

**AGREEMENT FOR
ARBITRAGE REBATE COMPLIANCE SERVICES
BETWEEN
KELLER INDEPENDENT SCHOOL DISTRICT
(Hereinafter Referred to as the "Issuer")
AND
FIRST SOUTHWEST ASSET MANAGEMENT, INC.
(Hereinafter Referred to as "First Southwest")**

It is understood and agreed that the Issuer, in connection with the sale and delivery of certain bonds, notes, certificates, or other tax-exempt obligations (the "**Bonds**"), will have the need to determine to what extent, if any, it will be required to rebate certain investment earnings (the amount of such rebate being referred to herein as the "**Arbitrage Amount**") from the proceeds of the Bonds to the United States of America pursuant to the provisions of Section 148(f)(2) of the Internal Revenue Code of 1986, as amended (the "**Code**"). For purposes of this Agreement, the term "Arbitrage Amount" includes payments made under the election to pay penalty in lieu of rebate for a qualified construction issue under Section 148(f)(4) of the Code.

We are pleased to submit the following proposal for consideration; and if the proposal is accepted by the Issuer, it shall become the agreement (the "**Agreement**") between the Issuer and First Southwest effective at the date of its acceptance as provided for herein below.

1. This Agreement shall apply to all issues of tax-exempt Bonds delivered subsequent to the effective date of the rebate requirements under the Code, except for (i) issues which qualify for exceptions to the rebate requirements in accordance with Section 148 of the Code and related Treasury regulations, or (ii) issues excluded by the Issuer in writing in accordance with the further provisions hereof, (iii) new issues effected in a fashion whereby First Southwest is unaware of the existence of such issue, (iv) issues in which, for reasons outside the control of First Southwest, First Southwest is unable to procure the necessary information required to perform such services.

Covenants of First Southwest

2. We agree to provide our professional services in determining the Arbitrage Amount with regard to the Bonds. The Issuer will assume and pay the fee of First Southwest as such fee is set out in Appendix A attached hereto. First Southwest shall not be responsible for any extraordinary expenses incurred on behalf of Issuer in connection with providing such professional services, including any costs incident to litigation, mandamus action, test case or other similar legal actions.
3. We agree to perform the following duties in connection with providing arbitrage rebate compliance services:
 - a. To cooperate fully with the Issuer in reviewing the schedule of investments made by the Issuer with (i) proceeds from the Bonds, and (ii) proceeds of other funds of the Issuer which, under Treasury Regulations Section 1.148, or any successor regulations thereto, are subject to the rebate requirements of the Code;
 - b. To perform, or cause to be performed, consistent with the Code and the regulations promulgated thereunder, calculations to determine the Arbitrage Amount under Section 148(f)(2) of the Code; and
 - c. To provide a report to the Issuer specifying the Arbitrage Amount based upon the investment schedule, the calculations of bond yield and investment yield, and other information deemed relevant by First Southwest. In undertaking to provide the services set forth in paragraph 2 and this paragraph 3, First Southwest does not assume any responsibility for any record retention requirements which the Issuer may have under the Code or other applicable laws, it being understood that the Issuer shall remain responsible for compliance with any such record retention requirements.

