforts for Trusco Capital Management in Florida, as well as established and managed the fixed income institutional sales division of SunTrust Banks broker/dealer subsidiary.
Marty Margolis <i>Managing Director/Chief Investment Officer</i> Location: Harrisburg, PA Office Phone: (717) 232-2723 CHIEF INVESTMENT/ COMPLIANCE OFFICER	28/27	Chief Investment Officer	<ul style="list-style-type: none"> Pioneer in developing pooled operating funds and bond proceeds investment programs for public agencies, including statewide programs in PA, CA, VA and NJ. Prior to founding what is now PFM's Investment Advisory Group in 1980, served as Special Assistant to the Governor and Director of Program Development in the Pennsylvania Governor's Office, where broadly responsible for budgetary, fiscal and debt management activities. Has overseen work on all of PFM's investment consulting engagements.
Kenneth Schiebel, CFA <i>Managing Director</i> LONG-TERM INVESTMENT STRATAGIST	25/12	Senior Portfolio Manager	<ul style="list-style-type: none"> Serves as the primary portfolio manager for PFM's long-term accounts. Possesses extensive experience in portfolio management, investment analysis, asset/liability matching, and actuarial analysis. Prior to joining PFM, was Senior Portfolio Manager with Aetna Life & Casualty, where managed \$5 billion of operating funds, insurance reserves and pension assets. In thirteen years with Aetna, was also Manager of Investment Research, Senior Investment Analyst and Head of Cash Planning. Ken has earned the Chartered Financial Analyst designation and is a member of the Association for Investment Management and Research (AIMR). Holds Series 7 and 63 licenses.
Gregg Manjerovic, CFA <i>Portfolio Manager</i> Location: Harrisburg, PA Office Phone: (717) 232-2723 PRIMARY PORTFOLIO MANAGER	10/6	Portfolio Manager	<ul style="list-style-type: none"> In addition to portfolio management of PFM client accounts, Mr. Manjerovic is also responsible for bond proceeds accounts of participants in two of PFM's statewide-pooled investment programs. Prior to joining PFM, Mr. Manjerovic was Portfolio Manager and Trader for Northern Trust Global Investments In this capacity he was directly responsible for managing \$500 Million of intermediate and long-term investments.



B. Personnel

Team Member/Title	Years in Field/ with PFM	Role	Experience
Michael Harris <i>Managing Director</i> Location: Harrisburg, PA Office Phone: (717) 232-2723	18/17	Manager Structured Products	<ul style="list-style-type: none"> Manages the analytical and technical support group and structured investment products practice, providing advice and quantitative analysis regarding investment agreements and derivatives. Prior to joining PFM, worked in strategic planning and risk management fields.
STRUCTURED PRODUCTS			
Michael Varano <i>Managing Director</i> Location: Harrisburg, PA Office Phone: (717) 232-2723	23/10	Senior Portfolio Manager	<ul style="list-style-type: none"> Serves as the primary portfolio manager for PFM's short term and pooled investment accounts. Possesses extensive experience in portfolio management, investment analysis, asset/liability matching, and actuarial analysis. Michael Varano, a Managing Director at Public Financial Management, Inc., has been employed by PFM and its predecessor organization, Financial Management Services, since March 1985 in active Investment Management. He is responsible for the trading and management of fixed income portfolios totaling over \$5 billion.
INVESTMENT STRATEGIST			
Robert Cheddar, CFA <i>Senior Portfolio Manager</i> Location: Harrisburg, PA Office Phone: (717) 232-2723	6/2	Portfolio Manager	<ul style="list-style-type: none"> Mr. Cheddar is responsible for corporate bond and commercial paper research. With the combined effort of the portfolio management group Mr. Cheddar develops customized investment strategies to improve clients' interest earnings while limiting portfolio risk Prior to joining PFM, Mr. Cheddar was a Fixed Income Portfolio Manager for the Wilmington Trust Corp. In this capacity Mr. Cheddar was responsible for managing short term and intermediate term individual portfolios. His clients included corporations, municipalities and high net-worth individuals.
PORTFOLIO MANAGER			
Debbie Goodnight, CPA, MBA <i>Managing Director</i> Location: Harrisburg, PA Office Phone: (717) 232-2723	19/10	Manager Accounting	<ul style="list-style-type: none"> Responsible for accounting and administration for PFM's Investment Advisory Group. Oversees PFM compliance to AIMR, GASB, SEC and federal and state regulations. Prior to joining PFM, served for 9 years as Second Vice President and Assistant Controller of American General Corporation, where responsible for investment accounting operations for portfolios totaling \$19 billion and for reducing the failed trade rate to one-fourth the industry standard. Provides advice regarding accounting standards to PFM clients.
ACCOUNTING MANAGER			
David Reeser <i>Managing Director</i>	13/12	Senior Arbitrage Rebate Manager	<ul style="list-style-type: none"> Mr. Reese primary responsibilities currently include managing PFM's Arbitrage Rebate Practice, developing and implementing investment strategies for tax-exempt bond proceeds, and assisting with consultant training. Mr. Reeser has provided arbitrage rebate services, including arbitrage rebate computations, yield restriction compliance analysis, spending exception tests, transferred proceeds analysis, and commingled funds allocations, for hundreds of tax-exempt bond issues with billions of dollars in aggregate principal. Mr. Reeser has personally completed complex transferred proceeds, investment allocation, expenditure allocation, and investment valuation analyses.
ARBITRAGE REBATE SPECIALIST			



C. Investment Management Approach



C. Investment Management Approach

8) Describe the types of investment research your firm utilizes and the methodology used to recommend investment decisions.

PFM's Investment Philosophy

PFM proposes to provide investment advisory services to the Town based on an active investment management philosophy in which the primary focus is:

- ***Safety of the Principal of the Assets*** first;
- second; ensure that ***the Portfolio's Liquidity meets the Town's Anticipated Cash Flows***;
- and third ***Maintain a Portfolio Structure that Provides the Town with a Reasonable Rate of Return on the Assets Without Incurring Significant Volatility***, as stated in the Town's Investment Policy objectives.

During quarterly investment committee meetings, PFM will establish an investment strategy for the following quarter based on expected market conditions. In addition, while PFM does not manage our portfolios based on daily interest rate changes, our portfolio managers meet weekly to discuss the overall investment strategy of each portfolio based on the results of the previous week's economic reports and market conditions, and what is expected during the next several weeks. The Town's portfolio managers will customize each strategy for the Town's investments based on several factors including cash flow needs and market conditions

PFM's Investment Strategies for the Town

PFM practices a Top-Down and Bottom-Up approach in our investment process. The Town's investment policy determines characteristics of the portfolio such as what type of investments are permitted, the maximum allocation of each security type within the portfolio, the maximum maturity of each security and the duration of the overall portfolio, as well as, the benchmark to which the performance of the portfolio will be measured.

Once these characteristics have been established, PFM utilizes the Top-Down approach as a guide in determining the appropriate duration for the portfolio in relation to the benchmark and market expectations. The following describes PFM's Investment Strategy.

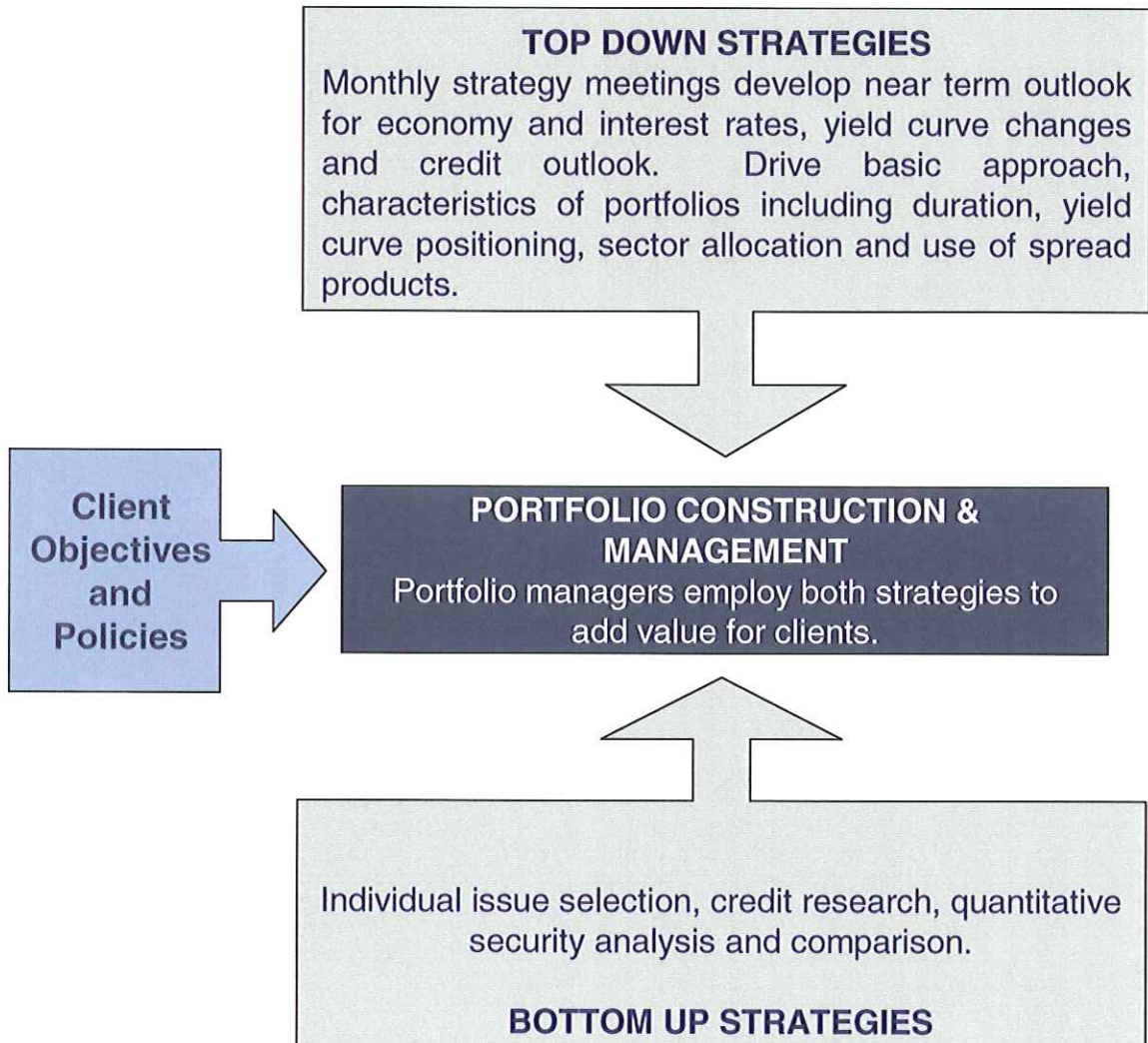
- PFM has a Disciplined Decision Making Process.
- Duration neutral: generally slightly short of relevant benchmarks, policy of no more than +/- 25%, this protects the market value of the portfolio.
- Seeks out relative value through yield curve positioning, sector weightings and duration management.
- 80% of value added comes from these three factors.
- Do not employ market timing or make significant duration bets



C. Investment Management Approach

PFM also employs a Bottom-Up approach, where we look at the individual security and the credit quality to determine if it is safe and appropriate for our clients portfolios. PFM has never experienced credit loss. In fact PFM has made several sell recommendations four to six months prior to the security being downgraded:

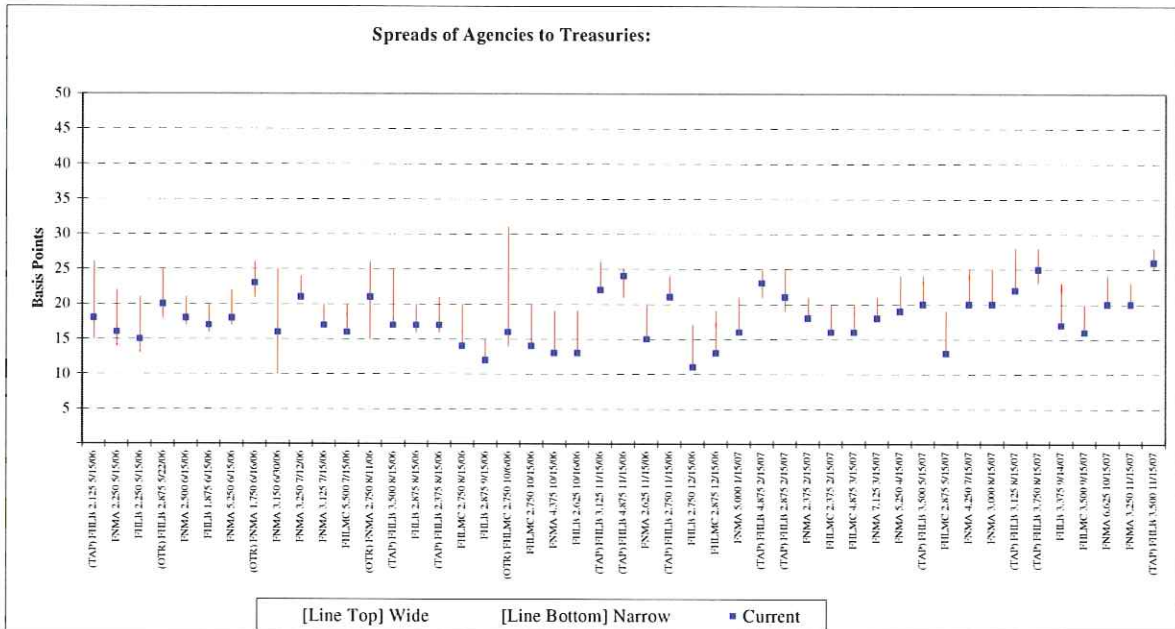
- PFM was proactive in the review of the Florida SBA LGIP holdings and notified our clients of the risky SBA investment strategy which prevented our clients from being exposed to inaccessible funds within the SBA.
- PFM had no exposure to Bear Sterns prior to their meltdown.
- In August 2001, the PFM credit committee removed Ford from our approved list. In October 2001 Moody's reduced it from A to BBB+.
- In December 2003, PFM removed DuPont from our approved credit list. In October 2004, Moody's downgraded the credit.
- In October 2004, PFM liquidated all our exposure to AIG Insurance. In March 2005, both S&P and Moody's downgraded the credit.





C. Investment Management Approach

PFM will provide technical and fundamental market research, including yield curve analysis. The PFM **Cross Spread Analyzer** assimilates and compares the yields on every available Treasury note, Treasury bill and Federal Agency issue available in the market. It quickly displays current relationships as well as recent trading ranges, making identification of investment or swap opportunities immediate from a vast amount of raw data. The PFM **Sector Spread Model** analyzes the market to identify which sectors offer the best relative value. This information is useful in selecting security sectors and maturities for purchase and for identifying potential restructuring opportunities.

