

**City of Prineville
Crook County, Oregon**

Resolution No. 928
(Master Water Revenue Bond Resolution)

Adopted January 30, 2003

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Resolution No. 928

A RESOLUTION AUTHORIZING THE ISSUANCE OF WATER REVENUE BONDS AND PRESCRIBING THE TERMS UNDER WHICH FUTURE OBLIGATIONS MAY BE ISSUED.

WHEREAS, the City issued its \$1,500,000 Limited Tax Improvement Bond Anticipation Note, Series 2001 (the "Note") to provide interim financing, to construct and equip a water reservoir and pump station; construct an emergency overflow lagoon; construct preparatory facilities for additional water supply and storage; and related improvements for the Northridge I and II Local Improvement District (the "Northridge LID Project"); and,

WHEREAS, the City determined that the reservoir portion of the Northridge LID Project (the "Project") should not be part of the Northridge LID Project but should be financed from the proceeds of the sale of revenue bonds; and,

WHEREAS, the maturity date of the Note has been extended a number of times to February 21, 2003; and,

WHEREAS, the City now wishes to refund a portion of the Note and issue water revenue bonds to provide long-term financing for the Project; and,

WHEREAS, the City Council passed Resolution No. 924 on November 12, 2002 authorizing the issuance of up to \$840,000 of bonds under the Uniform Revenue Bond Act to finance the Project. Notice of the authorization was published as required by Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945); and,

WHEREAS, the Uniform Revenue Bond Act permits the City to issue the bonds unless, within 60 days after the notice is published, five percent or more of the City's electors file a petition to refer the question of issuing the bonds to the City's voters. More than sixty days have passed since the publication of the notice of authorization, and the City has not received petitions to refer the revenue bonds described in that notice to a vote of the people. The City is now authorized to issue the bonds described in Resolution No. 924;

WHEREAS, the Uniform Revenue Bond Act permits the City to pledge revenues, defined to include all fees, tolls, taxes, and other income available to the City to pay obligations issued under the Uniform Revenue Bond Act and under Resolution No. 924.

WHEREAS, the City Council adopts this Resolution to authorize the issuance of bonds under Resolution No. 924 to refund a portion of the Note;

Section 1. Definitions.

As used in this Resolution, the following words shall have the following meanings:

"Annual Debt Service" means the amount required in a Fiscal Year to pay scheduled debt service Outstanding Bonds, calculated as follows:

(i) Interest which is to be paid from proceeds of Bonds shall be subtracted.

(ii) Bonds which are subject to scheduled, noncontingent redemption or tender shall be deemed to mature on the dates and in the amounts which 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.

(iii) Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates.

“Audit” means the audit required by ORS 297.425.

“Auditor” means a person authorized by the State Council of Accountancy to conduct municipal audits pursuant to ORS 297.670.

“Bond Purchaser” means the initial purchaser of a Series of Bonds.

“Bond Registrar” or “Registrar” means the paying agent and registrar designated by the City.

“Bonded Debt Fund” or “Debt Fund” means the Bonded Debt Fund heretofore created, to be maintained pursuant to Section 3 by the City.

“Bonds” means the Series 2003 Bonds and any Parity Obligations issued pursuant to the Section 6 of this Resolution.

“Certificate of City” or “City Certificate” means a certificate executed on behalf of the City by a City Official.

“City” means the City of Prineville, Crook County, Oregon.

“City Official” means the City Manager or the _____ or the person designated by the City Manager to act on behalf of the City under this Resolution

“Code” means the Internal Revenue Code of 1986, rules and regulations promulgated thereunder and amendments thereto.

“Default” or “Event of Default” means any event specified in Section 8.1 of this Resolution.

“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 Oregon Law.

“Gross Revenues” means all fees and charges resulting from operation of the Water System, including systems development charges, revenues from product sales, and any interest earnings and other revenues required to be placed in the Water Fund under this Resolution; however, Gross Revenues does not include:

- any payments of improvement assessments levied against benefited properties;
- the proceeds of any grants;
- the proceeds of any borrowing for capital improvements;
- the proceeds of any liability or other insurance;
- the proceeds of any casualty insurance which the City intends to utilize for repair or

replacement of the Water System;
sales of assets pursuant to Section 5.7 of this Resolution;
meter and service installation charges; and
ad valorem taxes received by the City which are, at any time, pledged, designated or dedicated to other debt or obligations of the City.