Covenants of the Issuer

4. In connection with the performance of the aforesaid duties, the Issuer agrees to the following:
 - a. The fees due to First Southwest in providing arbitrage rebate compliance services shall be calculated in accordance with Appendix A attached hereto. The fees will be payable upon delivery of the report prepared by First Southwest for each issue of Bonds during the term of this Agreement.
 - b. The Issuer will provide First Southwest all information regarding the issuance of the Bonds and the investment of the proceeds therefrom, and any other information necessary in connection with calculating the Arbitrage Amount. First Southwest will rely on the information supplied by the Issuer without inquiry, it being understood that First Southwest will not conduct an audit or take any other steps to verify the accuracy or authenticity of the information provided by the Issuer.
 - c. The Issuer will notify First Southwest in writing of the retirement, prior to the scheduled maturity, of any Bonds included under the scope of this Agreement within 30 days of such retirement. This notification is required to provide sufficient time to comply with Treasury Regulations Section 1.148-3(g) which requires final payment of any Arbitrage Amount within 60 days of the final retirement of the Bonds. In the event the Issuer fails to notify First Southwest in a timely manner as provided hereinabove, First Southwest shall have no further obligation or responsibility to provide any services under this Agreement with respect to such retired Bonds.
5. In providing the services set forth in this Agreement, it is agreed that First Southwest shall not incur any liability for any error of judgment made in good faith by a responsible officer or officers thereof and, except to the limited extent set forth in this paragraph, shall not incur any liability for any other errors or omissions, unless it shall be proved that such error or omission was a result of the gross negligence or willful misconduct of said officer or officers. In the event a payment is assessed by the Internal Revenue Service due to an error by First Southwest, the Issuer will be responsible for paying the correct Arbitrage Amount and First Southwest's liability shall not exceed the amount of any penalty or interest imposed on the Arbitrage Amount as a result of such error.

Bonds Issued Subsequent to Initial Contract

6. The services contracted for under this Agreement will automatically extend to any additional Bonds (including financing lease obligations) issued during the term of this Agreement, if such Bonds are subject to the rebate requirements under Section 148(f)(2) of the Code. In connection with the issuance of additional Bonds, the Issuer agrees to the following:
 - a. The Issuer will notify or cause the notification, in writing, to First Southwest of any tax-exempt financing (including financing lease obligations) issued by the Issuer during any calendar year of this Agreement, and will provide First Southwest with such information regarding such Bonds as First Southwest may request in connection with its performance of the arbitrage rebate services contracted for hereunder. If such notice is not provided to First Southwest with regard to a particular issue, First Southwest shall have no obligation to provide any services hereunder with respect to such issue.
 - b. At the option of the Issuer, any additional Bonds to be issued subsequent to the execution of this Agreement may be excluded from the services provided for herein. In order to exclude an issue, the Issuer must notify First Southwest in writing of their intent to exclude any specific Bonds from the scope of this Agreement, which exclusion shall be permanent for the full life of the Bonds; and after receipt of such notice, First Southwest shall have no obligation to provide any services under this Agreement with respect to such excluded Bonds.

Effective Date of Agreement

7. This Agreement shall become effective at the date of acceptance by the Issuer as set out herein below and remain in effect thereafter for a period of five (5) years from the date of acceptance, provided, however, that this Agreement may be terminated with or without cause by the Issuer or First Southwest upon thirty (30) days prior written notice to the other party. In the event of such termination, it is understood and agreed that only the amounts due to First Southwest for services provided and extraordinary expenses incurred to and including the date of termination will be due and payable. No penalty will be assessed for termination of this Agreement. In the event this Agreement is terminated prior to the completion of its stated term, all records provided to First Southwest with respect to the investment of monies by the Issuer shall be returned to the Issuer as soon as practicable following written request by Issuer. In addition, the parties hereto agree that, upon termination of this Agreement, First Southwest shall have no continuing obligation to the Issuer regarding any arbitrage rebate related services contemplated herein, regardless of whether such services have previously been undertaken, completed or performed.

Acceptance of Agreement

8. This Agreement is submitted in duplicate originals. When accepted by the Issuer in accordance with the terms hereof, it, together with Appendix A attached hereto, will constitute the entire Agreement between the Issuer and First Southwest for the purposes and the consideration herein specified. In order for this Agreement to become effective, it must be accepted by the Issuer within sixty (60) days of the date appearing below the signature of First Southwest's authorized representative hereon. After the expiration of such 60-day period, acceptance by the Issuer shall only become effective upon delivery of written acknowledgement and reaffirmation by First Southwest that the terms and conditions set forth in this Agreement remain acceptable to First Southwest.