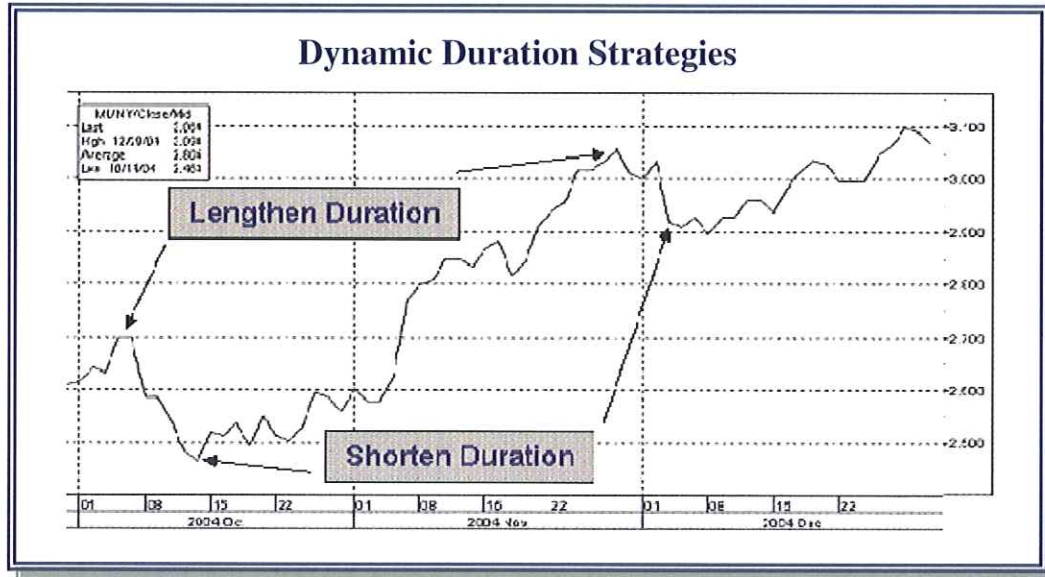




C. Investment Management Approach

Dynamic Duration Strategies

PFM implements various investment strategies based on internal factors such as cash flow needs, and external conditions such as the shape of the yield curve and sector spreads and adjusts these strategies within permitted constraints as overall interest rate environments and conditions change. This dynamic investment approach has proven to be very effective for our clients as interest rates have declined in recent months. A well thought out investment strategy is imperative to optimize earnings through various interest rate scenarios. An investment approach that is structured based on the factors discussed above can result in an investment program that can improve earnings for various interest rate scenarios while providing the necessary liquidity to meet cash flow needs.



In today's environment of elevated levels of scrutiny and regulatory oversight, setting and achieving high standards of compliance with the Town's Investment Policy, Internal Controls and standard investment practices is expected and good business practice. PFM's own internal expectations of quality professional services provide a positive basis for differentiating us from other firms. PFM utilizes multiple tools to ensure investment policy compliance. Compliance covers all aspects of the Town's investment program, which begins with the guiding document, the investment policy.



C. Investment Management Approach

Portfolio Compliance Check Tool

For trading compliance, PFM's trading desk use a Portfolio Compliance Check Tool at the time of the trade, and we monitor the compliance with a monthly asset allocation chart. The Portfolio Compliance Check Tool, which is illustrated below, incorporates several asset parameters that are specific to each client's investment portfolio as determined by the investment policy. The portfolio manager enters the proposed trade into the model to confirm the compliance and the model provides output of whether the proposed trade meets the asset allocation, maturity limit, and credit quality requirements established by the investment policy.

Sample Client (enter keyword or * for all)

Invest Policy

Max Sectors % Port*			
	Portfolio	Limit	Compliance
U.S. Treasuries	0%	100%	YES
Federal Agencies	47%	80%	YES
Corporates	0%	15%	YES
Mortgage-Backed	0%	40%	YES
Municipal	0%	20%	YES
Money Market Fund	0%	20%	YES
Commercial Paper	53%	25%	NO
Certificates of Deposit	0%	25%	YES
Bankers Acceptances	0%	25%	YES
Repurchase Agreement	0%	50%	YES

Max Maturities			
	Portfolio	Limit	Compliance
	0.00	5 Years	YES
	0.61	5 Years	YES
	0.00	3 Years	YES
	0.00	5 Years	YES
	0.00	3 Years	YES
	0	365 Days	YES
	44	270 Days	YES
	0	1095 Days	YES
	0	180 Days	YES
	0	90 Days	YES

Min Credit Ratings			
	Portfolio	Limit	Compliance
L/T S&P	AAA	AA-	YES
L/T Moody's	Aaa	Aa3	YES
L/T Fitch			
Rating Policy	S&P & Moodys	S&P & Moodys	YES
S/T S&P	A-1+	A-1	YES
S/T Moody's	P-1	P-1	YES
S/T Fitch			
Rating Policy	S&P & Moodys	S&P & Moodys	YES

Max Issuer % Port*			
	Portfolio	Limit	Compliance
Agencies	38%	40%	YES
Corporates	0%	5%	YES
Commercial Paper	53%	10%	NO
Corporates + CP	53%	15%	NO

Agency issuer % Port*		
	Portfolio	Limit
FNMA	10%	40%
FHLMC	38%	40%
FHLB	0%	40%
FFCB	0%	40%

* Portfolio based on traded market value excl accrued interest as of 1/24/06

Source FL INV MASTER CHART
 Identifier 68890001
 CAMRA IP# 68890001

Market Value 6,286,028
 Cash/Deposit
 Denominator 6,286,028



C. Investment Management Approach

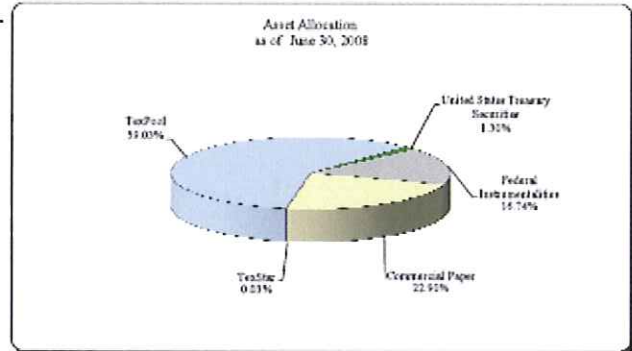
Asset Allocation Chart

To confirm ongoing investment policy compliance PFM provides the Town's Finance Staff with an asset allocation chart (a sample asset allocation chart is provided below). The asset allocation chart presents the percent of a client's assets invested in permitted investment types (U.S. Treasuries, Federal Agencies, etc.) and further details the percent in the individual securities within individual issuers (FNMA, FHLB, etc.).

Sample Client

Asset Allocation as of June 30, 2008

Security Type	June 30, 2008	Notes	Permitted by Policy
TaxStar	0.03%		10%
TaxPool	58.03%		10%
United States Treasury Securities	1.35%		10%
United States Government Agency Securities	0.00%		10%
Federal Instruments/Notes	16.74%	1	10%
Certificates of Deposit	0.00%		20%
Repurchase Agreements	0.00%		20%
Commercial Paper	22.95%		25%
Corporate Notes	0.00%		N/A
Mortgage-Backed Securities	0.00%	1	40%
Bankers' Acceptances	0.00%		25%
State and/or Local Government Debt	0.00%		25%
Fixed Income Money Market Mutual Funds	0.00%		20%
Intragovernmental Investment Pool	0.00%		10%



Individual Issuer Breakdown	June 30, 2008	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		40%
US Export-Import Bank (Ex-Im)	0.00%		40%
Farmers Home Administration (FHA)	0.00%		40%
Federal Financing Bank	0.00%		40%
Federal Housing Administration (FHA)	0.00%		40%
General Services Administration	0.00%		40%
New Communities Act Debentures	0.00%		40%
US Public Housing Notes & Bonds	0.00%		40%
US Dept. of Housing and Urban Development	0.00%		40%
Federal Farm Credit Bank (FFCB)	0.00%		40%
Federal Home Loan Bank (FHLB)	8.58%		40%
Federal National Mortgage Association (FNMA)	2.49%		40%
Federal Home Loan Mortgage Corporation (FHLMC)	7.67%		40%
Student Loan Marketing Association (SLM)	0.00%		N/A

Individual Issuer Breakdown	June 30, 2008	Notes	Permitted by Policy
CD - Bank A	0.00%		10%
CD - Bank B	0.00%		10%
Fully collateralized Repo - A	0.00%		10%
Fully collateralized Repo - B	0.00%		10%
General Electric CP	5.42%		5%
Toyota Motor Credit CP	3.52%		5%
CI Group CP	3.77%		5%
Bank of America CP	5.19%		5%
Calyon CP	4.99%		5%
CPF	0.00%		5%
Corporate Notes A	0.00%		N/A
Corporate Notes B	0.00%		N/A
BA Bank A	0.00%		5%
BA Bank B	0.00%		5%
State and/or Local Government Debt	0.00%		25%
Money Market Fund A	0.00%		10%
Money Market Fund B	0.00%		10%

Notes:

1. The combined total of Federal Instruments and Mortgage Backed Securities cannot be more than 100%. The combined total as of June 30, 2008 is 18.24%.



C. Investment Management Approach

Scenario Analysis and Stress Testing

PFM has developed its own proprietary software to enable us to do scenario analyses and stress testing of portfolios. This is used on an ongoing basis in two ways. First, we regularly perform horizon analyses of a series of portfolio structures to determine which structure would perform the best in a variety of forecast interest rate scenarios over 3 months to one year. For example, we test barbell, bullet and laddered structures against a variety of scenarios including those that result in flattened and steeper yield curves, higher rates, unchanged rates and lower rates. This enables us to develop a general sense of how various portfolio structures will perform. Second, we can run the scenario analysis against various benchmark portfolios (e.g., a Two-Year U.S. Treasury Note, or the Merrill Lynch 1-3 Year U.S. Treasury benchmark) to determine differential performance.

Portfolio Horizon Analysis Tool

HORIZON ANALYSIS						
Run Date:	9/1/2005					
Horizon(Months):	3					
Horizon(Date):	12/1/2005					
3 MONTH HORIZON TOTAL RETURNS (annualized on a semi-annual compounding basis)						
Scenario	Probability	Bullet	Barbell 3 mo/3yr	Barbell 3mo/5yr	Ladder 3mo/3yr	Ladder 3mo/5yr
-100 BP	0.00%	9.51%	9.20%	9.15%	9.38%	9.36%
-50 BP	15.00%	6.58%	6.24%	6.16%	6.45%	6.40%
0 BP	15.00%	3.70%	3.36%	3.26%	3.57%	3.51%
+50 BP	20.00%	0.86%	0.54%	0.45%	0.74%	0.69%
+100 BPS	20.00%	-1.92%	-2.22%	-2.27%	-2.03%	-2.06%
Flatter	10.00%	1.13%	1.10%	1.25%	1.11%	1.15%
Super Bear	20.00%	-3.39%	-2.21%	0.11%	-2.65%	-1.73%
Expectation Value		0.76%	0.77%	1.20%	0.83%	0.98%
Std Dev		3.36%	3.01%	2.66%	3.15%	2.95%
Portfolio Stats (at Settlement)		Bullet	Barbell 3 mo/3yr	Barbell 3mo/5yr	Ladder 3mo/3yr	Ladder 3mo/5yr
Duration		1.642	1.643	1.643	1.643	1.643
Convexity		0.047	0.054	0.081	0.044	0.057
Dispersion		0.000	1.278	1.885	0.759	1.211



C. Investment Management Approach

Monitoring Security Transaction Opportunities

Just as we would re-balance the overall portfolio as market conditions or cash flow requirements change, we also monitor the markets on an ongoing basis for opportunities to trade securities among sectors and/or maturities that could add value and enhance investment performance. The sector specialization of our portfolio managers and traders is designed to identify trade opportunities on a continual basis. We would expect initially to make significant use of high quality corporate and Federal Agency obligations. However, because of the volatility of the markets and their sensitivity to technical factors there are regularly opportunities to add value by trading from one to another. This includes use of short term investment vehicles, where it provides an advantage. One of PFM's analytical tools for trade opportunities is shown below:

Security Trade Breakeven Analysis Tool

<HELP> for explanation.

P060 M-Mkt GA1

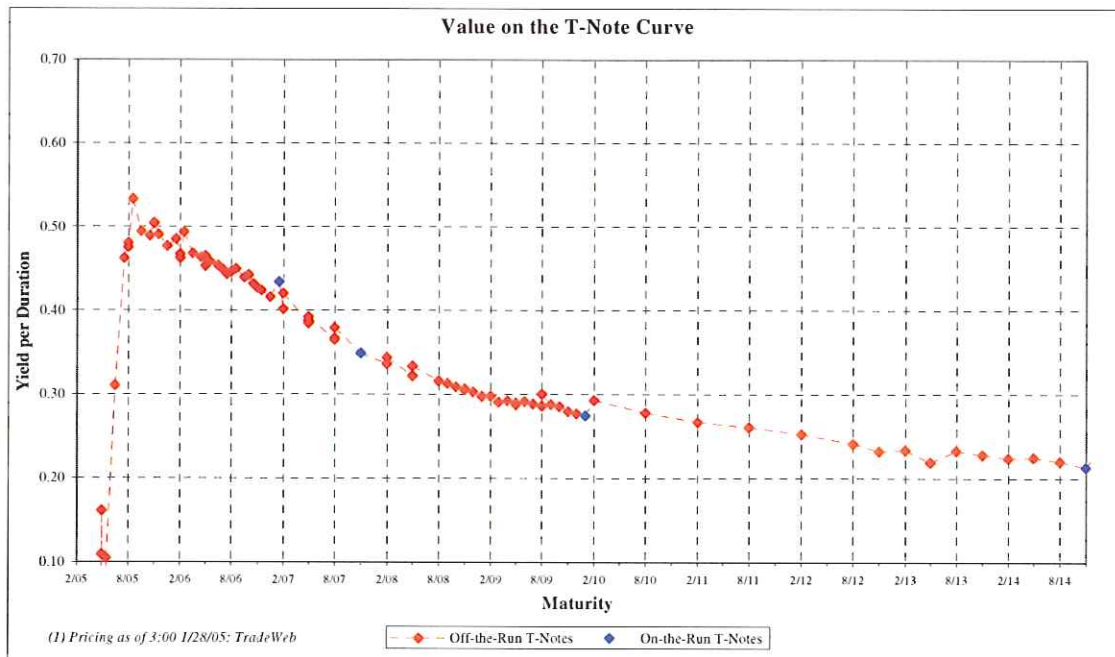
GAP BREAKEVEN ANALYSIS

TERM	DAYS	90	START DATE	2/14/06	END DATE	5/15/06
HEAD/TAIL	CENTER DATE	3/31/06	CD BASIS	- ACT	360	
			DISCOUNT BASIS	- ACT	360	

ENTER A RATE FOR TWO OF THE THREE PERIODS

	CD RATE	CD RATE	DISC RATE	DISC RATE	DAYS
TERM	4.540			4.489	90
HEAD	4.400			4.376	45
TAIL		4.654		4.627	45

PFM's *Duration Model* analyzes the optimal portfolio duration for a given target duration and duration band based on current interest rates, yield curve and interest rate trends.





C. Investment Management Approach

PFM is an Independent Investment Advisor and it is our responsibility as the "Prudent Expert" to protect our client's investments and inform them of potential issues. Our clients receive added value that no one else offers by protecting our client's money from unsafe investments and helping them to earn a rating of AAA from S&P:

- As an example, on October 29, 2007, PFM sent a letter to all of our clients informing them of our credit review of the Florida State Board of Administration Local Government Investment Pool ("SBA Pool"). Based on the SBA Pool portfolio holdings report as of September 30, 2007, our review revealed that the Pool had approximately 99 percent of its investment holdings in corporate investments including: commercial paper and asset-backed commercial paper notes. These holdings included issuers that are exposed to sub-prime mortgages and other structured investment notes. A few of the issuers of these investment types had the potential for their credit ratings to be downgraded.

We recommended that our clients review the current SBA portfolio holdings to determine if they were comfortable with them and the credit risk potential as related to the corporate investments.