“Maximum Annual Debt Service” means the greatest Annual Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

“Net Operating Revenues” means the Gross Revenues less the Operating Expenses, plus any withdrawals from the Rate Stabilization Account and minus any deposits to the Rate Stabilization Account.

“Operating Expenses” means all expenses incurred for operation, maintenance and repair of the Water System, including but not limited to administrative expenses, financial and auditing expenses, insurance premiums, claims (to the extent moneys are not available from proceeds of insurance), taxes, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization, and sick leave benefits, and any other similar expenses to be paid to the extent properly and directly attributable to operations of the Water System. Operating Expenses do not include:

- any rebates paid from Gross Revenues under Section 148 of the Code.
- payments for the settlement of litigation and payments to any liability reserve fund;
- depreciation or amortization of property, values, or losses, and all amounts treated for accounting purposes as payments for capital expenditures;
- payments of debt service (including amounts treated for accounting purposes as debt service payments); and
- capital transfers and capital outlays including without limitation transfers to capital construction accounts.

“ORS” means the Oregon Revised Statutes.

“Outstanding” refers to all Bonds except Bonds that have been paid or defeased pursuant to Section 12 of this Resolution.

“Owner” means a registered owner of a Bond.

“Parity Obligations” means any revenue bonds or other obligations of the City which are issued in compliance with the provisions of Section 6 of this Resolution.

“Permitted Investments” means those investments authorized by Oregon Law for the City.

“Rate Stabilization Account” means the Rate Stabilization Account established pursuant to Section 3.3 of this Resolution.

“Record Date” means the fifteenth (15th) day of the month preceding each interest payment date.

“Registrar” means the Registrar and paying agent as established in Section 13.4(E) of this Resolution.

“Required Reserve” means an amount equal to the Maximum Annual Debt Service on all Outstanding Bonds or the amount described in the next sentence. If at the time of issuance of a Series of Bonds, the amounts required to be added to the Reserve Account to make the balance in the Reserve Account equal to Maximum Annual Debt Service on all Outstanding Bonds exceeds the Tax Maximum calculated with respect to such Series of Bonds, then the Reserve Requirement shall mean the Reserve Requirement in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to that Series of Bonds.

“Reserve Account” means the Reserve Account established pursuant to Section 3 of this Resolution.

“Reserve Equivalent” means an insurance policy or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy or letter of credit is issued) of at least Aa or AA as determined by Moody's Investors Services or Standard & Poor's Corporation, or their successors, in which the insurance company or commercial bank agrees to unconditionally provide the City with funds in an amount which, when combined with available bond proceeds or other available funds, that have been previously deposited into the Reserve Account, equals the Required Reserve.

“Revenue Debt Account” means the Revenue Debt Account to be created and maintained in the Bonded Debt Fund pursuant to Section 3 hereof to hold funds to be used to pay Bond principal and interest and premiums if any.

“Series” or “Series of Bonds” refers to all Bonds which are issued at one time, pursuant to a single resolution, ordinance, Resolution or other authorizing document of the City, regardless of variations in maturity, interest rate or other provisions, unless the documents authorizing the Bonds specify that the Bonds are part of separate Series.

“Series 2003 Bonds” means the City’s Water Revenue Bonds, Series 2003, that are described in Section 13 of this Resolution.

“Subordinate Obligations” means any obligations of the City payable from Net Operating Revenues which comply with the provisions of Section 7 of this Resolution.

“Tax Maximum” means, for any Series of Bonds, the lesser of: Maximum Annual Debt Service on the Series; 125% of average amount of principal, interest and premium, if any, required to be paid on that Series during all Fiscal Years in which that Series will be Outstanding, calculated as of the date of issuance of that Series; or, 10% of the proceeds of such Series, as “proceeds” is defined for purposes of Section 148(d) of the Code.

“Water Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of the Bonds, to be maintained pursuant to Section 2.1 of this Resolution.

“Water System” or “System” means all real and personal property now or hereafter owned, operated, used, or maintained by the City for water treatment, distribution and transmission within and without the corporate limits of the City.

Section 2. Deposit, Pledge and Use of Revenues.