Governing Law

9. This Agreement will be governed by and construed in accordance with the laws of the State of Texas, without regard to its principles of conflicts of laws.

Acceptance will be indicated on both copies and the return of one executed copy to First Southwest.

Respectfully submitted,

FIRST SOUTHWEST ASSET MANAGEMENT, INC.

By Randee Travis
Authorized Representative

Printed Name: Randee R. Travis

Date 11/30/04

ISSUER'S ACCEPTANCE CLAUSE

The above and foregoing is hereby in all things accepted and approved by

_____, on this the _____ day of _____, _____.

By _____
Authorized Representative

Title _____

Printed Name _____

APPENDIX A - FEES

The Bonds to be covered initially under this contract include all issues of tax-exempt bonds delivered subsequent to the effective dates of the rebate requirements, under the Code, except for issues which qualify for exceptions to the rebate requirements in accordance with Section 148 of the Code and related Treasury regulations. The fee for each of the Bonds included in this contract shall be:

Description	Annual Fees Per Issue Per Computation Year (1)
Base Fee Per Computation Year:	\$2,000
<i>Additional Charges for Special Services Related to:</i>	
Debt Service Reserve Funds	\$500
Commingled Funds	\$500
Transferred Proceeds	\$500
Debt Service Fund Residual Calculations (Excess Tax Collections)	\$500
\$100,000 Test for Debt Service Funds	\$500
Variable/Floating Rate Bond Issue	\$1,000
Yield Restriction Analysis/Yield Reduction Computation	\$500
Universal Cap	\$500
Calculation of Late Interest Amount	\$500
Premium for Quick Turnaround (Preliminary or Final Liability Numbers within 21 days or less)	\$500
Preparation of IRS Refund Request	(2)
Commercial Paper:	
Per allocated issue to perform arbitrage rebate computation	\$4,000
Penalty Calculations:	
Semiannual fee for each issue of Bonds, regardless of issue size.	\$1,000

- (1) A "Computation Year" represents a one year period from the delivery date of the issue to the date that is one calendar year after the delivery date, and each subsequent one-year period thereafter. Therefore, if a calculation is required that covers more than one "computation year," the annual fee is multiplied by the number of computation years contained in the calculation being performed. For example, if the first calculation performed for an issue covers three computation years, the fee for that calculation would be three times the annual fees stated above.
- (2) Fee based upon complexities involved and estimated time to complete request.

EXPLANATION OF ADJUSTMENTS TO BASE FEE

- Debt Service Reserve Funds.** The authorizing documents for many revenue bond issues require that a separate fund be established (the "Reserve Fund") into which either bond proceeds or revenues are deposited in an amount equal to some designated level, such as average annual debt service on all parity bonds. This Reserve Fund is established for the benefit of the bondholders as additional security for payment on the debt. In most instances, the balance in the Reserve Fund remains stable throughout the life of the bond issue. Reserve Funds, whether funded with bond proceeds or revenues, must be included in any calculations of rebate.
- Commingled Fund Allocations.** By definition, a commingled fund means that the proceeds of any particular bond issue have been deposited in a fund that contains amounts that are not part of that bond issue. It is common for issuers to commingle bond proceeds with either operating revenues or other bond proceeds. The arbitrage regulations, while permitting the commingling of funds, require that bond proceeds be "carved-out" for purposes of calculating rebate. Interest must be allocated to the portion of the commingled fund that represents bond proceeds of the issue in question.

