

**CITY OF LA PINE
RESOLUTION NO. 2016-11**

**A RESOLUTION OF THE CITY OF LA PINE, DESCHUTES COUNTY, OREGON AUTHORIZING THE
ISSUANCE OF A REVENUE BOND AND THE EXECUTION OF A MASTER WATER REVENUE
BOND DECLARATION; DESIGNATION OF AN AUTHORIZED REPRESENTATIVE; AND RELATED
MATTERS**

WHEREAS, the City is authorized to issue revenue bonds for any public purpose under Oregon Revised Statutes 287A.150 (the "Act"); and

WHEREAS, the City finds that it is in its best interest to refund the outstanding (1) Water Revenue Bond No. 1 issued on November 13, 2013 to USDA Rural Development in the original principal amount of \$2,225,964, and (2) Water Revenue Bond No. 2 issued on November 13, 2013 to USDA Rural Development in the original principal amount of \$275,005 (collectively, the "USDA Loans"), for debt service savings; and

WHEREAS, the USDA Loans financed the costs of constructing, repairing and expanding the City's water system; and

WHEREAS, the City adopts this resolution to authorize the issuance of a revenue bond to refinance the USDA Loans, to delegate the authority to establish terms and conditions of the bond pursuant to ORS 287A.300 and execute a Master Water Revenue Bond Declaration.

THE CITY OF LA PINE RESOLVES AS FOLLOWS:

Section 1. Revenue Bonds Authorized

1.1 The City hereby authorizes the issuance of a water revenue bond (the "Series 2016 Bond") under the Act in a maximum aggregate principal amount necessary to refund the USDA Loans and pay the cost of issuance of the Series 2016 Bond in accordance with this Resolution and the Master Water Bond Declaration (the "Master Declaration") authorized by Section 2.5 of this Resolution.

1.2 The Series 2016 Bond shall be a special obligation of the City payable from the net revenues of the City's water system and related amounts that are pledged as provided in the Master Declaration. The City may pledge such revenues to pay the Series 2016 Bond. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge. The owners of the Series 2016 Bond shall not have a lien or security interest on any property financed or refinanced with the proceeds of the Series 2016 Bond.

1.3 The City covenants to fix, maintain and collect rates and charges for the use of the services and facilities of the water system as provided in the Master Declaration.

Section 2. Delegation

The City Manager and the Assistant City Manager, each acting individually, are designated by the City Council to act on behalf of the City under this resolution (each of whom is referred to in this resolution as an "Authorized Officer") and the Authorized Officer may, on behalf of the City:

2.1 Participate in the preparation of, authorize the distribution of, and deem final any disclosure documents for the Series 2016 Bond.

2.2 Establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, record dates and other terms for the Series 2016 Bond.

2.3 Undertake to provide continuing disclosure for the Series 2016 Bond, if required, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.

2.4 Apply for and purchase municipal bond insurance, reserve sureties or other forms of credit enhancements for the Series 2016 Bond, and enter into related agreements.

2.5 Finalize the terms of, execute and deliver the Master Declaration, which pledges the net revenues of the City's water system, contains covenants of the City, describes the terms of the Series 2016 Bond, and describes the terms under which future obligations may be issued on parity with the lien of the Series 2016 Bond. The Master Declaration shall be in substantially the form attached to this Resolution as Exhibit A, with such changes as the Authorized Officer may approve.

2.6 Appoint and enter into agreements with paying agents and other professionals and service providers.

2.7 Enter into covenants to maintain the excludability of interest on the Series 2016 Bond from gross income under the Internal Revenue Code of 1986, as amended (the "Code").

2.8 Designate the Series 2016 Bond as a qualified tax-exempt obligation pursuant to Section 265(b)(3) of the Code.

2.9 Execute any documents and take any other action in connection with the Series 2016 Bond which the Authorized Officer finds will be advantageous to the City.

Section 3. Compliance with Internal Revenue Code.

The City hereby covenants for the benefit of the owner of the Series 2016 Bond to use the proceeds of the Series 2016 Bond and the facilities refinanced with the Series 2016 Bond in the manner required under this Resolution and under prior resolutions of the City, and to otherwise comply with all provisions of the Code, that are required for the interest on the Series 2016 Bond to be excluded from gross income for federal income tax purposes. The City makes the following

specific covenants with respect to the Code: The City will not take any action or omit any action if it would cause the Series 2016 Bond to become an arbitrage bond under Section 148 of the Code.

3.1 The City shall operate the facilities refinanced with the Series 2016 Bond so that the Series 2016 Bond does not become a "private activity bond" within the meaning of Section 141 of the Code.

3.2 The City shall comply with appropriate Code reporting requirements.

3.3 The City shall pay, when due, all rebates and penalties with respect to the Series 2016 Bond that are required by Section 148(f) of the Code.

The Authorized Officer may enter into covenants on behalf of the City to protect the tax-exempt status of the Series 2016 Bond.

Section 4. Resolution to Constitute Contract.

In consideration of the purchase and acceptance of the Series 2016 Bond, the provisions of this Resolution, the Ordinance and the closing documents for the Series 2016 Bond shall constitute a contract between the City and the owners of the Series 2016 Bond. The pledges, covenants and agreements contained herein, in the Ordinance and in the closing documents for the Series 2016 Bond shall be for the equal benefit, protection and security of the owner.

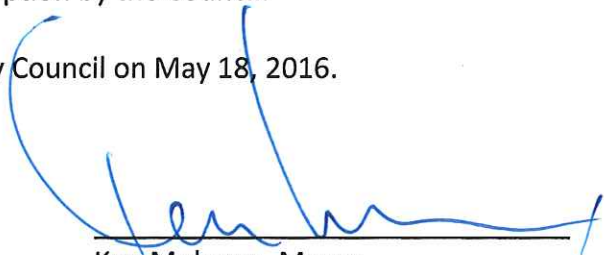
Section 5. Appointment of Bond Counsel. The City appoints Mersereau Shannon LLP to serve as Bond Counsel in connection with the issuance of the Series 2016 Bond.

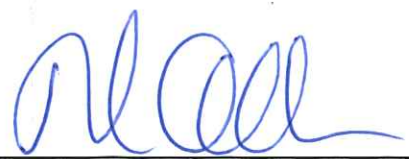
Section 6. Effective Date. Pursuant to ORS 221.310(3), this resolution shall become effective upon passage by the Council and approval of the Mayor.

Section 7. Effective Date

This resolution takes effect upon adoption by the Council.

APPROVED and ADOPTED by the La Pine City Council on May 18, 2016.



Ken Mulenex, Mayor

Richard L. Allen, Interim City Manager

Exhibit A
Master Water Revenue Bond Declaration

**MASTER WATER REVENUE BOND
DECLARATION**

City of La Pine, Oregon

Water Revenue Refunding Bond

Series 2016

**Executed on behalf of the City of La Pine, Oregon
as of May 18, 2016**

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MASTER WATER REVENUE BOND DECLARATION

[NEED TO ADJUST FOOTER]

THIS MASTER WATER REVENUE BOND DECLARATION is executed as of May 18, 2016, by the Authorized Officer of the City of La Pine, Oregon pursuant to the authority granted to the Authorized Officer by City Resolution No. 2016-11 to establish the terms under which the City's Water Revenue Refunding Bond, Series 2016 and future Parity Obligations may be issued.

Section 1. Findings.

The City finds:

1. The City is authorized by Oregon Revised Statutes 287A.150 to issue revenue bonds. The City has adopted Resolution No. 2016-11 which authorizes the City to execute this Master Water Revenue Bond Declaration.
2. The City executes this Master Water Revenue Bond Declaration to specify the terms under which the City's Water Revenue Refunding Bond, Series 2016 (the "Series 2016 Bond") is issued, to describe the terms under which the Net Water Revenues of the Water System are pledged to the Series 2016 Bond, and to describe the terms under which future obligations may be issued that are secured by a parity lien on Net Water Revenues of the Water System.

Section 2. Definitions

Unless the context clearly requires otherwise, capitalized terms that are used in this Master Water Revenue Bond Declaration and are defined in this Section 2 shall have the meanings defined for those terms in this Section 2.

"Adjusted Net Water Revenues" means the Net Water Revenues, adjusted for purposes of Section 6.1 as provided in Section 6.3.