2.1. All Gross Revenues shall be deposited to or maintained in the Water Fund that the City has created. The City hereby pledges the Net Operating Revenues to the payment of principal and interest on all Bonds. As long as any Bonds remain issued and outstanding, moneys in the Water Fund shall be used solely to pay the following amounts in the following order:

- (A) To pay Operating Expenses,
- (B) To credit the Debt Fund to pay Bond principal and interest,
- (C) To credit the Reserve Account to eliminate any deficiency in the Required Reserve.
- (D) To credit the Rate Stabilization Account, and
- (E) To pay any other expenses relating to the Water System.

Section 3. Funds and Accounts.

3.1. The City shall deposit into the Revenue Debt Account in the Debt Fund, from the Water Fund, or the Reserve Account, money sufficient to make payments of Bond principal and interest as provided in this Section 3.

- (A) The City hereby covenants with the owners of the Bonds that it will, so long as any Bonds remain outstanding, make the following deposits from the Net Operating Revenues into the Revenue Debt Account in the Debt Fund:

(1) Not less than five business days prior to a Bond interest payment date, the City will deposit into the Revenue Debt Account an amount equal to the amount necessary to pay Bond interest. Prepayment of deposits will fulfill this requirement. Notwithstanding the foregoing, the City shall deposit into the Revenue Debt Account from the Net Operating Revenues an amount sufficient to permit all interest due on the Bonds to be paid on the date it is due.

(2) Not less than five business days prior to a Bond principal payment date, the City will deposit into the Revenue Debt Account an amount equal to the amount necessary to pay Bond principal. Prepayment of deposits will fulfill this requirement. Notwithstanding the foregoing, the City will deposit into the Revenue Debt Account from the Net Operating Revenues an amount sufficient to permit all principal due on the Bonds to be paid on the date it is due.

3.2. The City shall maintain the Reserve Account in the Debt Fund.

- (A) The City shall maintain a balance in the Reserve Account at least equal to the Required Reserve. Moneys required to be maintained in the Reserve Account will be used only to pay Bond principal and interest and redemption charges, if any, and only in the event that the Net Operating Revenues and moneys in the Debt Fund are insufficient to pay Bond principal and interest when due.

- (B) The City covenants with the owners of the Bonds that it will, on each Bond payment date so long as any Bonds remain outstanding, deposit from the Net Operating Revenues into the Reserve Account an amount such that the balance in the Reserve Account will at least equal the Required Reserve. In the event the amount on deposit in the Reserve Account is less than the Required Reserve, the deficiency shall be eliminated from payments for such purpose available from the Water Fund, in proportionate monthly amounts so that the Required Reserve is achieved within twelve months from the date of any deficiency. In the event the amount on deposit in the Reserve Account is more than the Required Reserve, any such excess may be transferred to the Debt Fund.
- (C) The balance in the Reserve Account shall include, in addition to cash deposits and bond proceeds, the face amount of any Reserve Equivalents.
- (D) Moneys in the Reserve Account may be invested only in "Permitted Investments." If Permitted Investments mature later than one year from the date of purchase, then the City shall prepare and have on file a Certificate with the report required by Section 4.2 of this Resolution valuing such Permitted Investments at the lower of cost or market. Deficiencies in the Reserve Account shall be eliminated as provided in Section 3.2(B) of this Resolution.

3.3. The City shall maintain the Rate Stabilization Account in the Water Fund. Moneys in the Rate Stabilization Account shall be used solely to make appropriations to the Water Fund as determined from time to time by the City. Deposits to the Rate Stabilization Account for any Fiscal Year reduce Net Operating Revenues for that Fiscal Year, and withdrawals from the Rate Stabilization Account for any Fiscal Year increase Net Revenues for that Fiscal Year. Deposits to and withdrawals from the Rate Stabilization Account shall be made within six months after the end of each Fiscal Year.

Section 4. Rate Covenant.

4.1. The City covenants that it will charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate:

- (A) Net Operating Revenues in each fiscal year at least equal to 1.25 times the Annual Debt Service for that fiscal year; and,
- (B) Net Operating Revenues in each fiscal year (after deduction of systems development charges for that fiscal year) at least equal to 1.20 times the Annual Debt Service for that fiscal year.

4.2. Not later than six months after the end of each fiscal year the City shall prepare a report that demonstrates whether the City has complied with Section 4.1 during that fiscal year. If the report demonstrates that the City has not complied with Section 4.1 during that fiscal year, it shall not constitute an Event of Default if, within thirty days after the report is filed, the City files a certificate of a City Official that specifies the actions that the City has taken and will take within the next ninety (90) days to permit the City to comply with Section 4.1 for the remainder of the Fiscal Year in which the report is filed, and for the succeeding Fiscal Year.