In the past five years, we have not purchased any security that was downgraded below investment grade, nor owned any security that defaulted or failed to pay principal or interest as scheduled. In fact PFM has made several sell recommendations four to six months prior to the security being downgraded:

- PFM had no exposure to Bear Sterns prior to their meltdown.
- In August 2001, the PFM credit committee removed Ford from our approved list. In October 2001 Moody's reduced it from A to BBB+.
- In December 2003, PFM removed DuPont from our approved credit list. In October 2004, Moody's downgraded the credit.
- In October 2004, PFM liquidated all our exposure to AIG Insurance. In March 2005, both S&P and Moody's downgraded the credit.

Safety & Asset-Backed Commercial Paper

In November of 2007 the cover story of *Bloomberg Markets* written by David Evans entitled "Unsafe Havens" Evans cites several large money managers that refuse to buy asset-backed commercial paper, including PFM Asset Management LLC, Vanguard and Dreyfus.

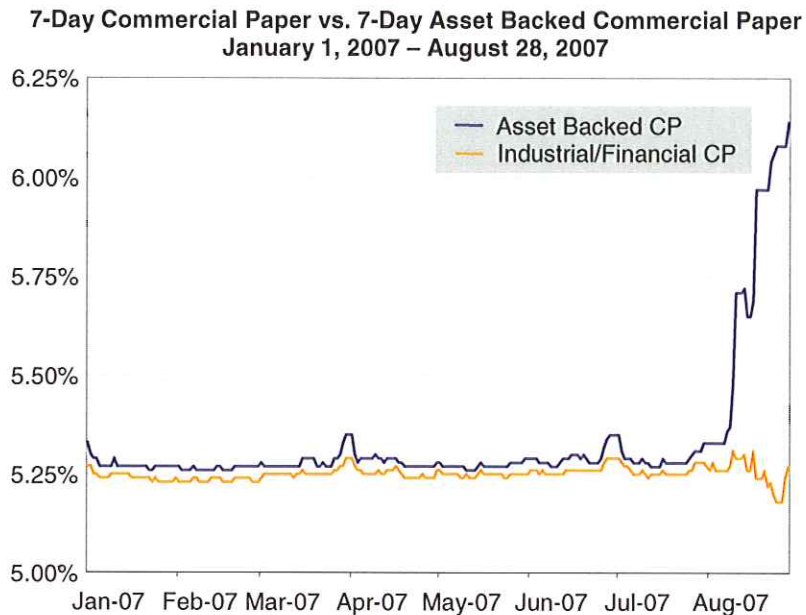
In recent years, there has been a rapid growth in the issuance of "asset backed commercial paper" (ABCP) with approximately 50% of the outstanding commercial paper currently classified as ABCP.

ABCP is issued by specially-incorporated entities (typically commercial banks and finance companies) to allow them to borrow at attractive rates and to obtain regulatory capital relief. The borrowings are used to obtain interest in various assets including trade receivables, consumer debt receivables, auto and equipment loans and leases, and collateralized debt obligations. **Because these structures are much more complex than traditional commercial paper, pose greater risk and have offered only 1-3 basis points of incremental yield, PFM credit committee determined that all ABCP in our clients' portfolios would be sold and this strategy was executed prior to the credit crisis which significantly impacted the credit risk of ABCP.**

As the markets questioned the valuations and asset quality of sub-prime mortgages, investors soon started questioning the underlying assets of asset backed commercial paper. Since mid summer of 2007, investors have avoided ABCP like the plague. This has caused yields to rise sharply (as shown on the chart below) and created liquidity problems for existing programs. Several programs have been unable to reissue their commercial paper and there is practically no secondary market for ABCP. Further, broker-dealers are unwilling to purchase and hold ABCP on their balance sheets.



C. Investment Management Approach



Methodology

The Town's portfolio manager, Gregg Manjerovic, CFA, is responsible for constantly monitoring the markets looking for investment opportunities and evaluating the impact on the Town's portfolio from changes in market conditions and the Town's cash flows. The portfolio manager works with the other PFM portfolio managers and traders as a team, to monitor the markets and evaluate any developments in the fixed-income markets and the potential impacts of pending economic announcements from the government and other sources.

Each day, the portfolio managers and trading assistants discuss any developments in the fixed-income markets and the potential impacts of pending economic announcements from the government and other sources. During these sessions, portfolio managers review portfolio maturities and large deposits and withdrawals, and overall investment strategies for portfolios. When engagement managers talk to or meet with clients, they inform portfolio managers of any major shifts in client objectives, together they develop a revised investment strategy that is presented to the client for approval. The portfolio managers then decide which specific trades/swaps should be made for a client's portfolio. All of these decisions are made within the guidelines set forth in the client's investment policy, the client's needs and stated objectives, and Federal and State regulations.

PFM's buying process is to, within the overall discipline of capital preservation, liquidity, and then maximizing return; monitor the economic environment to determine from a top down standpoint the sectors and maturities which we expect to perform best in the future. Then PFM utilizes aggressive shopping to purchase the best securities at the best price to fit the overall strategy.

PFM does not speculate however market conditions change. When these conditions change we may sell securities to take advantage of market condition changes and swap to improve yield, change maturity, or improve quality based on what PFM's expectations of market conditions to provide the best returns going forward.

Active Portfolio Management Risk Limiting Techniques

Once we have constructed a portfolio, developed and implemented the Treasury Program for the Town using the Ten Step process, the next step is to actively manage the portfolio using several risk limiting techniques. PFM's investment management approach is designed to enhance portfolio returns while carefully limiting and controlling risk. Within the general limits imposed on the portfolio of a public entity, PFM adds value to a portfolio through the primary strategies on the following table:



C. Investment Management Approach

Duration Management	After factoring in a conservative posture which ensures that cash flow requirements are met, we will position a portfolio's duration to take advantage of interest rate trends: positioning with a shorter bias when rates are rising and longer when rates are falling. PFM will use a duration (or average maturity) band for the portfolios based on the type of funds, cash-flow model and benchmark chosen by the Town. PFM adds value by re-balancing the portfolio to take advantage of market opportunities and in anticipation of interest rate movements. Duration limits are provided to and re-evaluated with the Town's staff on a regular basis as a management and oversight tool.
Yield Curve Placement	Maturities are selected which represent the best relative value along the yield curve and the highest potential for enhanced return by "rolling down the curve." We think there is a significant opportunity to enhance earnings with a strategy that focuses on the selection of securities based on relative value. In both initial security selection and ongoing management, opportunities are presented by the relative value of one portion of the yield curve vs. another and one sector compared with another.
Sector Weighting	Sectors are selected which represent the best relative value based on PFM's sector outlook and historical credit spreads. Investments other than Treasuries are purchased when spreads are wide and avoided or swapped out of when spreads are narrow. PFM's portfolio managers and traders are assigned to specific market sectors in order to monitor products and opportunities and these responsibilities run across all portfolios. For example, one portfolio manager and two traders specialize in Federal agency discount notes and money market securities, another focuses on the intermediate-term Treasury/Agency sector and one focuses on the corporate sector.
Issue Selection	Individual issues are selected based on PFM's assessment of issuer quality and rating, credit trends, issue structure and liquidity. PFM regularly researches alternative high quality structures overlooked by the investment community at large, which offer significant yield enhancement without adding interest rate or credit risk.

Since each portfolio is managed individually and subject to a variety of investment policy limitations, rather than by use of a single model or prototype, it is likely that there will be significant variation in sector concentrations from one portfolio to another.

Investment Ideas and Research Procedures

Investment ideas are originated from the interplay of the client's objectives, preferences, market conditions and opportunities. The Town's engagement manager, Ken Couch, and portfolio manager, Gregg Manjerovic, CFA, are responsible for working with the Town to develop and implement a portfolio strategy that will form the framework for all investment decisions. All decisions are made within the guidelines of the Town's investment policy, stated objectives, and State and Federal regulations.

PFM's portfolio managers and other research staff have access to the technical capabilities of three major on-line market-trading systems, Bloomberg, Telerate and TradeWeb. These systems provide active market quotes, including real-time GOVPX on-line U.S. Government securities pricing service. PFM has also developed a series of proprietary computer-based models designed to support our portfolio management activities. These models utilize state-of-the-art technology, incorporating live, real-time pricing feeds which provide us with the capacity to optimize and re-optimize portfolios, generate cash flow analyses, assess portfolio and trading strategies under a variety of assumed interest rate scenarios, track specific securities and security sector prices and relative yields.

Investment Strategy Implementation

PFM adds value by re-balancing the portfolio through the use of our active management strategies to take advantage of market opportunities and in anticipation of interest rate movements. Our portfolios typically are diversified by sector, maturity, and issuer. The sector allocation of portfolios is determined based on relative value—that is, those sectors that offer the greatest potential for return for the least amount of risk. Relative value is assessed by evaluating current yields, spread levels relative to historical averages, the impact of "rolling down the curve," recent market performance and trends, and actual offerings in the marketplace. Our portfolio managers and traders are assigned specific sector specialties to follow, assess value and identify opportunities. In addition, general discussions among trading room staff on sector value take place on a regular basis.



C. Investment Management Approach

Once the client has approved the general approach and strategy, the portfolio manager considers the general state of the economy and the outlook of the markets, and decides which sectors and maturities add the most value to the portfolio. After discussing the general state and outlook of the markets, the group seeks out and identifies specific investment opportunities that should be explored for client portfolios. Throughout the day, short-term trading strategies are discussed and modified as necessary to accommodate updated cash flow forecasts and market conditions. All of these decisions are made within the guidelines set forth in each client's investment policy, stated objectives and State and Federal regulations.

Ten Steps to a Treasury Management Program:

Step 1: Preliminary Review

Review of written policies, procedures, portfolio reports, contracts, and agreements. Prepare for interviews with the client personnel.

Step 2: Interview the Town's Finance Staff

Discuss investment policies and procedures with appropriate client personnel. Interviews will focus on the following key areas:

- Broker/dealer relationships
- Recordkeeping
- Unwritten policies
- Investment decision-making process
- Arbitrage rebate status (bond proceeds)
- Level of risk tolerance
- Reporting current investments
- Collateral sufficiency
- Cash flow and liquidity requirements
- Banking/Custodial relationships

In addition, PFM identifies areas where officials and/or staff believe more attention is needed and obtain additional information and/or documentation that may be required.

Step 3: Analyze the Town's Current Investment Program and Conduct Portfolio Analysis

PFM has developed tools to analyze aspects of client portfolios including sector composition, maturity structure and duration, and risks (credit, market, liquidity, and basis). We also look specifically at securities that tend to be most volatile, including any variable-rate securities, and model their behavior under several possible interest rate scenarios. Additionally, we highlight any areas in which the portfolio may not comply with the client's investment policy. The result of this analysis is a clearer picture of the portfolio's risks and expected performance, as well as a better understanding of the issues that require ongoing monitoring.

PFM's Portfolio Management Strategy for the Town

PFM will methodically design an investment program for the Town based on the Town's investment objectives and liquidity requirements. PFM and the Town's Finance Director will establish an investment strategy for the following quarter based on expected market conditions. These investment strategies will be designed to provide adequate safeguards to ensure the safety and liquidity of funds while at the same time providing enough flexibility to allow the Town to meet realistic performance objectives such as outperforming a short term index or assets needed for liquidity and a 1-3 Year benchmark for core assets without unnecessary exposure to credit and market risk.

The Town's Investment Portfolio will be managed by a team of Investment Managers lead by Gregg Manjerovic, CFA. The Town's investments will be structured to meet all of the investment requirements of the Federal, Texas State Statutes and the Town's Investment Policy.

PFM recommends utilizing a 1-3 Year portfolio strategy with a target duration of 1.50 years, consisting of U.S. Treasuries and AAA rated Federal Agency securities. PFM recommends utilizing the Merrill Lynch 1-3 Year U.S. Treasury index for the portfolio given the proposed asset allocation of the Town's investment portfolio.



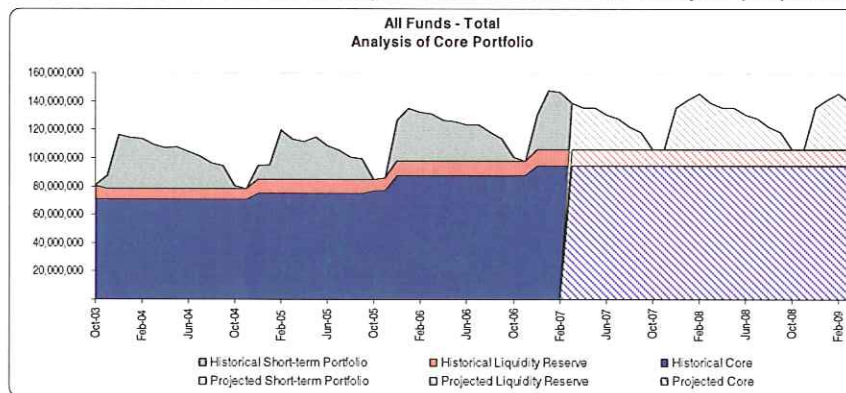
C. Investment Management Approach

The results of this analysis will allow the Town to answer the following questions:

- Is the current investment strategy meeting the Town's stated investment objectives?
- Is the return consistent with the level of risk in the portfolio?
- Is the Town exposed to an inappropriate level of risk?
- How can the Town increase the safety of the portfolio?
- How can the Town increase the return of the portfolio?
- Does the portfolio provide adequate liquidity?
- How can portfolio returns be enhanced without increasing the amount of risk?
- Are there critical problems that require immediate attention?
- Is the asset allocation optimal in the current market?
- What are the GASB 31 and the new GASB 40 implications?

Step 4: Prepare a Cash Flow Analysis

Having an accurate cash flow projection is an important element in developing an investment strategy for short-term and intermediate funds. PFM has worked with many entities to track and forecast cash flows and has developed a sophisticated cash flow model that analyzes the historical cash flow patterns of the portfolio to determine the optimal allocation. The model identifies the portion of the portfolio needed for liquidity and the "core" that could be invested longer-term. Based on seasonal trends and a selected growth rate, the model projects future liquidity needs and the change in the core balance. In addition, the model builds in a liquidity cushion to account for unforeseen changes in cash flow patterns or to be prepared if emergency cash flow needs arise. The chart that follows provides an example of the results of an analysis prepared for a PFM client.



The results of the Cash Flow analysis will help the Town answer the following questions:

- How predictable are the Town's cash flows?
- Is there a statistically significant seasonal pattern?
- Is there a growth trend?
- What will the portfolio balance be during any month?
- How much is available for longer-term investment?
- How much money should remain in overnight or other highly liquid investments?
- How much money can be invested out 30, 60, 90 or 120 days?

Step 5: Evaluate and Provide Recommendations Regarding the Town's Investment Policy and Reporting

PFM has extensive experience assisting governments in developing, evaluating and revising investment policies. We believe that investment policies should provide adequate checks and balances to enable a public entity to meet its objectives of safety and liquidity while at the same time providing enough flexibility to allow the entity to meet its performance objectives.



C. Investment Management Approach

Taking into consideration the Town's cash requirements, applicable State of Texas regulations, the current investment and accounting staff and operations, PFM will make recommendations regarding allowable investments (minimum credit quality, legal percentages), maximum maturities and procedures to ensure portfolio diversification. After a careful review of projected cash flow requirements and characteristics for the various investment funds, PFM will evaluate how the investment policy correlates to the stated investment objectives for its funds.

The results of this analysis will allow the Town to answer the following questions:

- Does the policy fully describe the investment objectives of the Town?
- Is the policy consistent with the risk tolerance levels of decision-makers?
- Do the policy constraints adequately limit portfolio risk?
- Does the policy provide sufficient guidance for external investment managers?
- Does the policy require documenting competitive prices for securities transactions?
- Does the policy establish procedures to perform due diligence on all Town approved broker/dealers?
- Does the policy establish procedures to validate creditworthiness of financial institutions and investments in the portfolio?
- Does the policy contain adequate controls and reporting requirements?
- Does the policy comply with state statutes and bond covenants?
- Does the policy comply with recommendations of the Government Finance Officers Association and Association of Public Treasurers?