"Annual Debt Service" means in any Fiscal Year the sum of: (1) the amounts of any transfers to the Bond Reserve Account that are described in Section 4.3.C and 4.3.D; plus (2) the amount of principal and interest required to be paid in that Fiscal Year on all Outstanding Bonds, calculated as follows:

- (a) Interest that is to be paid from Bond Proceeds shall be subtracted;
- (b) Bonds that are subject to scheduled, non-contingent redemption or tender shall be deemed to mature on the dates and in the amounts that are subject to mandatory redemption or tender, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date;
- (c) Bonds that are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates; and Each Balloon Payment shall be assumed to be paid according to its Balloon Debt Service Requirement.

"Auditor" means a person authorized by the State Board of Accountancy to conduct municipal audits pursuant to ORS 297.670.

"Authorized Officer" means the City Manager of the City, or any person designated by the City Council to act as "Authorized Officer" under this Master Declaration.

"Balloon Debt Service Requirement" means the Committed Debt Service Requirement for a Balloon Payment or,

if the City has not entered into a firm commitment to sell Bonds or other obligations to refund that Balloon Payment, the Estimated Debt Service Requirement for that Balloon Payment.

“Balloon Payment” means any principal payment for a Series of Bonds that comprises more than twenty-five percent of the original principal amount of that Series, but only if that principal payment is designated as a Balloon Payment in the closing documents for the Series.

“Bank” means Washington Federal, its successors or assigns.

“Base Period” means any twelve consecutive months selected by the City or Qualified Consultant out of the most recent twenty-four months preceding the delivery of a Series of Parity Obligations.

“BEO” means “book-entry-only” and refers to a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

“Bonds” means the Series 2016 Bond and any Parity Obligations.

“Bond Account” means the Bond Account described in Section 4.2 of this Master Declaration.

“Bond Counsel” means a law firm having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

“Bond Reserve Account” means the Bond Reserve Account in the Water Fund described in Section 4.3 of this Master Declaration.

“Bond Reserve Requirement” means the lesser of Maximum Annual Debt Service or the amount described in the next sentence. If, at the time of issuance of a Series of Parity Obligations, the amounts required to be added to the Bond Reserve Account to make the balance in the Bond Reserve Account equal to the Maximum Annual Debt Service exceeds the Tax Maximum for that Series, then the Bond Reserve Requirement shall mean the Bond Reserve Requirement in effect on the date of issuance of the Series of Parity Obligations (calculated as if the Series of Parity Obligations were not Outstanding), plus the Tax Maximum for the Series of Parity Obligations.

“Business Day” means any day except a Saturday, a Sunday, a legal holiday, a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

“City” means the City of La Pine, Deschutes County, Oregon, a municipal corporation of the State of Oregon.

“City Council” means the governing body of the City.

“Code” means the Internal Revenue Code of 1986, as amended, and its applicable rules and regulations.

“Committed Debt Service Requirement” means the schedule of principal and interest payments for a Series of Bonds or other obligations that refund a Balloon Payment, as shown in the documents evidencing the City’s firm commitment to sell that Series. A “firm commitment to sell” means a bond purchase agreement or similar document which obligates the City to sell, and obligates a purchaser to purchase, the Series of Bonds or other obligations, subject only to the conditions that customarily are included in such documents.

“Construction Fund” means the collection of funds and accounts that the City uses to hold proceeds of Bonds.

“Credit Facility” means a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device that is obtained by the City to secure Bonds, and that is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated in one of the two highest rating categories by a Rating Agency that rated the Bonds secured by the Credit Facility.

“Credit Provider” means a person or entity providing a Credit Facility.

“Defeasance Obligations” means direct obligations of the United States, any obligations the payment of which is fully and unconditionally guaranteed by the United States, and any other obligations that Oregon law permits to be used in advance refunding bond escrows.

“DTC” means The Depository Trust Company or any other qualified securities depository designated by the City as its successor.

“Estimated Debt Service Requirement” means the schedule of principal and interest payments for a hypothetical Series of Bonds that refunds a Balloon Payment that is prepared by the City and that meets the requirements of Section 5.5.

“Event of Default” means any event specified in 10.2 of this Master Declaration.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or as otherwise defined by State Law.

“Fitch” means Fitch Investors Service, Inc., its successors and assigns.

“Fund” means a fund, an account, or an accounting entry that is used to account for revenues under this Master Declaration.

“Gross Water Revenues” means all fees and charges and other revenues that are properly accrued as revenues of the Water System under generally accepted accounting principles applicable in the United States of America to the Water System, including Reimbursement SDCs but not Improvement SDCs, revenues from product sales and interest earnings on Gross Water Revenues. Gross Water Revenues also shall also include transfers out of the Rate Stabilization Account. However, the term “Gross Water Revenues” shall not include:

(a) The interest income or other earnings derived from the investment of any escrow fund established for the defeasance or refunding of outstanding indebtedness of the City;

(b) Any gifts, grants, donations or other moneys received by the City from any State or Federal agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Bonds;

(c) The proceeds of any borrowing;

(d) The proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);

(e) The proceeds of any casualty insurance that the City intends to utilize for repair or replacement of the Water System;

(f) The proceeds derived from the sales of assets pursuant to Section 9.9 of this Master Declaration used for the redemption or defeasance of Bonds;

(g) Any ad valorem or other taxes imposed by the City (except charges or payments for Water System services that become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property or property owners);

(h) Any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System.

“Improvement SDC” means a System Development Charge designed to recover costs associated with capital improvements to be constructed in the future.

“Interest Payment Date” means any date on which Bond interest is scheduled to be paid, and any date on which Bonds are called for redemption.

“Master Declaration” means this Master Water Revenue Bond Declaration, including any amendments made pursuant to Section 11.

“Maximum Annual Debt Service” means the greatest amount of Annual Debt Service that is due in any Fiscal Year, beginning with the Fiscal Year for which the calculation is made, and ending with the last Fiscal Year in which Outstanding Bonds are scheduled to be paid.

“Moody's” means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

“Net Water Revenues” means the Gross Water Revenues less the Operating Expenses.

“Operating Expenses” means all costs that are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles applicable in the United States of America to the Water System, plus transfers to the Rate Stabilization Account that are permitted under Section 3.1.J. However, Operating Expenses do not include:

(a) Any rebates or penalties paid from Gross Water Revenues under Section 148 of the Code;

(b) Payments of judgments against the City and payments for the settlement of litigation;

(c) Depreciation and amortization of property values or losses, and all amounts treated for accounting purposes as payments for capital expenditures;

(d) Debt service payments, paying agent fees, broker-dealer fees and similar charges for the maintenance of borrowings;

(e) The expenses of owning, operating or maintaining any Separate Utility System;

(f) Franchise fees and similar charges imposed by the City on the Water System or its operations;

(g) Expenditures made from any liability insurance proceeds;

(h) Expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Water System;

(i) Expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Water System; and

(j) Expenditures allocable to any other funding source that does not constitute Gross Water Revenues of the Water System.

“ORS” means the Oregon Revised Statutes.

“Outstanding” refers to all Bonds except Bonds that have been defeased pursuant to Section 12 of this Master Declaration, and Bonds that have matured and not been presented for payment (provided sufficient funds to pay those Bonds have been transferred to the Registrar).

“Owner” or “Bond Owner” means a registered owner of a Bond.

“Parity Obligation” means any obligation payable from the Net Water Revenues that is issued in accordance with Section 6.

“Payment Date” means a Principal Payment Date or an Interest Payment Date.

“Permitted Investments” means any investments that the City is permitted to make under the laws of the State.

“Principal Payment Date” means any date on which any Bonds are scheduled to be retired, whether by virtue of their maturity or by payment in installments, mandatory redemption or mandatory tender prior to maturity, and the redemption date of any Bonds that have been called for redemption.

“Project” means any purpose for which Gross Water Revenues may be spent.

“Qualified Consultant” means an independent engineer, an independent auditor, an independent financial advisor, or similar independent professional consultant of recognized standing and having experience and expertise in the area for which such person or firm is retained by the City for purposes of performing activities specified in this Master Declaration or any Supplemental Declaration.

“Rate Stabilization Account” means the Rate Stabilization Account described in Section 4.5.