Section 5. General Covenants.

The City hereby covenants and agrees with the owners of all outstanding Bonds as follows:

5.1. The City shall, to the extent the Net Operating Revenues are sufficient, promptly cause the principal and interest on the Bonds to be paid as they become due.

5.2. The City shall maintain complete books and records relating to the operation of the Water System, and all City funds and accounts in accordance with generally accepted accounting principles, and will cause such books and records to be audited annually at the end of each Fiscal Year, and an audit report prepared by the Auditor and made available for the inspection of Owners.

5.3. The City shall not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Operating Revenues.

5.4. The City shall promptly deposit into all funds and accounts all sums required to be so deposited.

5.5. The City shall cause the System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety, environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the System, and shall cause the System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good working order and condition, and shall from time to time to be made, without undue deferral, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System shall be properly and advantageously conducted. The City shall also maintain deposits to funds and accounts that cause the System to be reasonably maintained and renewed.

5.6. The City shall at all times maintain with responsible insurers all such insurance on the Project 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. If any useful part of the Project is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Project will be used for repairing or rebuilding the damaged or destroyed Project, and to the extent not so applied, will be applied to the payment or redemption of the Bonds on a pro rata basis, and for such purpose paid into the Debt Fund. Any such insurance must 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 as are necessary to provide for its share of any such self-insurance.

5.7. The City will not, nor will 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 5.7(B)(3), the City will not 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:

(1) 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 covenant contained in Section 4 of this Resolution; or

(2) Provision is made for the payment, redemption or other defeasance of a principal amount of the Bonds equal to the greater of the following amounts:

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

(b) An amount which will be in the same proportion to the net principal amount of the 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;

(3) 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;

(4) If the ownership of all or part of the Water System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Bondowners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Bonds;

5.8. The covenants, representations, and warranties contained in this Resolution, the Master Resolution and each supplemental and amending resolution adopted pursuant to this Master Resolution and any covenants, representations and warranties in the closing documents relating to each Series of Bonds issued pursuant to the Master Resolution shall constitute contracts with the Owners of each such Series of Bonds, and shall be enforceable by them.

Section 6. Parity Obligations.

6.1. The City may issue Parity Obligations to provide funds for any purpose relating to the Water System which is authorized by law, but only upon the following conditions:

(A) No Default has occurred and is continuing;

- (B) At the time of the issuance of the Parity Obligations there is no deficiency in the Debt Fund and the Reserve Account;
- (C) The Resolution authorizing the issuance of the Parity Obligations requires that a deposit be made at closing sufficient to bring the balance in the Reserve Account equal to the Required Reserve for all Outstanding Bonds, including the proposed Parity Obligations.
- (D) The Resolution authorizing the issuance of the Parity Obligations contains a covenant requiring the City to charge rates and fees projected to generate Net Operating Revenues equal to the amount described in Section 4.1 of this Resolution, including the proposed Parity Obligations.
- (E) Either:
 - (1) the Net Operating Revenues for any 12 consecutive months during the 18 months preceding the date of issuance of the Parity Obligations were not less than 1.25 times the sum of the actual debt service of the Bonds for the immediately preceding 12 months, plus the average annual debt service for the proposed Parity Obligations as certified by a qualified engineering, auditing, or other qualified firm; or
 - (2) the Net Operating Revenues, as projected for the next ensuing three fiscal years and as certified by a qualified engineering, auditing, or other qualified firm (including any rate increases adopted by the Board) are not less than 1.25 times the actual debt service for the ensuing three fiscal year's debt service on all outstanding Bonds plus the average annual debt service on the proposed Parity Obligations. For the purposes of the certificate required by this Section 6(E)(2), Net Revenues may be adjusted in consideration of rate increases that have been adopted by the City and will be legally effective within 12 months of the date of delivery, anticipated increases resulting from growth in customers, and any increase in property, construction, additions, or extensions to the System that is in process at the time of the Certificate or for which the proceeds of the proposed Parity Obligations will be used.