Step 6: Develop Investment Strategies

Working with the Finance staff of the Town, PFM will develop a comprehensive investment strategy after careful evaluation of the Town's expected cash flow requirements, investment policy, risk tolerance, applicable statutes, and dictates of prudent investing. This investment strategy is designed to provide adequate safeguards to ensure the safety and liquidity of funds while at the same time providing enough flexibility to allow the Town to meet realistic performance objectives such as outperforming an appropriate benchmark based on the duration targets and asset allocations in accordance with the sources and uses of the assets. The benchmarks should be selected that will not result in an investment strategy that results in unnecessary exposure to credit and market risk. The investments utilized for this investment program high credit quality U.S. Treasury, government federal agency notes for on-going cash flow for the Town.

Once the Investment Strategies are determined and benchmarks selected, PFM will work closely with the Town as part our comprehensive investment and treasury management program approach. This process includes reviewing and revising the Town's investment policy and developing investment strategies for overnight and short term strategies based on the results of the Town's cash flow analysis and current market conditions.

During quarterly investment committee meetings, PFM and the Investment Committee will establish an investment strategy for the following quarter based on expected market conditions. In addition, while PFM does not manage our portfolios based on daily interest rate changes, our portfolio managers meet weekly to discuss the overall investment strategy of each portfolio based on the results of the previous week's economic reports and market conditions, and what is expected during the next several weeks. Gregg Manjerovic, CFA, Senior Portfolio Manager, the Town's portfolio manager, will then customize this strategy for the Town's portfolio on a daily basis.

PFM offers a comprehensive package of investment and cash management services to assist the Town in managing the entire portfolio designed to achieve your goals of safety, liquidity and return.

Core Portfolio – 1 Year to 3 Year Maturities

Over extended periods of time, longer-term fixed-income portfolio strategies generated higher returns than shorter-term strategies. The table presented in Step 8 on the following page shows returns for various maturities of U.S. Treasury and U.S. Treasury/Agency indexes over the past 10 years. The Merrill Lynch 1-3 Year U.S. Treasury Index generated a return that was 77 basis points higher than the Merrill Lynch 6-Month U.S. Treasury Index during this period, with only two out of forty quarters with negative quarterly returns. PFM will work with the Town to develop a strategy that results in an appropriate balance between risk and return.



C. Investment Management Approach

Step 7: Verify the Town's Adherence to GASB 31 and 40

Our investment objective is to match or outperform the returns of short and intermediate-term benchmarks with lower volatility. Our primary focus is on the overnight to ten-year area. We believe that public agencies can achieve the greatest reward with the least amount of risk by investing in this sector. Over the years, PFM has always advocated a conservative strategy that emphasized investing within the constraints established by cash flow requirements and the duration band approach. We developed this method years before GASB 31 was written, although we believe it is the most appropriate response to this standard.

GASB 31 requires that, with some exceptions, unrealized gains and losses be taken into account when reporting investment income. PFM's approach is managing money in a way that seeks to minimize unrealized gains and losses; hence our objective is to outperform the relevant benchmark with less return volatility than the benchmark. In other words, we manage not just return, but also the relationship between book value and market value. We seek to keep book and market values close at all times.

PFM has also taken the lead in educating clients about the meaning of GASB 31. We have published specialized guides and conducted workshops and seminars around the Country to help clients identify key investment policy choices related to GASB 31. Some clients have decided to shorten their investment horizons so that no investments are purchased with maturities longer than one year. This will allow them to avoid taking unrealized market gains/losses in their portfolios. Over time this approach may mean that they will have a lower return than if they had invested for longer time horizons. Other clients have determined to continue to invest in securities with maturities exceeding a year. These clients recognize that the potential gain in income will be accompanied by some added volatility in annual investment income.

PFM has also developed specialized accounting reports that are fully compliant with the reporting requirements of GASB 31 so that all of our clients can easily account for unrealized gains and losses on a monthly or quarterly basis. Additionally, PFM will assist the Town in implementing the GASB 40 statement also known as the Deposit and Investment Risk Disclosure.

Step 8: Develop Performance Benchmarks for the Town's Investment Portfolio

PFM will work with the Town to select the proper performance benchmark. Benchmarks can then be used to measure and evaluate investment performance and to make comparisons of risk and return. Benchmarks can also be used to evaluate the relative merits of a particular investment strategy. The most commonly employed benchmark for a portfolio or investment strategy is a market index. Any index used as a benchmark should offer an independent representation of the market or a particular market segment, and should be readily available. A wide variety of standardized indices exist, and additionally, it is possible to create a custom index tailored to a specific portfolio or investment strategy. Although benchmarking with an index is a relatively simple concept, it is very important to choose an index that provides an accurate representation of the portfolio or strategy being evaluated. An inappropriate benchmark cannot only lead to the misinterpretation of performance results, but also inappropriate risks taken by the portfolio manager seeking to outperform the selected bogey.

The results of this analysis will allow the Town to answer the following questions:

- What benchmark should be used to evaluate the performance of the investment manager?
- Is the return of the portfolio consistent with the level of risk incurred?
- Should the Town use a "standard" benchmark or develop a custom benchmark?
- Should performance be computed on a "book" or "total return" basis?
- How often should performance be computed? Reported?



C. Investment Management Approach

The following chart provides the total return for several indexes for the prior 10 years (40 quarters) ending June 30, 2008. As the chart illustrates, the Merrill Lynch 1-3 Year U.S. Treasury Index provided a return of 4.65% and experienced only three quarters with a negative return for the 10 year period, which is 91% of the longer term 3-5 Year U.S. Treasury Index return of 5.66% which had 15 quarters with negative returns for the same 10 year period. It is important to note that historical performance is not indicative of future returns.

Risk/Return of Various Benchmarks 10 Years Ended 6/30/2008					
Merrill Lynch Index	Duration	Overall Return	Cumulative Value of \$75,000,000	% of Value of 3-5 Year Index	Quarters With Negative Returns
3-Month Treasury Bill	0.23 Years	3.63%	\$107,113,098	82%	0 out of 40
6-Month Treasury Bill	0.48 Years	3.88%	\$109,781,938	84%	0 out of 40
1 Year Treasury Index	0.97 Years	4.15%	\$112,709,609	87%	2 out of 40
PFM's 1-3 Year Portfolio Composite	1.54 Years	4.79%	\$119,791,687	92%	3 out of 40
1-3 Year Treasury Index	1.66 Years	4.65%	\$118,247,426	91%	3 out of 40
1-5 Year Treasury Index	2.41 Years	4.97%	\$121,856,941	94%	7 out of 40
1-10 Year Treasury Index	3.64 Years	5.29%	\$125,650,260	97%	11 out of 40
3-5 Year Treasury Index	3.64 Years	5.66%	\$130,092,083	100%	15 out of 40
5-7 Year Treasury Index	4.97 Years	6.06%	\$135,095,036	104%	15 out of 40
7-10 Year Treasury Index	6.99 Years	6.12%	\$135,956,117	105%	16 out of 40

Source: Merrill Lynch and Bloomberg.

Step 9: Internal Controls Review & Enhancement

Without a strong system of internal controls, even the best investment policy may be ineffective. Mr. Alexander will assess the level of risk in the Town's investment operation, evaluate areas where controls are weak and recommend procedures to minimize the risk of loss. Mr. Alexander will work with the Town's finance staff and create a written Internal Controls Policy for the Town.

This analysis will identify risk areas and procedures that are inefficient or costly. As a result of this analysis, PFM will provide detailed written recommendations for system enhancement. The results of this analysis will be used to help the Town answer the following questions:

- Does the Town have an adequate system of internal controls?
- Are procedures properly documented?
- Is staff complying with documented procedures?
- Is there adequate reporting of investment transactions?
- Does the portfolio accounting system provide necessary controls and management information?
- Does a lack of controls subject the Town to significant risk?
- Does the Town conduct reconciliations in a timely and efficient manner?

Step 10: Monitor Investments with Quarterly Performance Reports

PFM provides comprehensive monthly and quarterly reports that provide all of the details required by the Town. The reports also include an Economic Summary to review the market environment that existed during the quarter. PFM will meet with the Town on a quarterly basis to review this information, or as needed. The table below is a summary of our approach and time frame to review the program.

Phases of Investment Program Development	What PFM will do for the Town:
Step 1: Preliminary Review	1. Determine the needs to establish a solid treasury management program.



C. Investment Management Approach

Step 10: Monitor Investments with Quarterly Performance Reports

PFM provides comprehensive monthly and quarterly reports that provide all of the details required by the Town. The reports also include an Economic Summary to review the market environment that existed during the quarter. PFM will meet with the Town on a quarterly basis to review this information, or as needed. The table below is a summary of our approach and time frame to review the program.

Phases of Investment Program Development	What PFM will do for the Town:
Step 1: Preliminary Review	1. Determine the needs to establish a solid treasury management program.
Step 2: Interview the Town's Treasury Staff	2. Determine specific treasury and investment management functions of the Treasury Staff.
Step 3: Analyze the Town's Current Investment Program and Conduct Portfolio Analysis	3. Develop a new investment program. 4. Provide banking services analysis. 5. Provide custody services analysis.
Step 4: Prepare a Cash Flow Analysis	6. PFM will prepare a customized cash flow analysis 7. Cash Flow will identify Short Term and Core Assets
Step 5: Evaluate and Provide Recommendations Regarding the Town's Investment Policy and Reporting	8. PFM will review the Town's current investment policy. 9. Establishes asset allocation, maturity and liquidity requirements, reporting requirements and performance measurements. 10. Establish reporting requirements.
Step 6: Develop Investment Strategies	11. PFM will develop an investment program based on the Town's risk characteristics. 12. PFM will recommend a portfolio structure based on liquidity needs.
Step 7: Verify the Town's Adherence to GASB 31 and 40	13. PFM will verify the Town's adherence to GASB 31 and 40. 14. PFM can assist the Town's in preparing the GASB 40 note for the Annual Financial Statements. 15. Information will be provided in the Town's PFM month-end statements.
Step 8: Develop Performance Benchmarks for the Town's Investment Portfolio	16. Will establish appropriate Portfolio Benchmark.
Step 9: Internal Controls Review & Enhancement	17. PFM will review the internal controls procedures manual for the Town. 18. This will establish Delegation of Authority, separation of duties and responsibilities, as well as documenting operational procedures for cash review, investment selection and daily operations.
Step 10: Monitor Investments with Quarterly Performance Reports	19. PFM will develop detailed quarterly and annual reports.

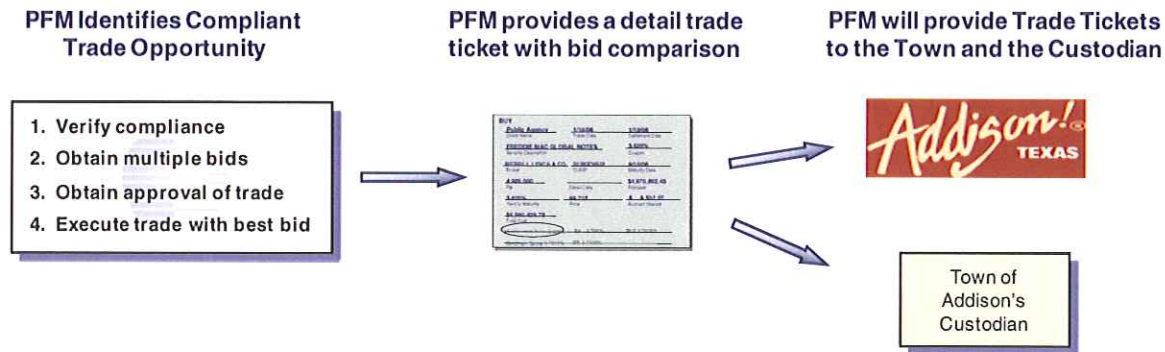


C. Investment Management Approach

9) Describe your firm's daily procedures for portfolio review, investment management and client contact.

Non-Discretionary Investment Decisions

PFM will work with the staff to assure coordination of investment trades, delivery of the securities, and availability of funds. PFM monitors the market on a daily basis. Once investment decisions are made, PFM pursues an aggressive and intensive effort to obtain the best possible bid/offer price available for the particular security by soliciting trades/offers from at least **three** financial institutions. PFM will then contact the Town to obtain approval of the trade. In executing trades for the Town, we will only deal with those firms on the Town's approved list. PFM will provide the Town with trade tickets by the end of day on which the transaction occurred. These trade tickets will provide the Town with an excellent audit trail for transactions that occur within the portfolio.



All of the Town's transactions will take place via Delivery versus Payment and would be held by the Town's custodian in the Town's name. All interest payments will be deposited in the Town's account. PFM's portfolio managers have streamlined the process of coordinating the delivery of securities and cash via wire transfer between a variety of custodian banks and broker dealers.

The Town's portfolio manager, Gregg Manjerovic, CFA, is responsible for constantly monitoring the markets looking for investment opportunities and evaluating the impact on the Town's portfolio from changes in market conditions and the Town's cash flows. The portfolio manager works with the other PFM portfolio managers and traders as a team, to monitor the markets and evaluate any developments in the fixed-income markets and the potential impacts of pending economic announcements from the government and other sources.

Each day, the portfolio managers and trading assistants discuss any developments in the fixed-income markets and the potential impacts of pending economic announcements from the government and other sources. During these sessions, portfolio managers review portfolio maturities and large deposits and withdrawals, and overall investment strategies for portfolios. When engagement managers talk to or meet with clients, they inform portfolio managers of any major shifts in client objectives, together they develop a revised investment strategy that is presented to the client for approval. The portfolio managers then decide which specific trades/swaps should be made for a client's portfolio. All of these decisions are made within the guidelines set forth in the client's investment policy, the client's needs and stated objectives, and Federal and State regulations.

PFM's buying process is to, within the overall discipline of capital preservation, liquidity, and then maximizing return; monitor the economic environment to determine from a top down standpoint the sectors and maturities which we expect to perform best in the future. Then PFM utilizes aggressive shopping to purchase the best securities at the best price to fit the overall strategy.



D. Reporting Capabilities



D. Reporting Capabilities

10) Submit samples of reports that would be provided. The report must meet the minimum requirements of the Texas Public Funds Investment Act.

PFM will provide the Town with Monthly Statements, a monthly Asset Allocation report which illustrates the Town's investment holdings in detail, monthly and periodic market update and outlook reports, and quarterly and annual investment reports which will compare the benchmark with the performance of the Town's portfolio, trade tickets for each transaction within the Town's portfolios and bond investment reports for the investment of bond proceeds in accordance with Texas Public Funds Investment Act ("PFIA"). PFM personnel teach across the state, PFIA seminars and are familiar with the statute. PFM's monthly reports provide the necessary accounting information required for GASB 40 compliance. Our Accounting Director, Debbie Goodnight, CPA, has assisted the GASB Board in the development of GASB 31 and GASB 40.

The following details the reports PFM will provide to the Town. These reports will detail the performance of the Town's investments, provide compliance documentation with regard to asset allocation, present timely economic and market information, security transaction documentation, planning tools for cash flows, and 24 hour on-line access to portfolio transactions and holdings, and bond portfolio investment reports. These reports include:

Month End Statements: Month End Statements are GASB 40 compliant and provide detailed portfolio holdings information and include the necessary accounting information required for entry into the Town's general ledger. Additionally, PFM can assist the Town with the journal entries associated with investment transactions.