“Rating Agency” means Fitch, Moody's, S&P, or any other nationally recognized financial rating Agency that has rated Outstanding Bonds or a Credit Facility at the request of the City.

“Record Date” for the Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

“Registrar” means the registrar and paying agent for the Bonds.

“Reimbursement SDC” means a System Development Charge designed to recover costs associated with capital improvements already constructed or under construction.

“Reserve Credit Facility” means a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Bond Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Bond Reserve Account if amounts are required to be withdrawn from that account for deposit in the Bond Account.

“Reserve Credit Facility Provider” means a person or entity providing a Reserve Credit Facility.

“S&P” means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and assigns.

“Separate Utility System” means any utility property which is declared by the City to constitute a system that is distinct from the Water System in accordance with Section 8.

“Series 2016 Bond” means the City's Water Revenue Refunding Bond, Series 2016 issued pursuant to Section 16 of this Master Declaration.

“Series 2016 Bondholder” or **“Series 2016 Bondowner”** means the Owner of the Series 2016 Bond, which shall initially be the Bank.

“Series,” refers to all Parity Obligations authorized by a single ordinance or declaration and delivered in exchange for payment on the same date, regardless of variations in maturity, interest rate or other provisions, unless the closing documents for the Series provide otherwise.

“State” means the State of Oregon.

“Subordinate Obligations” means obligations having a lien on the Net Water Revenues that is subordinate to the lien of the Bonds. Restrictions on Subordinate Obligations are described in Section 7.

“Subordinate Obligations Account” means the Subordinate Obligations Account of the Water Fund, which is described in Section 4.4.

“Supplemental Declaration” means any declaration, resolution or other document that supplements or amends this Master Declaration, and is entered into by the City in compliance with Section 11.

“System Development Charge” means a Reimbursement SDC or an Improvement SDC, or a combination thereof, assessed or collected at the time of increased usage of a capital improvement or issuance of a development permit, building permit or connection to the capital improvement. System Development Charge includes that portion of a Water System connection charge that is greater than the amount necessary to reimburse the City for its average cost of inspecting and installing connections with Water facilities.

“Tax Maximum” means, for any Series of Bonds, the least of: the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on such Series; 125% of the average amount of principal, interest and premium, if any, required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding, calculated as of the date of issuance of such Series; or, ten percent of the proceeds of such Series, as “proceeds” is defined for purposes of Section 148(d) of the Code.

“Trustee” means the trustee for the Bonds, if any.

“USDA Loans” means (1) Water Revenue Bond No. 1 issued on November 13, 2013 to USDA Rural Development

in the original principal amount of \$2,225,964, and (2) Water Revenue Bond No. 2 issued on November 13, 2013 to USDA Rural Development in the original principal amount of \$275,005.

“Valuation Date” means July 1 of each year commencing July 1, 2016 (or the first Business Day thereafter, if July 1 is not a Business Day), and the Business Day following any transfer from the Bond Reserve Account to the Bond Account pursuant to Section 4.3.A.

“Water Fund” means the collection of funds and accounts that the City uses to hold Water Revenues prior to their expenditure.

“Water System” means all real and personal property now or hereafter owned, operated, used, or maintained by the City for water collection, storage, treatment and distribution within or without the corporate limits of the City. However, the Water System does not include any Separate Utility System.

Section 3. Management, Deposit, Pledge and Use of Gross Water Revenues

3.1. All Gross Water Revenues shall be deposited to and maintained in the Water Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. The City shall apply Gross Water Revenues in the Water Fund on or before the following dates for the following purposes in the following order of priority:

- A. At any time to pay Operating Expenses which are then due;
- B. On the first day of each month commencing July 1, 2016, transfer Net Water Revenues to the Bond Account in an amount equal to one-sixth ($1/6$) of the interest coming due on the Bonds on the next semiannual Interest Payment Date; *provided that* for purposes of the interest coming due during the period between the dated date of any Bonds and the next semiannual Interest Payment Date, the amount of each monthly transfer for interest coming due shall be equal to the interest coming due on the Bonds on such next semiannual Interest Payment Date divided by the number of months during the period from the dated date of such Bonds to (and including) such Interest Payment Date;
- C. On the first day of each month commencing July 1, 2016, transfer Net Water Revenues to the Bond Account in an amount equal to one-twelfth ($1/12$) of the principal coming due on the Bonds on the next annual Principal Payment Date upon which principal is due on the Bonds (whether by virtue of the stated maturity thereof or the mandatory sinking fund redemption); *provided that* for purposes of the principal coming due during the period between the dated date of the Bonds and the next annual Principal Payment Date, the amount of each monthly transfer for principal coming due shall be equal to the principal coming due on the Bonds on such next annual Principal Payment Date divided by the number of months during the period from the dated date of such Bonds to (and including) such Principal Payment Date; and *further provided that* for purposes of principal coming due during the period between the dated date of the Bonds or between Principal Payment Dates, if principal is due in other than annual intervals, the amount of each monthly transfer for principal coming due shall be equal to the principal coming due on the Bonds on the next Principal Payment Date divided by the number of months during the period from the later of the dated date of such Bonds or the most recent Principal Payment Date to (and including) the next Principal Payment Date.
- D. Notwithstanding the foregoing or anything to the contrary expressed or implied herein to the contrary, if on the Business Day prior to each Payment Date there are insufficient moneys on deposit in the Bond Account to pay in full all amounts of principal and interest due on the Bonds on such Payment Date, then and in any such event the City shall transfer on the Business Day prior to such

Payment Date Net Water Revenues to the Bond Account in an amount equal to the amount of such deficiency.

- E. On each date specified in a schedule for installment funding of the Bond Reserve Account pursuant to Section 4.3.K, to transfer Net Water Revenues in the amount specified in that schedule to the Bond Reserve Account;
- F. On the first day of each month following a Valuation Date on which the balance in the Bond Reserve Account is determined to be less than the Bond Reserve Requirement, to transfer to the Bond Reserve Account the amount required by Sections 4.3.C and 4.3.D;
- G. On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, to pay the amounts due to the United States;
- H. On the dates specified in any proceedings authorizing Subordinate Obligations, the City shall transfer to the Subordinate Obligations Account the Net Water Revenues required by those proceedings;
- I. After all transfers and payments having a higher priority under this Section have been made, Net Water Revenues shall be applied to any franchise fees, utility license fees and similar charges imposed by the City on the Water System or its operations.
- J. On any date, the City may transfer Net Water Revenues to the Rate Stabilization Account or spend Net Water Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made, and the City makes a determination that such payments shall not cause or result in an Event of Default.

3.2. The City hereby pledges the Net Water Revenues, including funds in the Reserve Fund Account, to the payment of principal of, premium (if any) and interest on all Bonds. In addition, the City hereby pledges the Net Water Revenues available for transfer to the Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 287A, these pledges of the Net Water Revenues hereby made by the City shall be valid and binding from the time of the adoption of this Master Declaration. The Net Water Revenues so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act. The lien of these pledges shall be superior to all other claims and liens except liens and claims for the payment of Operating Expenses. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge.

Section 4. Bond Funds and Accounts

- 4.1. **Funds and Accounts.** So long as Bonds are Outstanding, the City shall maintain the Bond Account and the Bond Reserve Account and the Rate Stabilization Account as discrete accounts in the Water Fund. If the City creates the Subordinate Obligations Account, that account shall be maintained in the Water Fund.
- 4.2. **Bond Account.** The Bond Account shall be held by the Trustee. Until all Bonds are paid or defeased, amounts in the Bond Account shall be used only to pay Bonds. The City shall transfer Net Water Revenues to the Trustee for deposit to the Bond Account as described in Section 3.1.B, C and D hereof. Amounts in the Bond Account shall be invested only in Permitted Investments. Earnings on the Bond Account shall be credited to the Bond Account.
- 4.3. **Bond Reserve Account.** The Bond Reserve Account shall be held by the Trustee, except as provided in

Section 16.2. Amounts credited to the Bond Reserve Account shall be used only to pay Bonds, and only if amounts in the Bond Account and Net Water Revenues credited to other accounts in the Water Fund are insufficient.