6.2. The City may issue Parity Obligations to refund Outstanding Bonds, notwithstanding the requirements of Section 6.1, if the required debt service of the refunding bonds does not exceed the debt service for the refunded bonds payable in any Fiscal Year by not more than \$5,000.

6.3. The requirements of Section 6.1 shall apply if the Annual Debt Service on the refunding bonds exceeds the Annual Debt Service on the refunded bonds payable in any Fiscal Year.

6.4. Any Resolution authorizing the issuance of Parity Obligations shall require deposits into the Reserve Account in amounts sufficient to make the balance in the Reserve Account at least equal to the Required Reserve. The deposit required in this Section 6.4 may be made in not more than five (5) substantially equal annual installments, with the final installment due not later than the fifth anniversary of the issuance of the Series of Bonds. If the City elects to fund the portion of the Required Reserve which is allocable to a Series of Bonds in installments, the election of and the schedule for such deposits shall be stated prominently in the proceedings authorizing the Series of Bonds.

6.5. All Bonds issued in accordance with this Section Section 6 shall have a lien on the Net Operating Revenues which is equal to the lien of all then Outstanding Bonds and all Parity Obligations issued in accordance with this SectionSection 6.

Section 7. Subordinate Obligations.

The City may issue Subordinate Obligations to provide funds for any purpose authorized by law, provided no default has occurred and is continuing. All Subordinate Obligations shall have a lien on the Net Operating Revenues which is subordinate to the lien of the Bonds. In the event of any insolvency or bankruptcy proceedings relative to the City or to its property, the holders of the Bonds shall be entitled to receive payment in full of all principal, premium (if any) and interest thereon (including interest accruing after the commencement of any proceeding) before the holders of the Subordinate Obligations are entitled to receive any payment on account of principal, premium (if any) or principal upon the Subordinate Obligations.

Section 8. Default and Remedies on Default.

8.1. The following shall constitute Events of Default:

- (A) Failure to pay Bond principal or interest when due; or
- (B) Failure to perform any other obligation of the City imposed by this Resolution or the Bonds, but only if:
 - (1) the failure continues for a period of more than ninety (90) days after demand has been made on the City by the Bondowners or Trustee (as defined below) to remedy the failure; and
 - (1) the City fails to take reasonable steps to remedy the failure within that ninety-day period; or
- (C) Imposition of a receivership upon, or liquidation of, the Water Fund; or,
- (D) Written admission by the City that the City is unable to pay its debts as they become due.
- (E) Whenever any Event of Default exists, Owners representing 51 percent or more of Outstanding Bonds, may, without any further demand or notice, exercise any remedy available at law or in equity. However, the Bonds shall not be subject to acceleration.

8.2. Whenever any Event of Default exists, Owners representing 51 percent or more of the Outstanding Bonds may appoint a commercial bank with a reported capital and surplus in excess of \$50 million as trustee (the "Trustee") to represent the interests of said Owners.

Section 9. No Remedy Exclusive.

No remedy herein conferred upon or reserved to Owners is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Resolution now or hereafter existing at law or in equity. No delay or omission to exercise any

right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Owners to exercise any remedy reserved to it in this Section it shall not be necessary to give any notice, other than such notice as may be required in this Section.

Section 10. Trustee Duties Upon Default.

10.1. Upon the occurrence of an Event of Default the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Resolution. However, the Bonds shall not be subject to acceleration.

10.2. In addition, upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners under the Resolution, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Resolution, pending such proceedings, with such powers as the court making such appointment may confer.

10.3. If an Event of Default has occurred and be continuing and if requested so to do by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and indemnified as provided in the Resolution, Trustee will be obligated to exercise such one or more of the rights and powers conferred by this Resolution, as the Trustee, being advised by counsel, deems most expedient in the interest of the Owners.

10.4. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Resolution, unless:

- (A) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (B) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Resolution;
- (C) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (D) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee.

10.5. A waiver of any Event of Default by any Owner will not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner of any of the Bonds to exercise any right or power occurring upon any Event of Default will impair any such right to power or be construed to be a waiver of any such Event of Default.

10.6. Pursuant to the Master Resolution, if the Trustee takes any judicial or other action in an Event of Default the Trustee has full power in its direction with respect to any continuance, discontinuance, withdrawal, compromise, settlement or other disposition of such action, unless opposed by the written request of the Owners of a majority in aggregate principal amount of the Outstanding Bonds. The Trustee is appointed attorney-in-fact of the Owners for the purpose of bringing any suit action or proceedings in an Event of Default.