3. **Transferred Proceeds Calculations.** When a bond issue is refinanced (refunded) by another issue, special services relating to "transferred proceeds" calculations may have to be performed. Under the regulations, when proceeds of a refunding issue are used to pay principal on a prior issue, a pro rata portion of the refunded bond proceeds are treated as "transferred" to the refunding issue. Although no funds are physically transferred from one issue to another, it is often necessary to perform these calculations for rebate purposes.
4. **Debt Service Fund Residual Calculations.** Because tax rates are established using an estimated collection percentage, the balance in the debt service fund (often referred to as the Interest & Sinking Fund) may exceed the amount necessary to pay the current year's debt service requirements. Any such excess amounts in a debt service fund must be treated as a "reserve fund," thereby subjecting the excess balance to the rebate requirements. To the extent that any amounts deposited in the debt service fund remain for more than thirteen months on a first-in, first-out basis, that excess is classified as a "reserve fund portion" until used for payment of debt service. Special services are required to complete these debt service fund residual calculations.
5. **\$100,000 Test for Debt Service Funds.** The Code requires that a bona fide debt service fund be included in the arbitrage rebate computation if it earns \$100,000 or more in a given bond year and if the issue is not a private activity bond and a long-term fixed rate issue.
6. **Variable/Floating Rate Bond Issues.** Special services are also required to perform the arbitrage rebate calculations for variable rate bonds. A bond is a variable rate bond if the interest rate paid on the bond is dependent upon an index which is subject to changes subsequent to the issuance of the bonds. The computational requirements of a variable rate issue are more complex than those of a fixed rate issue and, accordingly, require significantly more time to calculate. For example, it is necessary to evaluate both a five-year yield as well as one-year yield increments to determine which yield is most beneficial to the issuer.
7. **Yield Restriction Analysis/Yield Reduction Computations.** The Code provides that proceeds of a bond issue may not be invested above the yield on the bond unless an applicable exception applies which provides a temporary period during which proceeds are not yield restricted. First Southwest provides analysis to determine the amount of proceeds which must be yield restricted and provides computations to verify that the proceeds have been properly restricted. In addition, the 1993 Treasury Regulations provide that a yield reduction payment may be made in lieu of yield restricting proceeds. First Southwest will provide the necessary computations to determine the amount of yield reduction payment which must be made.
8. **Universal Cap.** Current regulations provide an overall limitation on the amount of gross proceeds allocable to an issue. In certain circumstances, it is necessary to deallocate proceeds from an issue. First Southwest reviews the universal cap limitation for each bond issue at the appropriate time periods and, if necessary, performs the deallocation of proceeds.
9. **Calculation of Late Interest Amount.** Additional calculations are required if an arbitrage rebate payment is not filed within the time permitted by the regulations. A fee is charged to compute the late interest amount from the time that the payment was originally due until the time the payment is made.

The fee for any Bonds under this contract shall only be payable if a computation is required under Section 148(f)(2) of the Code. In the event that any of the Bonds, fall within an exclusion to the computation requirement as defined by Section 148 of the Code or related regulations and no calculations were required by First Southwest to make that determination, no fee will be charged for such issue. For example, certain bonds are excluded from the rebate computation requirement if the proceeds are spent within specific time periods. In the event a particular issue of Bonds fulfills the exclusion requirements of the Code or related regulations, the specified fee will be waived by First Southwest if no calculations were required to make the determination.

Recognizing that computational complexities are reduced when all or the majority of the gross proceeds of an issue are expended, it is First Southwest's policy to reduce fees to the following levels, as appropriate:

Per issue fees for each circumstance itemized below shall be:

<input type="checkbox"/> Proceeds expended in prior year. Liability updated and report issued.	\$750
<input type="checkbox"/> Debt Service Residual Calculation only.	\$1,250
<input type="checkbox"/> Reserve Fund calculation only.	\$1,250
<input type="checkbox"/> Escrow Fund only.	\$1,250
<input type="checkbox"/> Rebate Fund only.	\$1,250
<input type="checkbox"/> Yield Restriction/Yield Reduction Computation only.	\$2,000

First Southwest's fees are payable upon delivery of the report prepared by First Southwest, the first report to be made following one year from the date of delivery of the Bonds and on each computation date thereafter during the term of the Agreement. The fees for computations of the Arbitrage Amount which encompass more, or less, than one Computation Year of investment data performed during the same computation period shall be prorated to reflect the longer, or shorter, period of work performed during that period.