- A. If, on any Payment Date the amounts on deposit in the Bond Account are insufficient to pay all Bond principal of, premium (if any) and interest due on that Payment Date, the City shall transfer Net Water Revenues in the Water Fund (other than amounts in the Bond Reserve Account) to the Bond Account in an amount equal to the deficiency. If the City is unable to make the transfer described by the preceding sentence, then the City shall transfer an amount equal to the deficiency from the Bond Reserve Account to the Bond Account.
- B. Transfers to the Bond Reserve Account shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Bond Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
- C. If a transfer is made from the Bond Reserve Account to the Bond Account pursuant to Section 4.3.A, the City shall value the amounts in the Bond Reserve Account as of the date of the transfer. If the transfer has reduced the balance in the Bond Reserve Account below the amount the City is required to maintain in the Bond Reserve Account, then beginning on the first day of the month that follows the Payment Date for which the transfer is made, the City shall make consecutive monthly transfers to the Bond Reserve Account until the earlier of the date on which the City has restored the amount of the reduction, or the Bond Reserve Account contains a balance that is equal to the Bond Reserve Requirement. Each transfer required by this Section 4.3.C shall be at least equal to one twelfth of the reduction. The following examples illustrate this requirement. Example 1: The Bond Reserve Requirement on July 1 is \$100, the Bond Reserve Account has a balance of \$105 because the City has not transferred earnings out of the Bond Reserve Account, and the City transfers \$29 from the Bond Reserve Account to the Bond Account. The transfer causes the Bond Reserve Account to have a balance that is \$24 less than the amount the City is then required to maintain in the Bond Reserve Account (the reduction is calculated by subtracting the \$5 surplus from the \$29 transfer). The City must make monthly transfers of \$2 to the Bond Reserve Account beginning on August 1st. Example 2. The City makes the transfer described in Example 1, and commences making \$2 monthly transfers to the Bond Reserve Account. On the next January 1st the City has deposited \$12 into the Bond Reserve Account, so the balance in the Bond Reserve Account on January 1st is \$88, or \$12 less than the amount the City is required to maintain in the Bond Reserve Account. On that January 1st, the City is required to make another transfer of \$12 to the Bond Account. This transfer reduces the balance in the Bond Reserve Account to \$76, and requires the City to make twelve monthly transfers of \$1 to the Bond Reserve Account, beginning on February 1st. On February 1st, the City will be required to make one of the remaining six monthly transfers of \$2 that resulted from the July 1st transfer, and to start making twelve monthly transfers of \$1 because of the January 1st transfer. Assuming no other transactions in the Bond Reserve Account, the balance in the Bond Reserve Account will again be equal to the Bond Reserve Requirement on the following January 1st.
- D. If the value of the Bond Reserve Account on a Valuation Date is less than the Bond Reserve Requirement, and the deficiency is not due to a transfer from the Bond Reserve Account to the Bond Account pursuant to Section 4.3.A, then beginning on the first day of the month that follows the month in which the Valuation Date occurs, the City shall make consecutive monthly transfers to the Bond Reserve Account until the Bond Reserve Account until the City has restored the deficiency described

in the first sentence of this Section 4.3.D or the balance in the Bond Reserve Account is at least equal to the Bond Reserve Requirement. Each transfer shall be at least equal to one fourth of the deficiency.

- E. If the value of the investments in the Reserve Account on a Valuation Date exceeds the Bond Reserve Requirement, the City may transfer the excess to any account of the Water Fund.
- F. Moneys in the Bond Reserve Account may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds. Earnings on the Bond Reserve Account shall be credited to the Bond Reserve Account whenever the balance in that account is less than the Bond Reserve Requirement. Otherwise earnings shall be credited to the Bond Account.
- G. Whenever the City values the Bond Reserve Account the City shall subtract from the value of the Permitted Investments and cash in the Bond Reserve Account all amounts then owed under Reserve Credit Facilities, including any interest, fees and penalties associated with any draws under the Reserve Credit Facilities.
- H. Permitted Investments in the Bond Reserve Account shall be valued on each Valuation Date in the following manner:
 - (i) Demand deposits, deposits in the Oregon Short Term Fund and investments that mature in two years or less after the Valuation Date shall be valued at their face amount, plus accrued interest;
 - (ii) Investments that mature more than two years after the Valuation Date and for which bid and asked prices are published on a regular basis by *The Wall Street Journal* (www.wsj.com) (or, if not there, then by *The New York Times* (www.nytimes.com)) shall be valued at the average of their most recently published bid and asked prices;
 - (iii) Investments that mature more than two years after the Valuation Date and for which the bid and asked prices are not published on a regular basis by *The Wall Street Journal* (www.wsj.com) or *The New York Times* (www.nytimes.com) shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the City in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
 - (iv) Reserve Credit Facilities shall be valued at the amount that is available to be drawn or paid under them; and
 - (v) Certificates of deposit and bankers acceptances that mature more than two years after the Valuation Date shall be valued at their face amount, plus accrued interest.

Any investment that is not specified above and that matures more than two years after the Valuation Date shall be valued at its fair market value as reasonably estimated by the City.

- I. Withdrawals from the Bond Reserve Account shall be made in the following order of priority:
 - (i) *First*, from any cash on deposit in the Bond Reserve Account;
 - (ii) *Second*, from the liquidation proceeds of any Permitted Investments on deposit in such Bond Reserve Account; and

(iii) *Third*, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.

- J. All amounts on deposit in the Bond Reserve Account may be applied to the final payment (whether at maturity, by prior redemption or by means of a defeasance as provided in Section 12) of Outstanding Bonds. Amounts so applied shall be credited against the amounts the City is required to transfer into the Bond Account under Section 3.1.B.
- K. Any Supplemental Declaration authorizing the issuance of a Series of Bonds shall require deposits into the Bond Reserve Account in amounts sufficient to make the balance in the Bond Reserve Account at least equal to the Bond Reserve Requirement.

4.4. Subordinate Obligations Account. If the City issues Subordinate Obligations, the City shall create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding. The Subordinate Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Subordinate Obligations Subaccount. Net Water Revenues shall be deposited into the Subordinate Obligations Account only as permitted by Section 3.1.H. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.

4.5. Rate Stabilization Account. The City shall maintain the Rate Stabilization Account as long as Bonds are Outstanding. Net Water Revenues may be transferred to the Rate Stabilization Account at the option of the City as permitted by Section 3.1.J. The City may deposit additional lawfully available funds other than Net Water Revenues to the Rate Stabilization Account in an amount not to exceed \$10,000 annually. The deposit of such lawfully available funds that are not Net Water Revenues shall not be considered an Operating Expense. Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Water Revenues may be used. Except as provided in this Section 4.5, deposits to the Rate Stabilization Account increase Operating Expenses for the Fiscal Year in which the deposit is made. Withdrawals from the Rate Stabilization Account increase Gross Water Revenues for the Fiscal Year in which the withdrawal is made. The City may adjust deposits to and withdrawals from the Rate Stabilization Account for a Fiscal Year at any time prior to the date on which the audit for that Fiscal Year is finalized. Earnings on the Rate Stabilization Account shall be credited to the Water Fund.

Section 5. Rate Covenant; Estimated Debt Service Requirement for Balloon Indebtedness.

- 5.1. The City covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Water System that are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Water Revenues, and to make all transfers required by this Master Declaration to the Bond Account, the Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Water System or its operations.
- 5.2. The City covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System that, when combined with other Gross Water Revenues, but without regard to transfers from and to the Rate Stabilization Account, are adequate to generate Net Water Revenues each Fiscal Year at least equal to one hundred percent (100.00%) of Annual Debt Service due in that Fiscal Year.
- 5.3. The City covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System that, when combined with other Gross Water Revenues, are adequate to generate Net Water Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Annual

Debt Service due in that Fiscal Year.