Section 11. Amendment of Resolution.

11.1. This Resolution may be amended without the consent of any Owners for any one or more of the following purposes:

- (A) To add to the covenants and agreements of the City in this Resolution any other covenants and agreements thereafter to be observed by the City, or to surrender any right or power herein reserved to or conferred upon the City which in the opinion of a nationally recognized bond counsel, filed with the Council, does not adversely affect the interests of the Owners.
- (B) To cure any ambiguity or formal defect contained in this Resolution, or to make any other change that the City reasonably determines will not have a material and adverse effect on the interests of Bondowners.
- (C) To issue Parity Obligations in accordance with Section 6 hereof.

11.2. This Resolution may be amended for any other purpose only upon consent of Owners of not less than 51% in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Owners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

- (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 Owner; or
- (B) Reduces the percent of Owners required to approve amendatory Resolutions.

Section 12. Defeasance.

The lien of all or any portion of the Bonds upon the Net Operating Revenues may be defeased, and those Bonds shall be deemed paid, if the City places in irrevocable escrow direct obligations of, or obligations guaranteed by, the United States which are calculated to be sufficient, without reinvestment, to pay principal, interest and any premium on those Bonds as they become due, either at maturity or on prior redemption.

Section 13. The Series 2003 Bonds

13.1. **Sale Authorized.** Pursuant to Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945) and the bonding authority given by City Resolution No. 924, the City Council hereby

authorizes the sale and delivery of the City of Prineville, Oregon Water Revenue Bond, Series 2003 (the "Series 2003 Bonds"). The aggregate principal amount of the Series 2003 Bonds shall not exceed Eight Hundred Forty Thousand Dollars (\$840,000). The Series 2003 Bonds shall be Bonds as defined in this Master Resolution, and shall have the terms established by the City Official pursuant to Section 13.8.

13.2. **Limitation on Payment.** The Series 2003 Bonds shall be special obligations of the City, and shall be payable solely from the Net Operating Revenues and amounts required to be deposited in the Bond Reserve Account as required and as provided by this Master Resolution.

13.3. **Bond Form.** The Series 2003 Bonds shall be in substantially the form attached as Exhibit A, and shall be signed with the facsimile or manual signature of the City Official.

13.4. **Bond Book-Entry-Form.**

The Series 2003 Bonds shall be initially issued in book entry only ("BEO") form through the Depository Trust Company of New York, New York, or its successor ("DTC"). The City Official has executed a letter of representations with DTC. While the Series 2003 Bonds are in BEO form:

- (A) No physical Series 2003 Bonds shall be provided to beneficial owners of the Series 2003 Bonds.
- (B) Registration and transfer of beneficial interests in the Series 2003 Bonds shall be governed by the operational arrangements of DTC or any substitute depository, as they may be amended from time to time, as provided in the Letter of Representations.
- (C) Except as may be provided in any agreement with a bond insurer, DTC or its nominee shall be treated as the Owner of the Series 2003 Bonds for all purposes, including payment and the giving of notices to Owners. The Series 2003 Bond payments shall be made, and notices shall be given, to DTC or its nominee as provided in the Letter of Representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect shall not affect the validity of the redemption of the Series 2003 Bonds called for redemption or of any other action premised on such notice.
- (D) The City may discontinue maintaining the Series 2003 Bonds in BEO form at any time. The City shall discontinue maintaining the Series 2003 Bonds in BEO form if DTC determines not to continue to act as securities depository for the Series 2003 Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (E) If the City discontinues maintaining the Series 2003 Bonds in BEO form, the City shall cause the registrar and paying agent for the Series 2003 Bonds (the "Paying Agent") to authenticate and deliver to the beneficial owners or their nominees replacement Series 2003 Bonds in fully registered form in denominations of \$5,000 or integral multiples.