Quarterly Performance Reports: PFM will provide quarterly reports which present significant portfolio detail regarding performance of the portfolio versus the benchmark, investment holdings, maturities, transactions, investment strategies, and the economy during the quarter. Quarterly reports provide all of the details required by the Town's policies and State and Federal regulations as well as an Economic Summary to review the market environment that existed during the quarter. Summary portfolio information is prepared both in text form and graphically to enhance the readability of the product. Clients save time and system costs by utilizing PFM's sophisticated and proprietary links.

The image displays two screenshots of financial reports from PFM Asset Management LLC. The top screenshot is titled "Detail of Securities Held" and shows a table with columns for SECURITY TYPE, CUSIP, SECURITY NAME, FIA GROUP, FIA RISK, FIA SECTOR, FIA INDUSTRY, FIA SUB-INDUSTRY, FIA MARKET, FIA COUNTRY, FIA CURRENCY, FIA DURATION, FIA YIELD, FIA PRICE, FIA QUANTITY, FIA MARKET VALUE, FIA UNREALIZED GAIN/LOSS, FIA COST BASIS, and FIA ACQUISITION DATE. The bottom screenshot is titled "Month Statements Are GASB 40 Compliant With Market Value and Asset Allocation" and features a pie chart showing asset allocation by market value, with a legend for various categories like Government, Corporate, and International.

Annual Performance Reports: PFM also provides annual reports which contain the same detailed information as the quarterly reports but with annual performance of the portfolio and annual updates to the investment strategies and the economy. Comprehensive annual reports also provide the information required by the Town's policies and State and Federal regulations, and economic summary and market conditions for the fiscal year. As with the quarterly reports, portfolio information is provided in text form and with tables and charts.

Quarterly Investment Review Meetings: PFM strongly encourages all of our clients to meet at least on a quarterly basis to; discuss the performance of the investment portfolio, review the quarterly reports, recap the prior quarter, reveal future investment strategies and discover expected cash flow needs. These meetings will be conducted by Ken Couch and Steven Alexander, CTP, CGFO. They provide the opportunity to discuss market related topics such as Federal Open Market Committee meetings, economic indicators and other relevant events that occurred during the period which affected the markets, and how those events are expected to impact the markets in future quarters.



D. Reporting Capabilities

On-Line Reporting Access to Portfolio Information

PFM provides on-line access to all of our clients' portfolios. Each client can access current and historical month-end statements as well as daily investment holdings and month-to-date transactions and interest. Portfolio holdings and transaction information is updated daily on the PFM website.

Monthly reports provide the necessary accounting information required for entry into the Town's general ledger. Additionally, PFM can assist the Town with the journal entries associated with investment transactions. Our Accounting Director, Debbie Goodnight, CPA, has assisted the GASB Board in the development of GASB 31 and GASB 40. She is available to the Town for any accounting issues.

Daily Holdings: This report provides the Details of the Securities held page from the month end statement that is updated daily and posted to the website.

Daily Transactions: This report provides the Details of the Transactions from the previous month's end to date and is updated daily and posted to the website.

PFM Client Reporting

Website

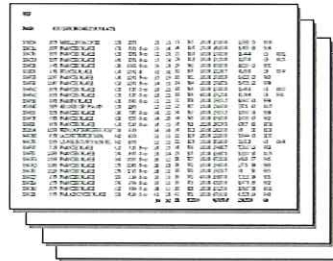
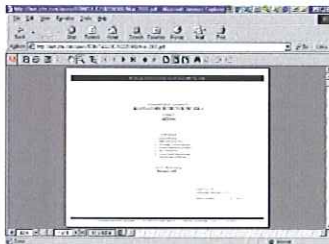
- 24-Hour online account access
- Daily Portfolio holdings
- Details of transactions updated daily
- Archive of month-end Portfolio Statements

Monthly Reports

- Portfolio holdings
- Transaction detail
- Market values and sources
- Cash and accrual basis accounting
- Complete GASB 31 and GASB 40 information

Quarterly/Annual Reports

- Economic review and outlook
- Trading strategy
- Compliance with policy
- Return vs. benchmark
- Portfolio composition and duration





D. Reporting Capabilities

Additional Reports provided to the Town

Monthly Asset Allocation: This monthly report provides a graphical representation of the percentage allocation of investment holdings by security type and individual issuer and each holding's compliance with the investment policy.

Monthly Market Update and Outlook

PFM provides a monthly recap of the economy and market information and the expectations of what economic information may affect the market in the coming weeks.

Period Market Reports

Occasionally certain events take place within the market that significantly affects the economy. These reports explain the impact of these events and how they affect the investment strategy of the client's portfolios.

Trade Tickets

PFM provides the client with trade tickets by the end of day on which the transaction occurred. These trade tickets provide the client with an excellent audit trail for transactions which occurred within the portfolio.

BUY		
Public Agency	1/18/06	1/19/06
Client Name	Trade Date	Settlement Date
FREDDIE MAC GLOBAL NOTES		3.625%
Security Description		Coupon
MERRILL LYNCH & CO.	3128X36U2	9/15/06
Broker	CUSIP	Maturity Date
4,985,000		\$4,970,892.45
Par	Dated Date	Principal
3.825%	99.717	\$ 9,537.27
Yield to Maturity	Price	Accrued Interest
\$4,980,429.72		
Total Cost		
Merrill Lynch & Co. 3.825%	BA 3.795%	BNP 3.7605%
Goldman Sachs 3.7815%	BS 3.7305%	

Minimum Three Bids per Trade

Up-to-date Economic

Bond Investment Strategies Reports: PFM provides a comprehensive approach to the review and investment strategies for bond proceeds. This analysis provides options for the investment of bond proceeds based on project draw schedules and current and expected market conditions.

Banking and Custodial Services Analysis: PFM assisted the Town in the development of a customized request for proposals for banking and custodial services, and reviewed and analysis of proposals received, to obtain optimal banking services. This was an integral process in establishing the Town's current treasury and investment program.

A sample of the PFM reports that will be provided to the Town is included in the **Appendix**. Month-end Statements are provided in **Tab E**, a Quarterly Performance Report, which includes an Asset Allocation Report, is included in **Tab F**, a Monthly Market Update and Outlook is provided in **Tab G**, a Market Update Report is provided in **Tab H of the Appendix**.



D. Reporting Capabilities

11) Describe the process the firm would go through to assist the Town in identifying an appropriate industry benchmark.

PFM will work with the Town to select the proper performance benchmark. Benchmarks can then be used to measure and evaluate investment performance and to make comparisons of risk and return. Benchmarks can also be used to evaluate the relative merits of a particular investment strategy. The most commonly employed benchmark for a portfolio or investment strategy is a market index. Any index used as a benchmark should offer an independent representation of the market or a particular market segment, and should be readily available. A wide variety of standardized indices exist, and additionally, it is possible to create a custom index tailored to a specific portfolio or investment strategy. Although benchmarking with an index is a relatively simple concept, it is very important to choose an index that provides an accurate representation of the portfolio or strategy being evaluated. An inappropriate benchmark cannot only lead to the misinterpretation of performance results, but also inappropriate risks taken by the portfolio manager seeking to outperform the selected bogey.

The results of this analysis will allow the Town to answer the following questions:

- What benchmark should be used to evaluate the performance of the investment manager?
- Is the return of the portfolio consistent with the level of risk incurred?
- Should the Town use a "standard" benchmark or develop a custom benchmark?
- Should performance be computed on a "book" or "total return" basis?
- How often should performance be computed? Reported?



E. Fees



E. Fees

12) Provide the fee schedule that would apply to this account.

PFM's investment management fee is based on the total assets under management. There would be no portfolio management fees for funds invested in money markets funds or investment pools. PFM proposes to charge the Town the following fee, in monthly installments, based on the following schedule:

The fixed fee schedule for **Assets** under management is as follows:

Portfolio Value	Assets Under Management	Basis % of Account Market Value
All Assets	\$0 - \$25 million	0.08% (8.0 basis points)
	\$25 million - \$50 Million	0.07% (7.0 basis points)
	Over \$50 Million	0.065% (6.5 basis points)

As part of PFM's standard investment management services, we would provide the Town with monthly and quarterly reports, asset allocation reports, cash flow analyses, Investment Policy review, portfolio investment sensitivity analyses and expenditure benchmark compliance reports, for the expenditure exception from arbitrage rebate, spending estimates in advance of the benchmark dates, and a periodic report on the arbitrage status of the bond proceeds invested in the PFM-managed portfolio, for no additional charge.

The pricing in this proposal would remain the same throughout the contract term, unless otherwise agreed upon and an addendum signed by both parties stating the change in fees.

It is also important for the Town to understand that the fees that are quoted in this section are the only fees that PFM will receive from any sources. Unlike many of our competing investment advisory firms, PFM does not have a broker/dealer subsidiary that would be utilized to execute security trades and thereby be compensated for that activity. Trade tickets and confirmations will come to the Town from PFM and from the executing third-party broker/dealer. In this way, the Town can be assured that PFM has not profited from the execution. This also ensures that the Town's trades are being executed to benefit the citizens of Addison and not to churn the account in order to generate trading commissions or per trade fees.

Authorized Official Signature

[Handwritten Signature]
Steven Alexander, Managing Director

Sworn to and subscribed before me this 26th day of August, 2008.

Personally known X

OR Produced identification _____

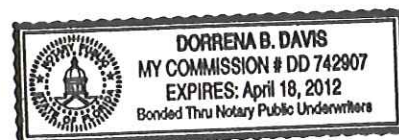
Notary Public – State of Florida

My commission expires April 18, 2012

(Type of Identification)

[Handwritten Signature]

(Printed typed or stamped Commissioned name of Notary Public)





E. Fees

13) Identify any expenses that would not be covered through the fee structure and would be required in order to implement your firm's program

The Town's custodial services fees would not be covered and would be needed to implement the investment advisory services as described in this proposal. **Other than the Town's own custodial service fees, which the Town will need to contract for (PFM can assist if needed), there are no additional expenses that the Town is expected to pay for investment advisory services that are not covered by the fees as outlined in the proposal for Investment Advisory Services.**

PFM can provide additional services at the Town's request. Fees for additional services would be negotiated with the Town based on scope of service(s) provided for each project. Specific services PFM can provide at Town's request include:

Other Post Employee Benefit/GASB 45 Advisory

PFM has put together a comprehensive OPEB advisory and ongoing management service for local governments to deal with their OPEB liability. PFM offers a full-range of planning, advisory, monitoring and client services for its OPEB Advisory clients.

Formal Arbitrage Rebate Computation

If the Town chooses, we would be available to assist in optioning a formal computation and professional opinion on the entire bond issue as an optional service. Optional Arbitrage Rebate services will be billed based on specific research and calculation needs for individual bond issues.

Arbitrage Rebate Service	Base Fee for Arbitrage Rebate Calculation and Opinion
Per issue, per calculation fee, including professional opinion, to be provided on an annual basis.	\$2,500 per issue, per calculation

Structured Product Services

Fees for any structured product engagements, such as investment agreements, escrow structuring and procurement, escrow restructuring, or swap structuring and procurement, would be negotiated and agreed to in writing prior to our undertaking any specific engagement, since the actual fee will depend on the complexity of the work. In our experience providing structured products services for clients, we have typically structured a fee not to exceed \$33,000 for a single engagement.

Please note that our fees for structuring and competitive bidding of investment agreements or escrow securities are within the limits of "qualified administrative costs" under all existing IRS regulations and guidelines. In summary, the proposed IRS regulation states that reasonable fees will not exceed the lesser of 0.2% of the "computational base" (i.e. aggregate deposits over the life of the agreement for investment agreements, or total cost of purchased securities for escrows) or \$33,000 per bond proceeds fund, and further, that; fees will not exceed \$93,000 per bond issue.

Banking Service Analysis & Bidding

PFM has helped numerous clients to design and to negotiate or bid banking and custodial services to meet their needs. We evaluate our client's needs, analyze existing banking and custody services, review how bank services fit into the cash management and investment systems and make specific recommendations as to how the entire system can be improved upon. This thorough analysis has consistently allowed us to help many of our clients to significantly reduce banking and custodial costs, increase earnings and improve the interaction between local banks, custody providers and staff.



F. Other Considerations



F. Other Considerations

14) Describe your firm's approach to managing relationships with the broker/dealer community.

Managing Relationships with Broker-Dealers and Depository Institutions

In addition to our own internal processes for managing our dealer relationships, PFM has assisted clients in the following aspects of broker relationship management:

- establishing credit criteria (including different credit criteria based on the services to be used),
- performing ongoing credit monitoring of firms on an approved broker/dealer list,
- developing a broker/dealer questionnaire,
- requiring that all broker/dealers acknowledge, in writing, receipt of the client's current investment policy,
- developing strategies for the inclusion of minority broker/dealers,
- implementing procedures for implementing a local broker preference without sacrificing competitive pricing, and
- evaluating broker/dealer effectiveness.

Our assessments focus on credit quality/credit risk, financial performance, financial solvency, and regulatory compliance. PFM will help the Town with the approval of broker/dealers, the ongoing management of those relationships and uphold compliance with all Federal and State of Texas laws and ordinances, resolution and policies of the Town.

15) Describe any assistance your firm would provide in reviewing custodial and safekeeping agreements.

Banking Services RFP Development and Analysis

PFM can assist the Town with the development and design of a banking services Request for Proposal which will be customized based on the specific needs of the Town. PFM will also work closely with the Town's Finance Director and staff to review and evaluate proposals submitted by custody service providers to ensure that the Town obtains the appropriate services to meet specified needs. PFM's approach to the evaluation of these services measures qualitative and quantitative factors which results in all providers' services and pricing considered in a uniform manner.

Nationwide, public sector entities have turned to PFM to serve as an independent third-party consultant to assist in procuring banking and custody services. A few clients simply wanted PFM to help re-bid banking services and establish a fair and open process. In other cases, clients were looking for help in analyzing the applicability of new banking and custodial technology and capabilities. As an independent consultant, PFM is able to explain the benefits and drawbacks of various bank products and provide unbiased advice about the best combination of services.

In the last three years, PFM has completed bank restructures and/ or RFP's for approximately 280 government clients. The scope of these engagements has ranged from a simple solicitation for a custodian to a comprehensive banking services review and contract re-bidding. Overall, we perform this service frequently and feel that we are very skilled and efficient in the process..

- City of Rowlett, Texas
- Hillsborough County, Florida
- Borough of Jersey Shore, Pennsylvania
- Brevard County, Florida
- City of Chattanooga, Tennessee
- Citizens Property Insurance Corporation, Florida
- Jacksonville Airport Authority, Florida
- Jefferson County Public Schools Authority, Kentucky
- Louisville/Jefferson County, Kentucky
- Minneapolis Public Housing Authority, Minnesota
- Norfolk Airport Authority, Virginia
- Orlando Orange County Expressway Authority, Florida
- Palm Beach County, Florida



F. Other Considerations

- St. John's Water Management District, Florida

The chart below provides a recent sample custody pricing comparison from an RFP process which resulted in savings of up to \$6,700 annually.