- 5.4. The City shall determine whether it complied with Sections 5.2, 5.3 and 16.3 for each Fiscal Year not later than ninety (90) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time, and compliance with Sections 5.2, 5.3 and 16.3 shall be determined based on that financial information. A failure to comply with Sections 5.2, 5.3 and 16.3 shall not constitute an Event of Default if, within one hundred fifty (150) days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of a Qualified Consultant that is engaged by the City to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with Sections 5.2, 5.3 and 16.3 for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations for the partial year made on an annualized basis).
- 5.5. The Estimated Debt Service Requirement for Balloon Indebtedness shall be calculated by the City in accordance with this Section 5.5.
- A. For the Rate Covenants: For each Balloon Payment that is Outstanding on July 1 of any Fiscal Year, the Authorized Officer shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds that Balloon Payment in accordance with Section 5.5.D. The Authorized Officer shall prepare that schedule as of that first day of July, and that schedule shall be used to determine compliance with the rate covenants in Sections 5.2, 5.3 and 16.3 for the following Fiscal Year.
 - B. For Parity Obligations: Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Obligations is issued, the Authorized Officer shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds each Outstanding Balloon Payment in accordance with Section 5.5.D. The Authorized Officer shall prepare that schedule as of the date the Parity Obligations are sold, and that schedule shall be used to determine compliance with the tests for Parity Obligations in Section 6.
 - C. For the Bond Reserve Requirement: Whenever a Series of Bonds that contains a Balloon Payment is issued, the Authorized Officer shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds each Balloon Payment in that Series in accordance with Section 5.5.D. The Authorized Officer shall prepare that schedule as of the date the Series is sold, and that schedule shall be combined with the schedule for payment of any debt service on that Series that is not a Balloon Payment, and that combined schedule shall be used to determine the Bond Reserve Requirement as long as that Series is Outstanding.
 - D. Each hypothetical Series of Bonds shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Authorized Officer; however, the Authorized Officer shall not select a term that exceeds the lesser of 20 years from the date the Balloon Payment is originally scheduled to be paid or the City's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets that are financed with the Balloon Payment. The annual installments shall be assumed to be due on the anniversaries of the date the Balloon Payment is originally scheduled to be paid, with the first installment due on the date the Balloon Payment is scheduled to be paid. The hypothetical Series of Bonds shall be assumed to bear interest at the Authorized Officer's estimate of the average rate that a Series of Bonds would bear if it were amortized as provided in this Section 5.5.D and were sold at the time the applicable schedule described in Section 5.5.A, Section 5.5.B or Section 5.5.C is prepared.

Section 6. Parity Obligations

6.1. The City may issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if:

- A. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing;
- B. At the time of the issuance of the Parity Obligations there is no deficiency in the Bond Account, and the balance in the Bond Reserve Account is at least equal to the Bond Reserve Requirement;
- C. The Supplemental Declaration authorizing the issuance of the Bonds contains a covenant requiring the City to charge rates and fees in connection with the operation of the Water System that, when combined with other Gross Water Revenues, are adequate to satisfy the requirements of Section 5.2, 5.3 and 16.3; and,
- D. There shall have been filed with the City either:
 - (i) A certificate of the Authorized Officer stating that the Net Water Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred thirty percent (130.00%) of Maximum Annual Debt Service on all then Outstanding Bonds, calculated as of the date the Parity Obligations are issued and with the proposed Parity Obligations treated as Outstanding; or
 - (ii) A certificate or opinion of a Qualified Consultant:
 - (a) Stating the amount of the Adjusted Net Water Revenues computed as provided in Section 6.3 below for each of the five Fiscal Years after the last Fiscal Year for which interest on the Parity Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the five Fiscal Years after the proposed Parity Obligations are issued; and
 - (b) Concluding that the respective amounts of Adjusted Net Water Revenues in each of the Fiscal Years described in Section 6.1.D(ii)(a) are at least equal to one hundred thirty percent (130.00%) of the Annual Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding;

6.2. Net Water Revenues may be adjusted for purposes of Section 6.1.D(i) by adding any Net Water Revenues the Authorized Officer calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges that have been adopted by the City on or before the date the Parity Obligations are issued.

6.3. Adjusted Net Water Revenues for purposes of Section 6.1.D(ii) shall be computed by adjusting the Net Water Revenues for each Fiscal Year in any of the following ways:

- A. To reflect any changes in rates and charges that the Qualified Consultant determines are reasonable.
 - B. To reflect any customers added to the Water System after the beginning of the current Fiscal Year and
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prior to the date of the Qualified Consultant's certificate; and

- C. To reflect any additional Net Water Revenues not included in the preceding paragraphs that will be derived from additions and extensions to the Water System that are being financed with the proposed Parity Obligations, or that have been financed with previously issued Parity Obligations for which the additions and extensions have not commenced generating revenues.

6.4. The City may issue Parity Obligations to refund Outstanding Bonds without complying with Section 6.1 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

6.5. All Parity Obligations issued in accordance with this Section shall have a lien on the Net Water Revenues that is equal to the lien of all other Outstanding Bonds.

Section 7. Subordinate Obligations

The City may issue Subordinate Obligations only if:

- 7.1. The Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to Section 3.1.H;
- 7.2. The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Water Revenues that is subordinate to the lien on, and pledge of, the Net Water Revenues for the Bonds.

Section 8. Separate Utility System

The City may declare property that the City owns and is part of the Water System (but has a value of less than five percent of the Water System at the time of this Master Declaration), and property that the City has not yet acquired but would otherwise become part of the Water System, to be part of a Separate Utility System. The City may pay costs of acquiring, operating and maintaining Separate Utility Systems from Net Water Revenues, but only if there is no deficit in the Bond Account or the Bond Reserve Account. The City may issue obligations that are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the City may issue Subordinate Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

Section 9. General Covenants

The City hereby covenants and agrees with the Owners of all Outstanding Bonds as follows:

- 9.1. The City shall promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.
- 9.2. The City shall maintain complete books and records relating to the operation of the Water System in accordance with generally accepted accounting principles in the United States of America, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of Bond Owners.
- 9.3. The City shall not issue obligations that have a lien on the Net Water Revenues that is superior to the lien of the

Bonds.

- 9.4. The City shall promptly deposit the Gross Water Revenues and other amounts described in this Master Declaration into the funds and accounts specified in this Master Declaration.
- 9.5. The City shall work in good faith to cause the Water System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Water System.
- 9.6. The City shall maintain the Water System in good repair, working order and condition.
- 9.7. The City shall not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and shall not provide free Water System products or services except in case of emergencies. However, the City may provide free Water System products or services to the City for so long as those free products and services do not, in the opinion of the City, have a negative and material impact on the Net Revenues.
- 9.8. The City shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.
- A. The net proceeds of insurance against damage to or destruction of the Water System shall be used to repair or rebuild the damaged or destroyed Water System, and to the extent not so applied, will be applied to the payment or redemption of the Bonds.
 - B. Insurance described in this Section 9.8 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves that it deems are necessary to provide for its share of any such self-insurance.
- 9.9. The City shall not, nor shall it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:
- A. The City may dispose of all or substantially all of the Water System, only if the City pays all Bonds or defeases them pursuant to Section 12.
 - B. Except as provided in Section 9.9.C, the City will not, in any Fiscal Year, dispose of any part of the Water System in excess of 5% of the value of the Water System in service unless prior to such disposition either:
 - (i) There has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Sections 5.2, 5.3 and 16.3 of this Master Declaration; or
 - (ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Bonds equal to the greater of the following amounts:
 - (a) An amount that will be in the same proportion to the net principal amount of Bonds then

Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Water Fund) that the Gross Water Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Gross Water Revenues for such period; or

- (b) An amount that will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.
- C. The City may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Water System.
- D. If the ownership of all or part of the Water System is transferred from the City through the operation of law, the City shall apply any amounts the City receives as compensation for the transfer to reconstruct or replace such transferred property or to redeem or defease Bonds, unless the City Council reasonably determines that the transfer will not prevent the City from operating the Water System and complying with Section 5.

Section 10. Events of Default and Remedies.

10.1. **Continuous Operation Essential.** The City Council of the City hereby finds and determines that the continuous operation of the Water System and the collection, deposit and disbursement of the Net Water Revenues in the manner provided in this Master Declaration and in any Supplemental Declaration are essential to the payment and security of the Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Master Declaration or any such Supplemental Declaration will endanger the necessary continuous operation of the Water System and the application of the Net Water Revenues to the operation of the Water System and the payment of the Bonds.