- (F) While the Series 2003 Bonds is in BEO form, the City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
- (1) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any participant's or beneficial owner's interest in the Series 2003 Bonds;
 - (2) the delivery to any participant or correspondent or any other person of any notice with respect to the Series 2003 Bonds, including any notice of redemption or purchase;
 - (3) the selection by DTC of the beneficial interest in the Series 2003 Bonds to be redeemed prior to maturity; or
 - (4) the payment to any participant, correspondent, or any other person other than the registered owner of the Series 2003 Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, premium, if any, or interest on the Series 2003 Bonds.
- (G) The City shall pay or cause to be paid all principal, premium and interest on the Series 2003 Bonds only to or upon the order of the Owners, as shown in the registration books maintained by the Paying Agent, 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.
- (H) The provisions of this Section 13.4 may be modified without the consent of the beneficial owners in order to conform this Section 13.4 to the standard practices of DTC or any substitute depository for obligations issued in BEO form.

13.5. Places of Payment and Paying Agents.

- (A) While the Series 2003 Bonds are in BEO form, the Paying Agent shall pay Series 2003 Bond principal, interest and any redemption price to DTC or its nominee in accordance with the Letter of Representations.
- (B) While the Series 2003 Bonds are not in BEO form, Series 2003 Bond principal, interest and redemption price, if any, shall be payable through the corporate trust office of the Paying Agent, by a check drawn on the Paying Agent and mailed on the interest payment date to the Owners, as shown on the record date in the registration books maintained by the Paying Agent for the Series 2003 Bonds.

13.6. Notice of Redemption.

- (A) Unless a shorter period is agreed to by the Paying Agent, the City shall give the Paying Agent at least forty (40) days' prior written notice of any proposed optional redemption of the Series 2003 Bonds.

- (B) Unless the notice states that the redemption is conditioned upon receipt by the Paying Agent of sufficient funds for redemption, the notice shall contain a certification by the City that it has funds available to it sufficient to pay in full the principal, premium (if any) and interest portions of the redemption price of the Series 2003 Bonds to be redeemed.
- (C) While the Series 2003 Bonds is in BEO form, the Paying Agent shall give notice of redemption only to DTC or its nominee, in the manner required by the rules of DTC.
- (D) The Paying Agent shall give notice of redemption under this Section 13.6 only for the Series 2003 Bonds which are not then in BEO form. The notice shall specify the date of redemption, the redemption price, CUSIP numbers, maturity date, and the place or places where amounts due upon such redemption will be payable and any other information which may be required to identify the Series 2003 Bonds which are to be redeemed. The notice may state that the redemption is conditioned upon the deposit with the Paying Agent of sufficient funds to pay the redemption price of the Series 2003 Bonds to be redeemed. The notice shall state that, provided that sufficient funds are on deposit with the Paying Agent, the Series 2003 Bonds which are being called for redemption shall become due and payable on the date specified in the notice, and that interest on those Series 2003 Bonds shall cease to accrue on that date. The Paying Agent shall mail a copy of such notice by first class mail, postage prepaid, not less than thirty (30) days before the redemption date, to the Owners of any Series 2003 Bonds which are to be redeemed, at their last address, if any, appearing upon the registration books as of the record date, but no defect in any notice and no failure to give any notice shall invalidate the redemption of any Series 2003 Bonds for which proper notice was given. No notice of redemption need be given to any Owners of any Series 2003 Bonds who have filed a written waiver of notice with the Paying Agent. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner actually receives the notice.

13.7. Authentication, Registration And Transfer.

- (A) No Series 2003 Bond shall be entitled to any right or benefit under this resolution unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all Series 2003 Bonds to be delivered at closing of the Series 2003 Bonds, and shall additionally authenticate all Series 2003 Bonds properly surrendered for exchange or transfer pursuant to this resolution.
- (B) The ownership of all Series 2003 Bonds shall be entered in the bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the bond register as the owner of the Bond for all purposes.
- (C) If the Series 2003 Bonds cease to be in book-entry form, the Paying Agent shall mail each interest payment on the interest payment date (or the next business day if the payment date is not a business day) to the name and address of the Owners as they appear on the bond register as of record date. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.

- (D) While the Series 2003 Bonds are in book-entry form, the Paying Agent shall transfer Bond principal and interest payments to DTC in the manner required by DTC.
- (E) The Series 2003 Bonds may be exchanged for an equal principal amount of the Series 2003 Bonds of the same maturity which are in different denominations, and the Series 2003 Bonds may be transferred to other owners if the Owner submits the following to the Paying Agent:
 - (1) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or the Owner's attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and
 - (2) the Series 2003 Bonds to be exchanged or transferred.
- (F) The Paying Agent shall not be required to exchange or transfer any Series 2003 Bonds submitted to it during any period beginning with a record date and ending on the next following payment date; however, such Series 2003 Bonds shall be exchanged or transferred promptly following that payment date.
- (G) The Paying Agent shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Owner's name is listed on the Bond register.
- (H) For purposes of this Section, the Series 2003 Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 13.7(E).
- (I) The City may alter these provisions regarding registration and transfer without consent of Owners in order to conform to changes in registration customs by mailing notification of the altered provisions to all 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.