Assumptions	
Portfolio Size	\$ 40,000,000
Trades Annually (5 Per Month)	60
Wires Annually (5 Per Month)	60

Fees	Bank A(1)	Bank B(2)	Bank C(3)	Bank D(4)
Set-Up Fee	-	-	-	-
Annual Custody Fee	1 bps \$ 4,000	all-inclusive \$ 11,000	1-2 bps \$ 6,500	\$ 2,500 \$ 2,500
Trade Fee	\$ 15 900	-	\$ 75 900	\$ 25 900
Annual Wire Fee	\$ 15 900	-	\$ 15 900	\$ 25 900
Total Estimated Annual Fee*	\$ 5,800	\$ 11,000	\$ 8,300	\$ 4,300

(1) Minimum Fee \$2,500

(2) Bank B offers all custody services for a fixed fee of \$11,000 for a portfolio size of \$40 million.

(3) First four trades per month free, assumes even 5 trades per month. Fees are 2 basis points for \$25 million, and 1 basis point for the next \$75 million, minimum fee of \$1,500.

(4) Annual custody fixed fee of \$2,500 which includes the first 24 trades and 24 wire transfers per year.

*Fees estimated on certain trade and portfolio size assumptions, actual fees may differ.

16) Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions.

PFM's Credit Committee

Because we manage public sector funds, our style and approach emphasizes avoiding credit risk, minimizing market risk and return volatility. PFM's credit committee meets on a monthly and annual basis and maintains a strict policy on approving credits, and reviews each approved credit. The monthly credit review looks at the industry and any related news stories, while the annual review is an in-depth review of the financials, management, and operating environment. Members of the credit committee include: senior portfolio managers, the Chief Credit Officer, and the Chief Investment Officer, because PFM's primary focus is the investment of funds for government organizations, we understand that safety and liquidity are paramount to our clients and we base our credit approval process with that in mind.

PFM CREDIT COMMITTEE MEMBERS

Robert Cheddar, CFA Portfolio Manager – Chief Credit Officer
Marty Margolis, Senior. Portfolio Manager – Chief investment Officer
Michael Varano, Senior. Portfolio Manager
Kenneth Schiebel, CFA Senior. Portfolio Manager
Gregg Manjerovic, CFA Portfolio Manager
Frank Varano, CPA, Trader

Every PFM approved issue is monitored through Bloomberg and other electronic sources. PFM has access to such sources as Bloomberg, Reuters, TradeWeb, Standard & Poor's, and Moody's to enhance our ability to monitor approved issuers and depository banks.



F. Other Considerations

17) Describe the nature and frequency of meetings that your firm would recommend to keep Town staff informed.

PFM strongly encourages all of our clients to meet at least on a quarterly basis to discuss the performance of the investment portfolio. Ken Couch and Steven Alexander will attend these meetings with the Town. These meetings provide an opportunity to discuss not only the performance of the investments, but also to determine future cash flow needs and discuss future and recap prior quarter investment strategies.



G. Other Information



G. Other Information

18) Provide a copy of your firm's Form ADV, Parts I & II, as on file with the SEC.

PFM's Securities and Exchange Commission's Uniform Application for Investment Adviser Registration (Form ADV Part I and II) is provided **in Tab A in the Appendix.**

19) Provide proof of state registration as an investment advisor.

A copy of PFM's Certificate of Authority to do business in the State of Texas is provided **in Tab I in the Appendix**

20) Provide sample or proposed contract for services.

A sample Investment Advisory Services Agreement is provided **in Tab J in the Appendix**

MERITORIOUS EXCEPTION TO THE ADDISON SIGN ORDINANCE

STAFF REPORT

ME 2008-5

Date: September 11, 2008

Business: Village on the Parkway

Address: 5100 Belt Line Rd Suite 1000 (Bed Bath & Beyond)

Sec. 62-138. Holiday decorations.

Ordinance Requirement

All holiday decorations in districts zoned for single-family residential use are exempt from the following regulations. Nothing in this section shall be construed to prevent tree lights or attached building lights of a primarily decorative nature, clearly incidental and customary and commonly associated with any national, local, or religious holiday, provided such lights shall be dispalyed November 15 to January 15 only. Additionally, the code enforcement officer may allow tree lights and grant a permit if such lights meet the following criteria:

- (1) Such lights do not camouflage or divert attention from traffic signals or directional signs;
- (2) Such lights and wiring thereto is in conformity with the electrical code of the town;
- (3) Such lights and wiring shall not glare upon the street or adjacent property; and
- (4) Such lights shall not blink, flash, or move by any means.
- (5) Such lights shall be installed in accordance with figure 62-138.5, as approved by resolution of the city council.

Request

The applicant is requesting attached type decorative lighting on a continuous basis.

Variance

The ordinance only allows attached decorative type lighting from Nov 15 to Jan 15.

STAFF RECOMMENDATION: It is the opinion of the staff that these types of lights used on a continuous basis presents an ongoing maintenance requirement. Many times lights burn out giving a sporadic gapping appearance that distracts from the the appearance of the building. Therefore staff recommends denial.

STAFF:


Lynn Chandler, Building Official

Addison!

BUILDING INSPECTION DEPARTMENT 16801 Westgrove Dr Addison Texas 75001 972/450-2881 fax: 972/450-2837

Application for Meritorious Exception to the Town of Addison Sign Ordinance

Application Date: 9/10/08 Filing Fee: \$200.00

Applicant: Village on the Parkway - G+I V VOP LP

Address: 5100 Belt Line Rd Suite#: 840

Dallas TX 75254 Phone#: 972 308 0100
City State Zip

Fax#: 972 308 0102

Status of Applicant: Owner Tenant Agent

Location where exception is requested:

Roofline of the Bed Bath & Beyond building along second and third level

Reasons for Meritorious Exception:

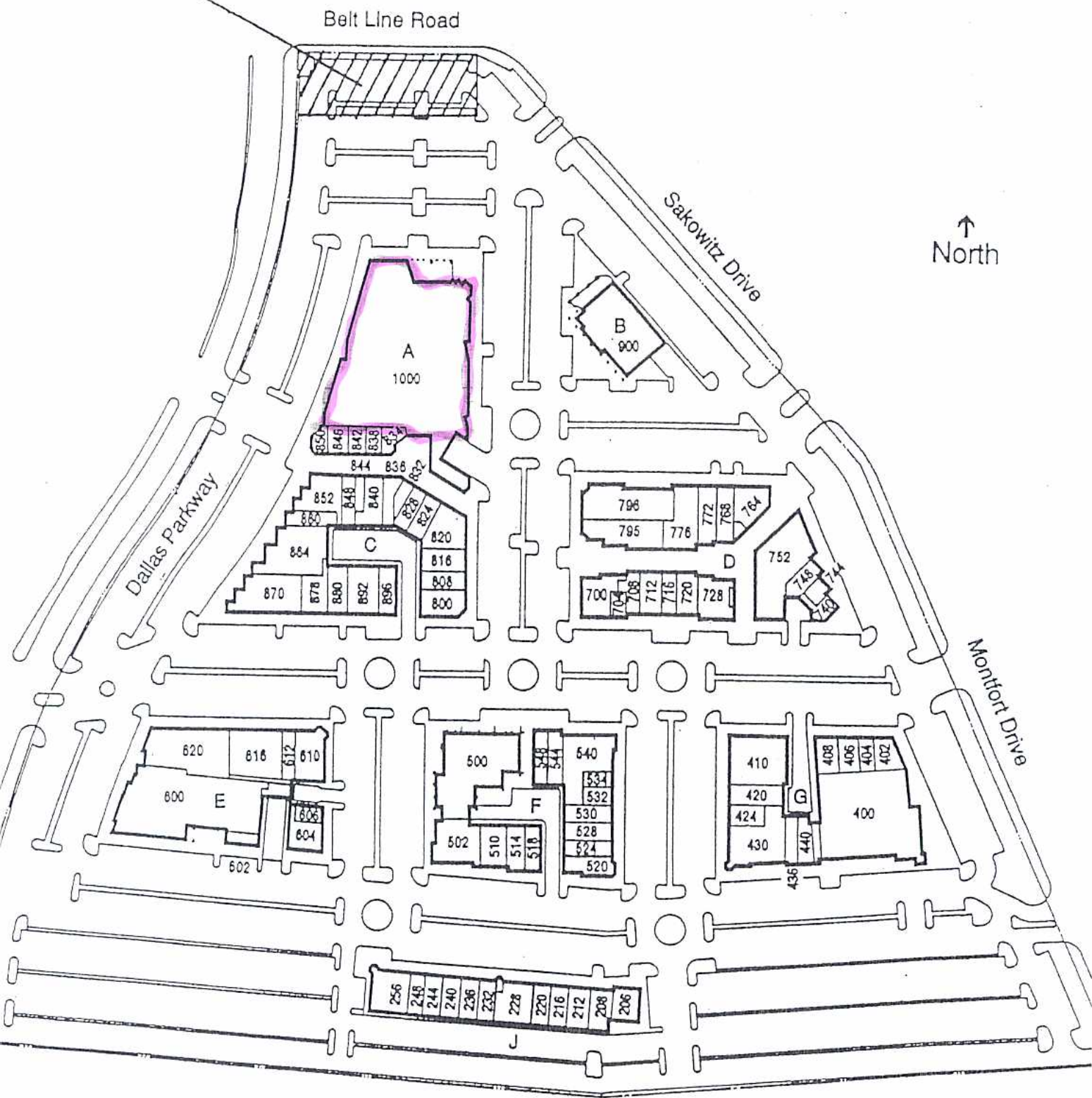
The buildings street front visibility is hindered by the trees in the front parking lot. The lighting will help draw the attention of potential customers. In addition, the owner is working to establish a "Village" type atmosphere within the project through the use of accent lighting.

YOU MUST SUBMIT THE FOLLOWING:

12 COPIES OF THE PROPOSED SIGN SHOWING:

1. Lot Lines
2. Names of Adjacent Streets
3. Location of Existing Buildings
4. Existing Signs
5. Proposed Signs
6. Sketch of Sign with Scale and Dimensions Indicated (8.5 x 11 PLEASE)

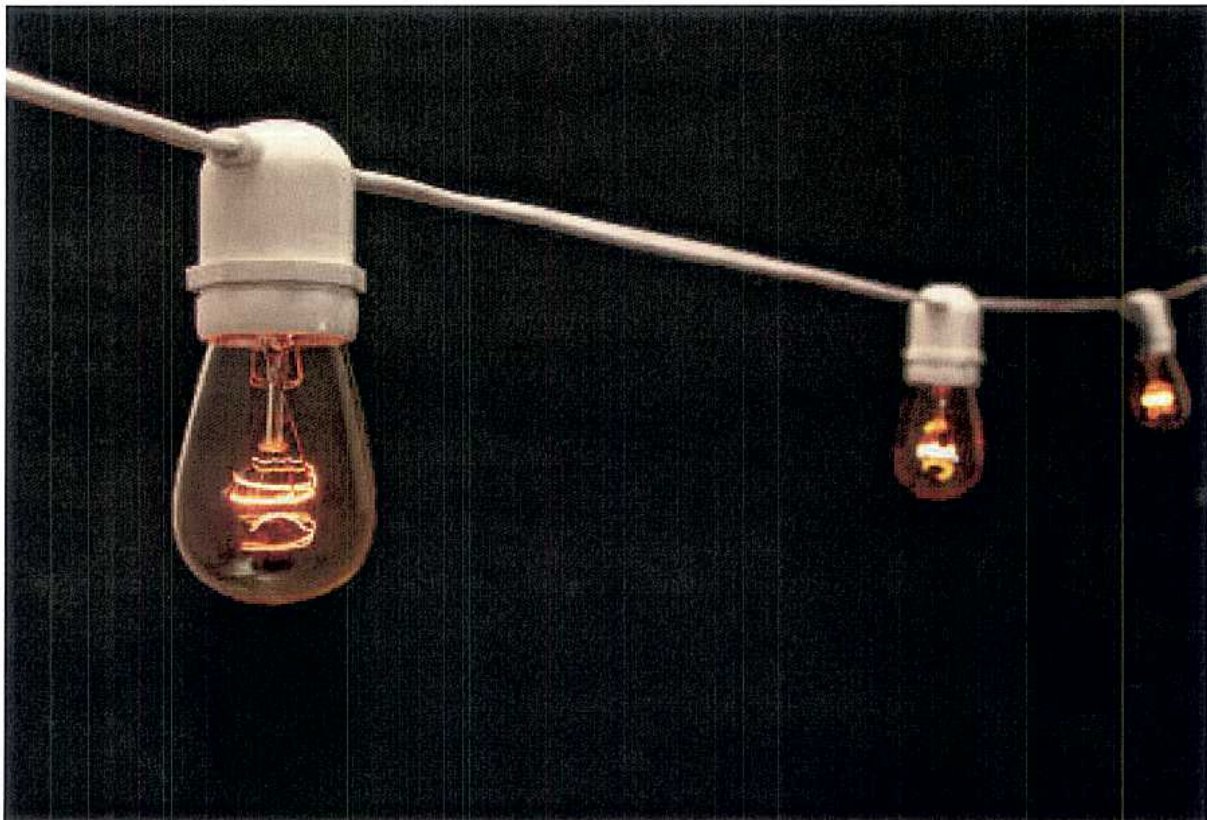
Date Fees Paid 9-11-08 Check # _____ Receipt # _____



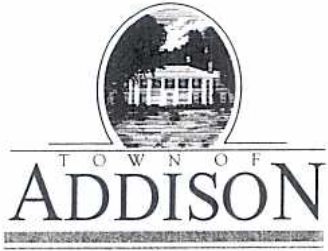
Pink outline of proposed roof lighting for Bed Bath & Beyond Building



Sample Light installation located on South East corner of Bed Bath & Beyond building. 2nd Level



Sample Light Bulb and weather proof fixture



#R11

BUILDING INSPECTION DEPARTMENT
(972) 450-2880 Fax: (972) 450-2837

16801 Westgrove
Post Office Box 9010 Addison, Texas 75001-9010

To: Carmen Moran, Director Development Services

From: *LOC*
Lynn Chandler, Building Official

Date: September 12, 2008

Subject: Expiration of Building Permits

I have written ordinances for the IBC and IRC setting time limits to complete construction of buildings. The ordinances were modeled after the ones adopted by University Park. I have included those sections of their ordinances that are applicable to time limitations on building permits.

The building codes do not set a time limit on completing the construction of a building. They basically require permits to be renewed if construction has been suspended or abandoned for more than 180 days. They may be renewed one or more times if requested in writing showing justifiable cause.

This issue arose over a home that was constructed by Joseph Pranulis at 14832 Winnwood Road. The permit was originally issued on March 5, 1991 and was not officially completed for occupancy until September 2, 2005. During this period Mr. Pranulis renewed the permit several times and paid fines in excess of \$9000 for various code violations. In January of 2005 the Town filed a complaint against Mr. Pranulis in civil court. This prompted Mr. Pranulis to complete the home to meet the minimum standards of the building code for occupancy. This is the only incident of this magnitude involving a residential property that I can recall occurring in the twenty-six years I have been employed with the Town.

The building permit for the high rise building located at 16251 Dallas Parkway that Mary Kay now owns was issued in September of 1985. The building did not receive a full shell certificate of occupancy until July of 1988. It sat vacant until Mary Kay occupied it in November of 1995. I mention this to point out that the completion of a building permit for a commercial building, such as a strip center or office building, may only involve the shell of the building and not the total finish out for occupancy.

These ordinances provide for substantial monetary penalties for not completing construction within the established time limits.