10.2. **Events of Default.** The following shall constitute “**Events of Default:**”

- A. Failure of the City to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- B. Failure of the City to perform any of its obligations under this Master Declaration, but only if:
 - (i) the failure continues for thirty (30) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from a Credit Provider or from the Owners of not less than 20% in aggregate principal amount of the Bonds Outstanding, and,
 - (ii) The failure is not excused by Section 5.4 or Section 10.2.F;
- C. Failure of the City to comply with its obligations under Section 9.9 (which relates to transfer of properties constituting the Water System);
- D. A default or an event of default as defined in any bond purchase agreement for any Series of Bonds;
- E. Entry of an order, judgment or decree by any court of competent jurisdiction:

- (i) Appointing a receiver, trustee or liquidator for the City or the whole or any part of the Water System;
- (ii) Approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or
- (iii) Assuming custody or control of the City or of the whole or any part of the Water System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or

E. If the City shall:

- (i) Admit in writing its inability to pay its debts generally as they become due;
- (ii) File a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
- (iii) Consent to the appointment of a receiver of the whole or any part of the Water System; or
- (iv) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Water System.

F. Exception. It shall not constitute an Event of Default under 10.2.B if the default cannot practicably be remedied within thirty (30) days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied; provided however that any extension for more than 60 days shall require the written consent of the affected Credit Provider or, if there no Credit Provider or if Section 11.4 is applicable, the Owners.

G. Remedies. If an Event of Default occurs, any Bond Owner may exercise any remedy available at law or in equity including mandamus. However, the Bonds shall not be subject to acceleration.

H. Books of Water System Open to Inspection.

- (i) The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Water System shall at all reasonable times be subject to the inspection and use of any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.
- (ii) The City covenants that if the Event of Default shall happen and shall not have been remedied, the City will account, as a trustee of an express trust, for all Net Water Revenues and other moneys, securities and funds pledged under this Master Declaration.

I. Waivers of Event of Default.

- (i) No delay or omission of any Bond Owner to exercise any right or power arising upon the

happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 10 to the Bond Owners may be exercised from time to time and as often as may be deemed expedient by the Bond Owners.

- (ii) Except as provided in Section 11, the Bond Owners of not less than fifty-one percent (51%) in aggregate principal amount of the affected Bonds that are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of the affected Bonds, waive any past default under this Master Declaration with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

J. Remedies Granted in Master Declaration Not Exclusive.

No remedy by the terms of this Master Declaration conferred upon or reserved to the Bond Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Master Declaration or existing at law or in equity or by statute on or after the date of adoption of this Master Declaration.

Section 11. Amendment of Master Declaration

11.1. This Master Declaration may be amended by Supplemental Declaration without the consent of any Bond Owners for any one or more of the following purposes:

- A. To cure any ambiguity or formal defect or omission in this Master Declaration;
- B. To add to the covenants and agreements of the City in this Master Declaration, other covenants and agreements to be observed by the City that are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
- C. To authorize the issuance of Bonds and Subordinate Obligations.
- D. To allow the City's obligations under interest rate swaps, caps, collars or similar agreements that relate to Bonds to be secured on a parity with the Bonds, that, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;
- E. To modify, amend or supplement this Master Declaration and any Supplemental Declaration to qualify those declarations under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;
- F. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
- G. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;
- H. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with

respect to the Bonds affected by such Supplemental Declaration, to make any other change that is consented to in writing by the issuer of such Credit Facility other than any change that:

- (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or,
- (ii) Changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds; or,
- (iii) Diminishes the security afforded to Owners by the Credit Facility; or,
- (iv) Materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility; or
- (v) Reduces the number or percentage of Owners who are required to consent to a modification of this Master Declaration.

I. To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification does not take effect until all Bonds that were issued before the date of the modification have been paid or defeased.

11.2. This Master Declaration may be amended for any other purpose only upon consent of Bond Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Bond Owners of one hundred percent (100%) of the aggregate principal amount of the Bonds outstanding that:

- A. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bond Owner; or
- B. Reduces the number or percentage of Owners who are required to consent to a modification of this Master Declaration.

11.3. For purposes of Section 11.2, and subject to Section 11.4, the initial purchaser of a Series of Bonds may be treated as the Owner of that Series at the time that Series of Bonds is delivered in exchange for payment.

11.4. Except as expressly provided in this Master Declaration or any Supplemental Declaration, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bond Owner of the Bonds secured by such Credit Facility at all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of this Master Declaration, any waiver of a default by the City, or the initiation by Bond Owners of any action that under this Master Declaration requires the written approval or consent of or can be initiated by the Bond Owners of at least a majority in principal amount of the affected Bonds at the time Outstanding; and following an Event of Default for all other purposes.

- A. The issuer of a Credit Facility shall not be allowed to consent to any amendment, change or modification of this Master Declaration that:

- (i) Results in a downgrading or withdrawal of the rating then assigned to the affected Bonds by any of the Rating Agencies; or
 - (ii) Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bond Owner; or
 - (iii) Diminishes the security afforded Owners by the Credit Facility; or
 - (iv) Reduces the number or percentage of Owners who are required to consent to a modification of this Master Declaration.
- B. No issuer of a Credit Facility shall be entitled to exercise any rights under this Section during any period where:
- (i) The Credit Agreement or Credit Facility to which such Credit Provider is a party is not in full force and effect;
 - (ii) The Credit Provider has pending a petition or is otherwise seeking relief under any federal or state bankruptcy or similar law;
 - (iii) The Credit Provider has, for any reason, failed or refused to honor a proper demand for payment under its Credit Facility; or
 - (iv) An order or decree has been entered, with the consent or acquiescence of the Credit Provider, appointing a receiver or receivers of the assets of the Credit Provider, or if such order or decree has been entered without the consent or acquiescence of such Credit Provider, the order is not vacated or discharged or stayed within ninety (90) days after its entry.
- C. For purposes of determining the percentage of Bond Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Declaration, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Registrar sends out notice requesting consent, waiver or other action as provided herein.

Section 12. Defeasance

12.1. The City may defease and deem all or any portion of the Outstanding Bonds to be paid by:

- A. Irrevocably depositing cash or non-callable Defeasance Obligations in escrow in amounts that have been verified by a Qualified Consultant to be sufficient to pay, without reinvestment, the defeased Bonds on the date they mature or the date they have been called for prior redemption; and,
- B. Delivering a report of a Qualified Consultant verifying the sufficiency of the escrow described in Section 12.1.A; and
- C. Filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Bonds to be includable in gross income under the Code.

- 12.2. If Bonds are defeased under this Section, all obligations of the City with respect to those defeased Bonds shall cease and terminate, except for the obligation of the City, the escrow agent and the Registrar to pay the defeased Bonds from the amounts deposited in escrow, and the obligation of the Registrar to continue to transfer Bonds as provided in this Master Declaration.

Section 13. BEO System

- 13.1. Unless otherwise provided by a Supplemental Declaration or the bond purchase agreement for said Series of Bonds, all Bonds shall be subject to the BEO System pursuant to the provisions of this Section 13.
- 13.2. The Bonds shall be initially issued as a BEO security issue with no Bonds being made available to the Bond Owners upon the execution and delivery of the Blanket Issuer Letter of Representations between DTC and the City. Ownership of the Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on the DTC BEO system. The Bonds shall be initially issued in the form of separate single fully registered typewritten Bonds for each maturity of the Bonds (the **"Global Bonds"**) in substantially the form attached hereto as Exhibit A with such language required for the BOE system and with such changes as the Authorized Officer may approve. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the **"Nominee"**) of DTC (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the **"Depository"**) as the **"Registered Owner"**, and such Global Bonds shall be lodged with the Depository until early redemption or maturity of the Bond issue. The Registrar shall remit payment for the maturing principal and interest on the Bonds to the Bond Owner for distribution by the Nominee for the benefit of the owners (the **"Beneficial Owner"** or **"Record Owner"**) by recorded entry on the books of the Depository participants and correspondents. While the Bonds are in BEO form, the Bonds will be available in denominations of \$5,000 or any integral multiple thereof.
- 13.3. In the event the Depository determines not to continue to act as securities depository for the Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the BEO system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Bonds shall no longer be a BEO issue but shall be registered in the registration books maintained by the Registrar in the name of the Bond Owner as appearing on the Bond register and thereafter in the name or names of the Bond Owners of the Bonds transferring or exchanging Bonds.
- 13.4. While the Bonds are in BEO form, the City and the Registrar shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Registered Owner on behalf of which such participants or correspondents act as agent for the Bond Owner with respect to:
- A. The accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the Bonds;
 - B. The delivery to any participant or correspondent or any other person, other than a Bond Owner as shown in the registration books maintained by the Registrar, of any notice with respect to the Bonds, including any notice of prepayment;
 - C. The selection by the Depository of the beneficial interest in Bonds to be redeemed prior to maturity; or

- D. The payment to any participant, correspondent, or any other person other than the owner of the Bonds as shown in the registration books maintained by the Registrar, of any amount with respect to principal of or interest on the Bonds.
- 13.5. Notwithstanding the BEO system, the City may treat and consider the Owner in whose name each Bond is registered in the registration books maintained by the Registrar as the Bond Owner and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the Registered Owner, as shown in the registration books maintained by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.
- 13.6. Upon delivery by the Depository to the City and to the Bond Owner of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word “**Nominee**” in this Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Registrar. The Depository shall tender the Bonds it holds to the Registrar for reregistration.

Section 14. Redemption of Bonds

- 14.1. Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the redemption terms of this Section 14.
- 14.2. If Bonds are subject to mandatory redemption the Registrar shall, without further action by the City, select the particular Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Bonds, and give notice of their redemption in accordance with this Section 14.
- 14.3. If certain maturities of Bonds are subject to both optional and mandatory redemption, the City may elect to apply any of those Bonds that it has previously optionally redeemed. In addition, if the City purchases Bonds that are subject to mandatory redemption, the City may elect to apply against the mandatory redemption requirement any such Bonds that it has previously purchased. If the City makes such an election, it shall notify the Registrar not less than sixty days prior to the mandatory redemption date to which the election applies.
- 14.4. So long as the BEO-System remains in effect with respect to a Series of Bonds, the City shall notify the Registrar of any early redemption not less than 35 days prior to the date fixed for redemption, the Registrar shall notify the Depository of any early redemption not less than 20 but not more than 60 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the Blanket Issuer Letter of Representations submitted to DTC in connection with the issuance of the Bonds.
- 14.5. During any period in which the BEO System is not in effect with respect to the Bonds, unless provided otherwise in the form of bond or applicable bond purchase agreement for said Series of Bond, or waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed, at the address shown on the Bond Register or at such other address as is

furnished in writing by such Owner to the Registrar. The City shall notify the Registrar of any intended redemption not less than 35 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:

- A. The redemption date;
 - B. The redemption price;
 - C. If less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;
 - D. That on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and
 - E. The place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.
- 14.6. The City shall deposit with the Registrar, one business day before the redemption date, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.
- 14.7. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond or Bonds of the same maturity in the amount of the unpaid principal. All Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued. Notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Bonds. From and after such notice having been given and such deposit having been made, the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the City shall be under no further liability in respect thereof.

Section 15. Authentication, Registration and Transfer

- 15.1. The provisions of this Section 15 apply only if the Bonds are not, or cease to be, a BEO issue, and unless otherwise specified in a Supplemental Declaration or applicable bond purchase agreement for the Series of Bonds.
- 15.2. No Bond shall be entitled to any right or benefit under this Master Declaration unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar shall authenticate all Bonds to be delivered at closing, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Master Declaration.
- 15.3. All Bonds shall be in registered form. A Registrar shall be appointed for each Series of Bonds and the City may appoint itself to serve as the Registrar. A successor Registrar may be appointed for the Bonds by

ordinance or resolution of the City. The Registrar shall provide notice to Bond Owners of any change in the Registrar not later than the Bond payment date following the change in Registrar.

- 15.4. The ownership of all Bonds shall be entered in the Bond register maintained by the Registrar and the City and Registrar may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- 15.5. The Registrar shall mail each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Bond Owner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.
- 15.6. Bonds may be exchanged for an equal principal amount of Bonds of the same maturity that are in different authorized denominations, and Bonds may be transferred to other owners if the Bond Owner submits the following to the Registrar:
 - A. Written instructions for exchange or transfer satisfactory to the Registrar, signed by the Bond Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar; and
 - B. The Bonds to be exchanged or transferred.
- 15.7. The Registrar shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date and ending on the next following payment date; however, such Bonds shall be exchanged or transferred promptly following the payment date.
- 15.8. The Registrar shall not be required to exchange or transfer any Bonds which have been designated for redemption if such Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.
- 15.9. For purposes of this section, Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in Section 15.6.
- 15.10. The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Bond Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Section 16. The Series 2016 Bond.

- 16.1. Pursuant to the authority of the ORS 287A.150, Resolution No. 2016-11 and this Master Declaration, the City issues its Water System Revenue Refunding Bond, Series 2016, in the aggregate principal amount of \$2,420,000. The Series 2016 Bond shall be "Bonds" as defined in this Master Declaration. The Series 2016 Bond shall bear interest at a rate equal to _____% and shall be payable in 30 equal semiannual payments of \$_____ on June 2 and December 2 of each year commencing December 2, 2016.
- 16.2. The Series 2016 Bond shall be a special obligation of the City payable from the Net Water Revenues and amounts required to be deposited in the Bond Account and Bond Reserve Account as required and as provided by this Master Declaration, which are pledged to the Owner of the Series 2016 Bond. Any provision of Section 4.3 to the contrary notwithstanding, there is hereby created the Bond Reserve Account for the Series 2016 Bond, established by the City with the Bank as interest-bearing account no. 62760757096. Such

account will be subject to the Bank's published schedule of fees applicable to business and government clients, as such fees may change from time to time. Any change of depository for the Bond Reserve Account for the Series 2016 Bond shall require the prior written consent of the Owner of the Series 2016 Bond. The Owner of the Series 2016 Bond shall not have a lien or security interest on any property refinanced with the proceeds of the Series 2016 Bond.

- 16.3 Any provision of Sections 5.2 and 5.3 to the contrary notwithstanding, the City additionally covenants so long as the Series 2016 Bond is Outstanding that it shall charge rates and fees in connection with the operation of the Water System that, when combined with other Gross Water Revenues, are adequate to generate Net Water Revenues each Fiscal Year at least equal to the sum of (i) one hundred twenty percent (120%) of principal of and interest on the Series 2016 Bond due in such Fiscal Year, plus (ii) one hundred percent (100%) of the Annual Debt Service due in such Fiscal Year, after subtracting the principal of and interest on the Series 2016 Bond due in such Fiscal Year, plus (iii) one hundred percent (100%) of the principal of and interest on all Subordinate Obligations due in such Fiscal Year, plus (iii) one hundred percent (100%) of all amounts necessary to maintain the Bond Reserve Requirement in the Bond Reserve Account.
- 16.4 So long as the Series 2016 Bond is Outstanding, the City may issue Parity Obligations pursuant to Section 6 provided that, any provision of Section 6.1.D to the contrary notwithstanding, the City furnishes the Bank with (a) evidence satisfactory to the Bank that the Net Revenues in any period of 12 consecutive months in the 24 months immediately preceding the month of the proposed issuance of Parity Obligations were equal to one hundred twenty percent (120%) of Maximum Annual Debt Service, with the proposed Parity Obligations treated as Outstanding, or (b) the report of a Qualified Consultant satisfactory to the Bank that the Net Water Revenues are projected to be not less than one hundred twenty percent (120%) of Maximum Annual Debt Service, with the proposed Parity Obligations treated as Outstanding, in each Fiscal Year during which the Series 2016 Bond and any Parity Obligations will be outstanding.
- 16.4 The City will covenant to maintain the Bond Reserve Requirement while any amount is outstanding under the Series 2016 Bond.
- 16.5 The City will furnish the Bank with its annual audited financial statements within 180 days of the end of each Fiscal Year and such other information as the Bank may from time to time reasonably request.
- 16.6 The City covenants to notify the Bank promptly of any development that is likely to have a material and adverse effect (i) on the ability of the City to pay when due principal of or interest on the Series 2016 Bond, or (ii) on the financial condition of the City generally.
- 16.7. The City shall serve as the Registrar for the Series 2016 Bond. The Series 2016 Bond shall not be subject to the BEO System and shall be in substantially the form attached as Exhibit A and shall be signed with the manual signature of the Mayor and the City Clerk/Recorder. Notice and presentment of the Series 2016 Bond shall not be required for scheduled principal and interest payments.
- 16.8. The Series 2016 Bond shall be subject to redemption at the option of the City only in whole and only on June 2, 2019 and any Business Day thereafter, upon 30 days' prior written notice to the Bank; provided, that the City will reimburse the Bank for any reasonable, resulting loss or expense incurred in obtaining, liquidating, or reemploying deposits from third parties. A statement of the amount of that reasonable loss or expense, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the City, shall be conclusive and binding for all purposes absent manifest error in computation. The Bank's calculation of any amounts payable upon prepayment shall be based on the assumption that the Bank actually funded the Series

2016 Bond through deposits or other funds acquired from third parties for such purpose; however, the Bank shall not be obligated to fund the Series 2016 Bond through such deposits or other funds acquired from third parties, but may fund the Series 2016 Bond through any available resources.