TOWN OF ADDISON, TEXAS

ORDINANCE NO. _____

AN ORDINANCE OF THE TOWN OF ADDISON, TEXAS, AMENDING CHAPTER 18, ARTICLE II OF THE CODE OF ORDINANCES OF THE TOWN BY ADDING A NEW SECTION 18-52.1 (PERMIT EXPIRATION) TO AMEND THE INTERNATIONAL BUILDING CODE, 2006 EDITION (IBC) BY AMENDING SUBSECTION 105.5 OF, AND BY ADDING A NEW SUBSECTION 105.5.1 TO, THE IBC, WHICH AMENDMENTS CONCERN BUILDING PERMITS, INCLUDING A TIME PERIOD FOR COMPLETION OF CONSTRUCTION WORK FOLLOWING THE ISSUANCE OF A BUILDING PERMIT, AND THE REQUIREMENT OF OBTAINING A NEW BUILDING PERMIT AND PAYMENT OF A CORRESPONDING FEE FOLLOWING ITS EXPIRATION; PROVIDING A SAVINGS CLAUSE; PROVIDING A SEVERABILITY CLAUSE; PROVIDING A PENALTY, UPON CONVICTION FOR ANY VIOLATION, NOT TO EXCEED THE SUM OF FIVE HUNDRED AND NO/100 DOLLARS (\$500.00) AND A SEPARATE OFFENSE SHALL BE DEEMED COMMITTED EACH DAY DURING OR ON WHICH A VIOLATION OCCURS OR CONTINUES; PROVIDING AN EFFECTIVE DATE.

BE IT ORDAINED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS:

Section 1. Amendment. The Code of Ordinances of the Town of Addison, Texas (the "City") is hereby amended in the following particulars, and all other chapters, articles, sections, subsections, paragraphs, sentences, phrases, and words are not amended but are ratified and affirmed:

A. Chapter 18 (Buildings and Building Regulations) is amended by adding a new Section 18-52.1 (Permit Expiration) to Division 2 (Deletions, Amendments and Additions, Generally) of Article II (Building Code) thereof, to read as follows:

Sec. 18-52.1. Permit Expiration.

The International Building Code is amended by amending subsection 105.5 and by adding a new subsection 105.5.1 to read as follows:

105.5 Expiration. Every permit issued shall become invalid unless the work on the site authorized by such permit is commenced within 180 days after its issuance, or if the work authorized on the site by such permit is suspended or abandoned for a period of 180 days after the time the work is commenced. The building official is authorized to grant, in writing, one or more extensions of time, for periods not more than 180 days each. The extension shall be requested in writing and justifiable cause demonstrated. Construction of 10,000 square feet or less in area shall be completed within 18 months after the date of

issuance of the permit. Construction of 10,001 square feet or greater in area shall be completed within 24 months after the date of issuance of the permit.

105.5.1 New permits required. A new permit must be obtained for any construction which is not completed in the allowable time period as provided above. A new fee shall be required in connection with the issuance of a new permit. The new fee shall be the amount required for the original permit for such work, provided no changes have been made or will be made in the original plans and specifications for such work. A new permit must be obtained for any construction which has been suspended or abandoned for a period of more than 180 days. The permittee shall make new application, resubmit plans for review, and pay a new full permit fee to resume work.

Section 2. Savings; Repealer. This Ordinance shall be cumulative of all other ordinances of the City and shall not repeal any of the provisions of those ordinances except in those instances where the provisions of those ordinances are in direct conflict with the provisions of this Ordinance. Provided, however, that the repeal of such ordinances or parts of such ordinances shall not affect any right, property or claim which was or is vested in the Town of Addison, Texas, or any act done, or right accruing or accrued, or established, or any suit, action or proceeding had or commenced before the time when this Ordinance shall take effect; nor shall said repeals, amendments or changes effect any offense committed, or any penalty or forfeiture incurred, or any suit or prosecution pending at the time when this Ordinance shall take effect under any of the ordinances or sections thereof so repealed; and to that extent and for that purpose the provisions of such ordinances or parts of such ordinances shall be deemed to remain and continue in full force and effect.

Section 3. Severability. The provisions of this Ordinance are severable, and if any section or provision of this Ordinance or the International Building Code, 2006 Edition, or revisions thereof, adopted herein, or the application of any section or provision to any person, firm, corporation, entity, situation or circumstance is for any reason adjudged invalid or held unconstitutional by a court of competent jurisdiction, the same shall not affect the validity of any other section or provision of this Ordinance or the International Building Code, 2006 Edition, or revisions thereof, or the application of any other section or provision to any other person, firm, corporation, entity, situation or circumstance, and the City Council declares that it would have adopted the valid portions of this Ordinance and the International Building Code, 2006 Edition, or revisions thereof, adopted herein without the invalid parts and to this end the provisions of this Ordinance and the International Building Code, 2006 Edition, and revisions thereof, adopted herein shall remain in full force and effect.

Section 4. Penalty. It shall be unlawful for any person, firm, corporation, or other business entity to violate any provision of this Ordinance, and any person, firm, corporation, or other business entity violating or failing to comply with any provision hereof shall be fined, upon conviction, in an amount of not more than Five Hundred Dollars (\$500.00), and a separate offense shall be deemed committed each day during or on which a violation or failure occurs or continues.

Section 5. Effective Date. This Ordinance shall become effective from and after its passage and approval and its publication as may be required by law (including, without limitation,

the City Charter, and the ordinances of the City).

PASSED AND APPROVED by the City Council of the Town of Addison, Texas this _____ day of _____, 2008.

Joe Chow, Mayor

ATTEST:

By: _____
Mario Canizares, City Secretary

APPROVED AS TO FORM:

By: _____
John Hill, City Attorney

ARTICLE 3.100 INTERNATIONAL CODES ADOPTED*

Sec. 3.101 International Building Code Adopted

The International Building Code, 2006 edition, and amendments, are herewith adopted by reference. A copy of this code, with approved amendments, shall be kept on file in the office of the building inspection division for reference and inspection.

Sec. 3.102 Interpretation of the Building Code

Any requirements considered necessary for the safety, strength or stability of any existing or proposed building or structure, or for the safety or health of the occupants thereof, shall be in accordance with the provisions of the International Building Code, International Residential Code for One- and Two-Family Dwellings, or any amendments, specifications or revisions thereto, and the meaning and intent of such provisions shall be interpreted and determined by the community development manager, subject to the right of appeal contained in such codes, if any.

Sec. 3.103 Amendments to the Building Code

The sections of the 2006 International Building Code that are changed, added, or deleted are as follows:

- (1) In Section 101.1, add reference to jurisdiction:

101.1 Title. These regulations shall be known as the building code of University Park, Texas, hereinafter referred to as “this code.”

- (2) Section 101.4 is changed to read as follows:

101.4 Referenced codes. The other codes listed in Sections 101.4.1 through 101.4.7 and referenced elsewhere in this code, when specifically adopted, shall be considered part of the requirements of this code to the prescribed extent of each such reference. Whenever amendments have been adopted to the referenced codes and standards, each reference to said codes and standards shall be considered to reference the amendments as well. Any reference to NFPA 70 or the ICC Electrical Code shall mean the National Electrical Code as adopted.

- (3) Section 105.2 is hereby deleted.

- (4) Section 105.3.2 is changed to read as follows:

105.3.2 Time limitation of application. An application for a permit for any proposed work shall be deemed to have been abandoned 60 days after the date of filing, unless such application has been pursued in good faith ...*{remainder of section unchanged}*.

- (5) Section 105.5 is changed to read as follows:

105.5 Expiration. Every permit issued shall become invalid unless the work on the site authorized by such permit is commenced within 60 days after its issuance, or if the work authorized on the site by such permit is suspended or abandoned for a period of 60 days after the time the work is commenced. The community development manager ...*{bulk of section unchanged}* ...for periods not more than 60 days each. The extension shall be requested in

writing and justifiable cause demonstrated. Construction of 10,000 square feet or less in area shall be completed within 18 months. Construction of a building 10,001 square feet or greater in area shall be completed within 24 months after the date of issuance of the permit.

(6) Section 105.8 is changed to read as follows:

105.8 New permits required. A new permit must be obtained for any construction which is not completed in the allowable time period or extended as provided above. A new fee shall be required in connection with issuance of a new permit. The new fee shall be one-half the amount required for the original permit for such work, provided no changes have been made or will be made in the original plans and specifications for such work. A new permit must be obtained for any construction which has been suspended or abandoned for a period of more than sixty (60) days. The permittee shall make a new application, resubmit plans for review, and pay a new full permit fee to resume work.

(7) Section 108.2 is changed to read as follows:

108.2 Schedule of permit fees: Fees charged shall be in accordance with the approved master fee schedule of the city.

(8) Section 108.3 is amended to read as follows:

108.3 Building permit valuations. Building permit valuation shall include total market value of the proposed building or improvement, including electrical, gas, mechanical, plumbing equipment and permanent systems. If, in the opinion of the community development manager, the valuation is underestimated on the application, the permit shall be denied, unless the applicant can show detailed estimates to meet the approval of the community development manager. After a permit has been issued, the community development manager may require a certified valuation for the building or improvement to be submitted prior to issuance of a certificate of occupancy.

(9) Section 109.3.5 is hereby deleted.

(10) Add Section 112.1 to read as follows:

Section 112.1.1. The board of adjustment of the city shall serve as the board of appeals required by this code.

(11) Section 112.3 is amended to read as follows:

112.3 Qualifications: The board of adjustment may consult with and obtain testimony and opinions from qualified and experienced professionals in making a determination on matters relating to appeals concerning building construction.

(12) Add a new definition to section 202 to read as follows:

HIGH-RISE BUILDING is a building having floors used for human occupancy located more than 55 feet (16,764 mm) above the lowest level of fire department vehicle access.

(13) Section 403.1 is changed to read as follows:

TOWN OF ADDISON, TEXAS

ORDINANCE NO. _____

AN ORDINANCE OF THE TOWN OF ADDISON, TEXAS, AMENDING CHAPTER 18, ARTICLE VII OF THE CODE OF ORDINANCES OF THE TOWN BY ADDING A NEW SECTION 18-422 (PERMIT EXPIRATION) TO AMEND THE INTERNATIONAL RESIDENTIAL CODE, 2006 EDITION (IRC) BY AMENDING SUBSECTION R105.5 OF, AND BY ADDING A NEW SUBSECTION R105.5.1 TO, THE IBC, WHICH AMENDMENTS CONCERN BUILDING PERMITS, INCLUDING A TIME PERIOD FOR COMPLETION OF CONSTRUCTION WORK FOLLOWING THE ISSUANCE OF A BUILDING PERMIT, AND THE REQUIREMENT OF OBTAINING A NEW BUILDING PERMIT AND PAYMENT OF A CORRESPONDING FEE FOLLOWING ITS EXPIRATION; PROVIDING A SAVINGS CLAUSE; PROVIDING A SEVERABILITY CLAUSE; PROVIDING A PENALTY, UPON CONVICTION FOR ANY VIOLATION, NOT TO EXCEED THE SUM OF FIVE HUNDRED AND NO/100 DOLLARS (\$500.00) AND A SEPARATE OFFENSE SHALL BE DEEMED COMMITTED EACH DAY DURING OR ON WHICH A VIOLATION OCCURS OR CONTINUES; PROVIDING AN EFFECTIVE DATE.

BE IT ORDAINED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS:

Section 1. Amendment. The Code of Ordinances of the Town of Addison, Texas (the "City") is hereby amended in the following particulars, and all other chapters, articles, sections, subsections, paragraphs, sentences, phrases, and words are not amended but are ratified and affirmed:

A. Chapter 18 (Buildings and Building Regulations) is amended by adding a new Section 18-422 (Permit Expiration) to Article VII (Housing Code) thereof, to read as follows:

Sec. 18-422 Permit Expiration

The International Residential Code is amended by amending subsection R105.5 and by adding a new subsection R105.5.1 to read as follows:

R105.5 Expiration. Every permit issued shall become invalid unless the work authorized by such permit is commenced within 180 days after its issuance, or if the work authorized by such permit is suspended or abandoned for a period of 180 days after the time work is commenced. All work commenced under a building permit shall be completed within 18 months. The building official is authorized to grant, in writing, an extension of time, for a period of not more than 180 days. The extension shall be requested in writing and justifiable cause demonstrated. No permit shall be extended more than once.

R105.5.1 New permits required. A new permit must be obtained for any construction which is not completed within the allowable time period or extended as provided above. A new fee shall be required in connection with the issuance of a new permit. The new fee shall be the amount required for the original permit for such work, provided no changes have been made or will be made in the original plans and specifications for such work. A new permit must be obtained for any construction which has been suspended or abandoned for a period of more than 180 days. The permittee shall make new application, resubmit plans for review, and pay a new full permit fee to resume work.

Section 2. Savings; Repealer. This Ordinance shall be cumulative of all other ordinances of the City and shall not repeal any of the provisions of those ordinances except in those instances where the provisions of those ordinances are in direct conflict with the provisions of this Ordinance. Provided, however, that the repeal of such ordinances or parts of such ordinances shall not affect any right, property or claim which was or is vested in the Town of Addison, Texas, or any act done, or right accruing or accrued, or established, or any suit, action or proceeding had or commenced before the time when this Ordinance shall take effect; nor shall said repeals, amendments or changes effect any offense committed, or any penalty or forfeiture incurred, or any suit or prosecution pending at the time when this Ordinance shall take effect under any of the ordinances or sections thereof so repealed; and to that extent and for that purpose the provisions of such ordinances or parts of such ordinances shall be deemed to remain and continue in full force and effect.

Section 3. Severability. The provisions of this Ordinance are severable, and if any section or provision of this Ordinance or the International Residential Code, 2006 Edition, or revisions thereof, adopted herein, or the application of any section or provision to any person, firm, corporation, entity, situation or circumstance is for any reason adjudged invalid or held unconstitutional by a court of competent jurisdiction, the same shall not affect the validity of any other section or provision of this Ordinance or the International Residential Code, 2006 Edition, or revisions thereof, or the application of any other section or provision to any other person, firm, corporation, entity, situation or circumstance, and the City Council declares that it would have adopted the valid portions of this Ordinance and the International Residential Code, 2006 Edition, or revisions thereof, adopted herein without the invalid parts and to this end the provisions of this Ordinance and the International Residential Code, 2006 Edition, and revisions thereof, adopted herein shall remain in full force and effect.

Section 4. Penalty. It shall be unlawful for any person, firm, corporation, or other business entity to violate any provision of this Ordinance, and any person, firm, corporation, or other business entity violating or failing to comply with any provision hereof shall be fined, upon conviction, in an amount of not more than Five Hundred Dollars (\$500.00), and a separate offense shall be deemed committed each day during or on which a violation or failure occurs or continues.

Section 5. Effective Date. This Ordinance shall become effective from and after its passage and approval and its publication as may be required by law (including, without limitation, the City Charter, and the ordinances of the City).

PASSED AND APPROVED by the City Council of the Town of Addison, Texas this _____ day of _____, 2008.

Joe Chow, Mayor

ATTEST:

By: _____
Mario Canizares, City Secretary

APPROVED AS TO FORM:

By: _____
John Hill, City Attorney

herein as "this code."

(2) Section R102.4 is changed to read as follows:

R102.4 Referenced codes and standards. The codes, when specifically adopted, and standards referenced in this code shall be considered part of the requirements of this code to the prescribed extent of each such reference.

Whenever amendments have been adopted to the referenced codes and standards, each reference to said code and standard shall be considered to reference the amendments as well. Any reference made to NFPA 70 or the National Electrical Code shall mean the electrical code as adopted.

Where differences occur between provisions of this code and referenced codes and standards, the provisions of this code shall apply.

Exception: Where enforcement ...*{remainder of exception unchanged}*.

(3) In Section R105.1, add a sentence to read as follows:

It shall be the responsibility of those performing such work to obtain the proper permits prior to commencement of any work.

(4) Section R105.2 is hereby deleted.