16.9. Tax-Exempt Status:

- A. The City covenants for the benefit of the Owner of the Series 2016 Bond to comply with all provisions of the Code that are required for interest on the Series 2016 Bond to be excluded from gross income for federal taxation purposes. In determining what actions are required to comply, the City may rely on an opinion of Bond Counsel. The City makes the following specific covenants with respect to the Code:
 - (i) The City will not take any action or omit any action if it would cause the Series 2016 Bond to become "arbitrage bonds" under Section 148 of the Code;
 - (ii) The City shall operate the facilities financed with the Series 2016 Bond so that the Series 2016 Bond does not become a private activity bond within the meaning of Section 141 of the Code;
 - (iii) The City shall pay, when due, all rebates and penalties with respect to the Series 2016 Bond that are required by Section 148(f) of the Code.
- B. The covenants contained in Section 16.9.A and any covenants in the closing documents for the Series 2016 Bond shall constitute contracts with the Owner of the Series 2016 Bond, and shall be enforceable by such Owner.
- C. The City designates the Series 2016 Bond as a "qualified tax exempt obligation" under Section 265(b)(3) of the Code for banks, thrift institutions and other financial institutions. The City does not expect to issue more than \$10,000,000 of "qualified tax-exempt obligations" during 2016.
- D. The Series 2016 Bond proceeds shall be applied as follows:
 - (i) An amount of proceeds of the Series 2016 Bond required to make the balance in the Bond Reserve Account equal to the Bond Reserve Requirement shall be deposited in the Bond Reserve Account.
 - (ii) An amount of proceeds of the Series 2016 required to refund the USDA Loans shall be paid to USDA Rural Development.
 - (iii) The balance of the Series 2016 Bond proceeds shall be placed in the Construction Fund, and shall be disbursed to finance the cost of issuance of the Series 2016 Bond. Any funds remaining after payment of such costs of issuance shall be transferred to the Bond Account and used to pay debt service on the Series 2016 Bond.

16.10. If interest paid on any portion of the outstanding balance of the Series 2016 Bond is determined not to be excludable from gross income under the Code, the Bank may increase the interest rate applicable to such balance to _____% effective as of the effective date of such determination, and the City covenants and agrees to reimburse the Bank for any resulting penalties and interest assessed by any governmental authority.

16.11. Earnings from investment of the funds in the Construction Fund shall be maintained in the Construction

Fund, and shall be treated and disbursed as Series 2016 Bond proceeds.

- 16.12 Construction Fund balances attributable to Series 2016 Bond proceeds that are not needed for the Projects may be transferred to the Bond Account.

EXECUTED ON BEHALF OF THE CITY OF LA PINE BY ITS AUTHORIZED OFFICER AS OF THE 18th DAY OF May, 2016.

CITY OF LA PINE,
DESCHUTES COUNTY, OREGON

By: 
Rick Allen, Interim City Manager

Exhibit A

Form of Series 2016 Bond

**UNITED STATES OF AMERICA
STATE OF OREGON
CITY OF LA PINE
DESCHUTES COUNTY, OREGON
WATER REVENUE REFUNDING BOND
SERIES 2016**

**NUMBER: R-1
\$2,420,000**

<u>DATED</u>	<u>RATE OF INTEREST</u>	<u>MATURITY DATE</u>	<u>CUSIP NUMBER</u>
<i>June 2, 2016</i>	_____ %	<i>June 2, 2031</i>	<i>NA</i>

REGISTERED OWNER: *Washington Federal*

PRINCIPAL AMOUNT:***TWO MILLION FOUR HUNDRED TWENTY THOUSAND AND 00/100 DOLLARS *******

The City of La Pine, Deschutes County, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the registered owner, or registered assigns, the principal amount and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) thereon from the date of this Bond at the rate of interest per annum set forth above, which shall be payable in 30 equal semiannual payments of \$ _____ on June 2 and December 2 of each year commencing December 2, 2016. Capitalized terms used in this Bond have the meanings defined for such terms in the Master Declaration (as defined below).

Payment of each installment of principal and interest shall be made to the registered owner hereof whose name appears on the registration books of the City maintained by the Paying Agent as of the close of business on the 15th day of the month (whether or not on a Business Day) immediately preceding the payment date. The Bond Registrar shall not be required to (1) transfer or exchange this Bond after the close of business on the 15th day of the month preceding the payment date or (2) transfer or exchange this Bond if called or being called for redemption.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in the form and manner required by the Constitution and Statutes of the State of Oregon and that this Bond, together with all other indebtedness of the City does not exceed any limitation prescribed by law.

REFERENCE IS HEREBY MADE TO THE ADDITIONAL PROVISIONS OF THIS BOND SET FORTH ON THE ADDITIONAL PAGES ATTACHED HERETO, AND SUCH ADDITIONAL PROVISIONS SHALL HAVE THE SAME EFFECT AS IF FULLY SET FORTH HERE.

This Bond is not a general obligation of the City. This Bond is a special obligation of the City payable from the Net Water Revenues and amounts required to be deposited in the Bond Account and Bond Reserve Account as required and as provided by the Master Declaration (as defined below), which are pledged to the Owner of this Bond.

[NEED TO ADJUST FOOTER]

This Bond is a valid and legally binding special obligation of the City and is authorized pursuant to Oregon Revised Statutes Chapter 287A, the Charter of the City, Resolution No 2016-11 adopted by the City Council on May 18, 2016, (the "Resolution"), and Master Water Revenue Bond Declaration executed by the City on May 18, 2016 (the "Master Declaration" together with the Resolution, the "Authorizing Documents"). Additional bonds may be issued on a parity of lien with this Bond, subject to certain conditions described in the Authorizing Documents.

In consideration of the purchase and acceptance of this Bond, the provisions of the Authorizing Documents and this Bond shall be deemed to be and shall constitute a contract between the City and the Owner of this Bond. The covenants and agreements to be performed by or on behalf of the City shall be for the equal benefit, protection and security of the Owner of any and all Bonds, all of which shall be of equal rank without preference, priority, or distinction among the Bonds.

IN WITNESS WHEREOF, the City Council has caused this Bond to be executed by the manual signature of its Mayor and attested by the manual signature of its City Clerk/Recorder, all as of June 2, 2016.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**



MAYOR

ATTEST:



CITY CLERK/RECORDER

ADDITIONAL PROVISIONS

This Bond shall be subject to redemption at the option of the City only in whole and only on June 2, 2019 and any Business Day thereafter, upon 30 days' prior written notice to the Bank; provided, that the City will reimburse the Bank for any reasonable, resulting loss or expense incurred in obtaining, liquidating, or reemploying deposits from third parties. A statement of the amount of that reasonable loss or expense, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the City, shall be conclusive and binding for all purposes absent manifest error in computation. The Bank's calculation of any amounts payable upon prepayment shall be based on the assumption that the Bank actually funded this Bond through deposits or other funds acquired from third parties for such purpose; however, the Bank shall not be obligated to fund this Bond through such deposits or other funds acquired from third parties, but may fund this Bond through any available resources.

The City has covenanted and agreed with the registered Owners of this Bond that it will keep and perform all of the covenants of this Bond and of the Authorizing Documents to be by it kept and performed. The City has covenanted to maintain the Water System in good repair, working order and condition and to charge rates and fees in connection with the operation of the Water System that are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Water Revenues, and to make all transfers required by the Master Declaration and to pay any franchise fees or similar charges imposed by the City on the Water System or its operations.

This Bond is transferable by the registered owner hereof in person or by the owner's attorney duly authorized in writing at the office of the City, but only in the manner and subject to the limitations provided in the Authorizing Documents, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond will be issued to the transferee.

The Bond is issued in fully registered form. The City may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the principal hereof and interest due hereon and for all other purposes and the City shall not be affected by any notice to the contrary.