(5) Section R105.5 is changed to read as follows:

R105.5 Expiration. Every permit issued shall become invalid unless the work authorized by such permit is commenced within 60 days after its issuance, or if the work authorized by such permit is suspended or abandoned for a period of 60 days after the time the work is commenced. For one- and two-family construction, all work commenced under a building permit shall be completed within eighteen (18) months. The community development manager ...*{remainder of section unchanged}*. No permit shall be extended more than once.

(6) Add Section R105.5.1 to read as follows:

R105.5.1 New permits required. A new permit must be obtained for any construction which is not completed in the allowable time period or extended as provided above. A new fee shall be required in connection with issuance of a new permit. The new fee shall be one-half the amount required for the original permit for such work, provided no changes have been made or will be made in the original plans and specifications for such work. A new permit must be obtained for any construction which has been suspended or abandoned for a period of more than sixty (60) days. The permittee shall make a new application, resubmit plans for review, and pay a new full permit fee to resume work.

(7) Section 108.2 is changed to read as follows:

108.2 Schedule of permit fees: Fees charged shall be in accordance with the approved master fee schedule of the city.

Council Agenda Item: #R12

SUMMARY:

Discussion and consideration of an ordinance declaring a grace period on the enforcement of the fire sprinkler requirements of the international fire code and international building code, and adopted amendments until January 1, 2009.

FINANCIAL IMPACT:

None

BACKGROUND:

On April 22, 2008 the City Council of the Town of Addison adopted the 2006 editions of the International Fire Code and International Building Code with amendments. In previous editions of the Code, A-2 (restaurant) occupancies were required to install fire sprinklers if the occupant load was greater than 300 persons. However, in response to the loss of life after a night club fire in Rhode Island, the Codes were changed for 2006. The new 2006 editions of the Codes contain a new provision: 903.2.1.2 #2, which reduced occupant loads and requires A-2 (restaurant) occupancies to install fire sprinklers if the occupant load is greater than 100 persons.

The new requirement is a standard in the National Code. However, our preliminary indications are that it is a very expensive change in the Code that was not anticipated by the restaurant community. In conversations with restaurant operators, we have learned that some operators, although they had not applied for a permit, were very far along in plans for extensive renovations and remodels. This Code change came as a surprise that made the projects financially not feasible.

The staff realizes that the restaurant industry is a vital economic engine to the Town, and that the Town should encourage renovations and expansions of existing restaurants where possible, while still maintaining a safe environment for customers. The staff does not believe it is appropriate to repeal the Code amendment altogether. However, the staff believes that a "grace period" for enforcement of the new Code is a reasonable way to allow projects that were far along in the planning process to go ahead and get permitted. In addition, the staff will use the time between now and January 1, 2009 to make all restaurant operators aware of the new Code requirements and their possible financial impacts.

RECOMMENDATION:

The staff recommends the Council approve an ordinance declaring a grace period on the enforcement of the fire sprinkler requirements of the international fire code and international building code, and adopted amendments until January 1, 2009.

TOWN OF ADDISON, TEXAS

ORDINANCE NO. _____

AN ORDINANCE OF THE TOWN OF ADDISON, TEXAS AMENDING THE 2006 EDITIONS OF THE INTERNATIONAL FIRE CODE AND THE INTERNATIONAL BUILDING CODE BY AMENDING THE DATE FOR THE APPLICATION OF SECTION 903.2.1.2, PARAGRAPH #1 and #2 OF EACH OF THEM, RELATING TO INSTALLATION OF FIRE SPRINKLERS FOR A-2 (RESTAURANT) OCCUPANCIES; AMENDING THE CODE OF ORDINANCES OF THE TOWN BY AMENDING SECTION 38-53 (PROVISIONS FOR FIRE SAFETY) AND SECTION 18-63 (AUTOMATIC FIRE EXTINGUISHING SYSTEMS) CONCERNING FIRE SPRINKLERS; PROVIDING A SAVINGS AND REPEALER CLAUSE; PROVIDING A SEVERABILITY CLAUSE; PROVIDING A PENALTY, UPON CONVICTION, FOR ANY VIOLATION, NOT TO EXCEED THE SUM OF TWO THOUSAND AND NO/100 DOLLARS (\$2,000.00) AND A SEPARATE OFFENSE SHALL BE DEEMED COMMITTED EACH DAY DURING OR ON WHICH A VIOLATION OCCURS OR CONTINUES; PROVIDING AN EFFECTIVE DATE.

WHEREAS, on April 22, 2008 the City Council of the Town of Addison, Texas (the “City”) adopted the 2006 edition of the International Fire Code, with amendments, by the adoption of Ordinance No. 008-013, and adopted the 2006 edition of the International Building Code, with amendments, by the adoption of Ordinance No. 008-007; and

WHEREAS, the 2006 editions of the International Fire Code and the International Building Code each contain a provision – Section 903.2.1.2, paragraph 2 - which requires A-2 (restaurant) occupancies to install fire sprinklers if the occupant load is greater than 100 persons; and

WHEREAS, the enactment of Section 903.2.1.2, paragraph 2 has resulted in the unanticipated effect of increasing development costs for the restaurant and development community when such costs had not been expected or anticipated by restaurant developers; and

WHEREAS, the City seeks to make the community as safe as possible while supporting the needs of business operators, and in order to provide an opportunity for the restaurant development community to become further informed about and to incorporate the requirements of Section 903.2.1.2, paragraph 2 into development plans, the City Council desires to amend the International Fire Code and the International Building Code to modify the effective date of the provision, and further desires to make certain other modifications to the said Codes relating to fire sprinkler systems as set forth herein.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS:

Section 1. Amendments to International Fire Code, to International Building Code.

A. International Fire Code Amendments.

1. The International Fire Code, 2006 Edition (the “2006 IFC”), as adopted by Ordinance No. 008-013 of the City (as codified in Article II of Chapter 38 of the Code of Ordinances (the “Code of Ordinances”) of the Town of Addison, Texas (the “City”), is amended so that:

(a) from and after the effective date of this Ordinance through December 31, 2008, Section 903.2.1.2, paragraphs #1 and #2 of the 2006 IFC shall read as set forth in Section 903.2.1.2, paragraphs #1 and #2 of the International Fire Code, 2003 Edition; and

(b) beginning January 1, 2009 and continuing thereafter, (i) Section 903.2.1.2, paragraph #1 of the 2006 IFC shall read as the said paragraph #1 was adopted and amended by City Ordinance No. 008-013, and (b) Section 903.2.1.2, paragraph #2 of the 2006 IFC shall read as set forth in the 2006 IFC.

2. Section 38-53 (Provisions for Fire Safety) of the Code of Ordinances of the City, which section provides for certain amendments to the International Fire Code, 2006 Edition, is hereby amended by amending subsection (i) to read as follows (additions are underlined; deletions are ~~struck through~~):

(i) Section 903.2 of the code shall be amended to read:

Where required. An approved automatic fire sprinkler system shall be installed as follows:

1) In all buildings of any area, size or occupancy built, added to or moved into the Town of Addison after December 8, 1992. In the case of an addition to an existing structure or space an approved automatic fire sprinkler system shall be installed in the addition and the existing structure or space.

Unless otherwise required in the code, the following exceptions apply:

Exception 1: Detached Group U occupancies that do not exceed 500 square feet in area and are located six feet from any other building.

Exception 2: Open parking garages of noncombustible construction that have no other types of occupancies located above the garage.

Exception 3: Existing, unsprinklered, single-family detached dwellings which are added to for the purpose of increasing livable area.

Exception 4: Covered walkways or open canopies above fuel dispensing pumps, bus stops or other similar structures intended only for the temporary protection of persons from inclement weather but not including covered patios attached to buildings.

Exception 5: Group S-2 occupancies used only for the storage or parking of aircraft. (NOTE: All aircraft hangars are subject to the provisions of NFPA 409.)

2) In any existing building ~~or space~~ (except single family detached residences), remodeled or reconstructed after the effective date of this ordinance, where the work performed exceeds ~~5033~~ percent of ~~either both~~ the square footage ~~and~~ the (DCAD assessed) dollar value of the building ~~or space~~.

3) In the attic of any building required by this section to have a fire sprinkler system, except the attics of single family dwellings on fee simple lots.

4) In the occupancies and locations set forth in section 903 of the Fire Code.

B. International Building Code Amendments.

1. The International Building Code, 2006 Edition (the “2006 IBC”), as adopted by Ordinance No. 008-007 of the City (as codified in Article II of Chapter 18 of the Code of Ordinances), is amended so that:

(a) from and after the effective date of this Ordinance through December 31, 2008, Section 903.2.1.2, paragraphs # 1 and #2 of the 2006 IBC shall read as set forth in Section 903.2.1.2, paragraphs #1 and #2 of the International Building Code, 2003 Edition; and

(b) beginning January 1, 2009 and continuing thereafter, (i) Section 903.2.1.2, paragraph #1 of the 2006 IBC shall read as the said paragraph #1 was adopted and amended by City Ordinance No. 008-007, and (ii) Section 903.2.1.2, paragraph #2 of the 2006 IBC shall read as set forth in the 2006 IBC.

2. Section 18-63 (Automatic Fire-Extinguishing Systems) of the Code of Ordinances of the City, which section provides for certain amendments to the International Fire Code, 2006 Edition, is hereby amended by to read as follows (additions are underlined; deletions are ~~struck-through~~):

Sec. 18-63. Automatic fire-extinguishing systems.

The International Building Code is amended by changing section 903.2 to read as follows:

903.2 Sprinklers required. An approved automatic fire sprinkler system shall be installed as follows:

1) In all buildings of any area, size or occupancy built, added to after December 8, 1992. In the case of an addition to an existing structure or space an approved automatic fire sprinkler system shall be installed in the addition and the existing structure or space.

Unless otherwise required in the code, the following exceptions apply:

Exception 1: Detached Group U occupancies that do not exceed 500 square feet in area and are located six feet from any other building.

Exception 2: Open parking garages of noncombustible construction that have no other types of occupancies located above the garage.

Exception 3: Existing, unsprinklered, single-family detached dwellings which are added to for the purpose of increasing livable area.

Exception 4: Covered walkways or open canopies above fuel dispensing pumps, bus stops or other similar structures intended only for the temporary protection of persons from inclement weather but not including covered patios attached to buildings.

Exception 5: Group S-2 occupancies used only for the storage or parking of aircraft. (NOTE: Aircraft hangars are subject to the provisions of NFPA 409.)

(2) In any existing building ~~or space,~~ (except single family detached residences), remodeled or reconstructed after the effective date of this ordinance where work performed exceeds ~~50~~33 percent of ~~either both~~ the square footage ~~and~~ or the (DCAD assessed) dollar value of the building ~~or space~~.

(3) In the attic of any building required by this section to have a fire sprinkler system, except the attics of single family dwellings.

(4) In the occupancies and locations set forth in this section.

For provisions on special hazards and hazardous materials, see the fire code.

Section 2. Savings; Repealer. This Ordinance shall be cumulative of all other ordinances of the City and shall not repeal any of the provisions of those ordinances except in those instances where the provisions of those ordinances are in direct conflict with the provisions of this Ordinance. Provided, however, that the repeal of such ordinances or parts of such ordinances shall not affect any right, property or claim which was or is vested in the Town of Addison, Texas, or any act done, or right accruing or accrued, or established, or any suit, action or proceeding had or commenced before the time when this Ordinance shall take effect; nor shall said repeals, amendments or changes effect any offense committed, or any penalty or forfeiture incurred, or any suit or prosecution pending at the time when this Ordinance shall take effect under any of the ordinances or sections thereof so repealed; and to that extent and for that purpose the provisions of such ordinances or parts of such ordinances shall be deemed to remain and continue in full force and effect.

Section 3. Severability. The provisions of this Ordinance are severable, and if any section or provision of this Ordinance or the International Fire Code, 2006 Edition, or revisions thereof, adopted herein, or the application of any section or provision to any person, firm, corporation, entity, situation or circumstance is for any reason adjudged invalid or held unconstitutional by a court of competent jurisdiction, the same shall not affect the validity of any

other section or provision of this Ordinance or the International Fire Code, 2006 Edition, or revisions thereof, or the application of any other section or provision to any other person, firm, corporation, entity, situation or circumstance, and the City Council declares that it would have adopted the valid portions of this Ordinance and the International Fire Code, 2006 Edition, or revisions thereof, adopted herein without the invalid parts and to this end the provisions of this Ordinance and the International Fire Code, 2006 Edition, and revisions thereof, adopted herein shall remain in full force and effect.

Section 4. Penalty. It shall be unlawful for any person, firm, corporation, or other business entity to violate any provision of this Ordinance, and any person, firm, corporation, or other business entity violating or failing to comply with any provision hereof shall be fined, upon conviction, in an amount of not more than Two Thousand and No/100 Dollars (\$2,000.00), and a separate offense shall be deemed committed each day during or on which a violation or failure occurs or continues. In addition to and cumulative of all other penalties, the Town of Addison shall have the right to seek injunctive relief (and any other available actions or relief) for any and all violations of this Ordinance.

Section 5. Effective Date. This Ordinance shall become effective from and after its passage and approval and its publication as may be required by law (including, without limitation, the City Charter, and the ordinances of the City).

PASSED AND APPROVED by the City Council of the Town of Addison, Texas this _____ day of _____, 2008.

Joe Chow, Mayor

ATTEST:

By: _____
Mario Canizares, City Secretary

APPROVED AS TO FORM:

By: _____
John Hill, City Attorney

Council Agenda Item: #R13

SUMMARY:

This item is the approval of a professional services agreement with Grantham and Associates, Inc. in an amount not to exceed \$75,000 for professional design review services on miscellaneous projects.

FINANCIAL IMPACT:

Design/Inspection Contract Amount:	\$75,000.00
Source of Funds:	Funding allocated in Special Services for Public Works

BACKGROUND:

In May 2008, the Assistant Director of Public Works position became vacant and the town has decided to not fill the position. Staff would like to contract with Grantham and Associates, Inc. to provide professional design review services. We anticipate the need for continuing contract engineering services on an as-needed basis over the next year for ongoing engineering plan review. The additional engineering support will assist the Public Works staff in providing timely and thorough reviews of ongoing engineering projects. With the continuing work on the Vitruvian project, further Addison Circle area developments, the redesign of Belt Line, engineering design work on various airport capital projects, pursuit of drainage improvements throughout the community and other unexpected and regular occurring engineering needs, we feel these services will be warranted.

RECOMMENDATION:

Staff recommends that Council authorize the City Manager to enter into an Engineering Services Agreement with Grantham and Associates, Inc. in an amount not to exceed \$75,000.00, for professional design review services on miscellaneous projects.

Council Agenda Item #R14

SUMMARY:

Consideration of the Approval of a Grant of Fifteen Foot (15') Water Line Easement without Warranty.

FINANCIAL IMPACT:

None

BACKGROUND:

The property owner of the tract of land located at 15980 Midway Road, known as Thomas Developments, has submitted development plans that include an extension of an existing Town of Addison water main. The end of the existing water main is currently located within property owned by the North Texas Tollway Authority (NTTA). The extension of the water main is needed in order to supply domestic water, irrigation and fire service to the development.

Because the NTTA owns the property in which the existing water main is currently located, it is necessary for the Town of Addison to acquire an easement for the water main extension prior to the developer constructing the water main extension. Upon the completion of the water main extension, it will be dedicated to the Town of Addison by the developer.

RECOMMENDATION:

Staff recommends the council approve the Grant of Fifteen Foot (15') Water Line Easement without Warranty subject to the approval of the City Manager and City Attorney.

ITEM #R15

There are no attachments for this Item.