13.8. **Delegation.** The City Official may, on behalf of the City and without further action by the Council:

- (A) Select one or more commercial banks to purchase the Series 2003 Bonds;
- (B) establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, and other terms of the Series 2003 Bonds;
- (C) Execute and deliver the Series 2003 Bonds; and
- (D) Designate any of the Series 2003 Bonds as "qualified tax-exempt obligations" under Section 265(b) of the Code.
- (E) Execute any documents and take any other action in connection with the Series 2003 Bonds which the City Official finds will be advantageous to the City.

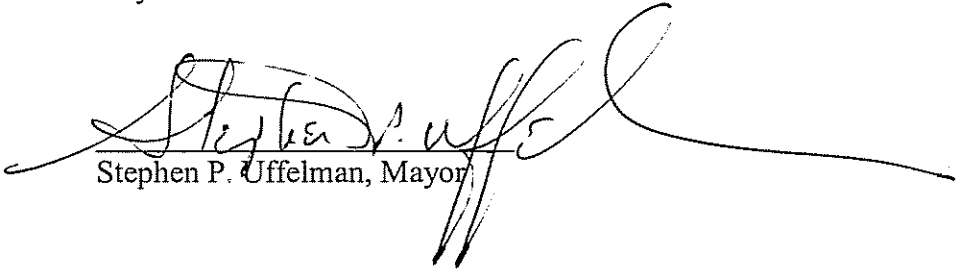
13.9. **Disposition of Series 2003 Bonds Proceeds.** The Series 2003 Bond proceeds shall be used to pay the outstanding principal and interest on the Note.

13.10. **Tax-Exempt Status.**

- (A) The City covenants for the benefit of the Owners of the Series 2003 Bonds to comply with all provisions of the Code which are required for interest on the Series 2003 Bonds 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:
- (1) The City will not take any action or omit any action if it would cause the Series 2003 Bonds to become "arbitrage bonds" under Section 148 of the Code.
 - (2) The City shall operate the facilities financed with the Series 2003 Bonds so that the Series 2003 Bonds do not become private activity bonds within the meaning of Section 141 of the Code.
 - (3) The City shall pay, when due, all rebates and penalties with respect to the Series 2003 Bonds which are required by Section 148(f) of the Code.
- (B) The City Official may enter into additional covenants to protect the tax-exempt status of the Series 2003 Bonds. The covenants contained in this Section 13.10 and any covenants in the closing documents for the Series 2003 Bonds shall constitute contracts with the owners of the Series 2003 Bonds, and shall be enforceable by them.

The foregoing Resolution adopted this 30th day of January, 2003.

City of Prineville


Stephen P. Uffelman, Mayor

ATTEST:

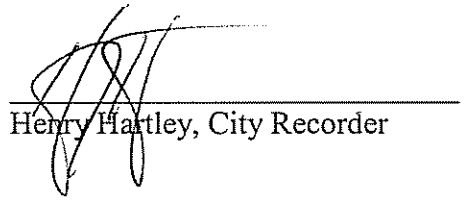

Henry Hartley, City Recorder

Exhibit A
(Form of Bond)

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Crook County
City of Prineville
Water Revenue Bonds
Series 2003

Dated Date: _____
Interest Rate Per Annum: «CouponRate»%
Maturity Date: _____, «MaturityYear»
CUSIP Number: «CUSIPNumbr»
Registered Owner: -----Cede & Co.-----
Principal Amount: -----«PrincipalAmtSpelled» Dollars-----

The City of Prineville, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the _____ day of _____ and the _____ day of _____ in each year until maturity or prior redemption, commencing _____. Payment of each installment of principal or interest shall be made to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently Wells Fargo Bank Northwest, National Association, in Portland, Oregon (the "Paying Agent"), as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This Bond is one of a duly authorized series of bonds of the City aggregating \$_____ in principal amount designated as Water Revenue Bonds, Series 2003 (the "Series 2003 Bonds"). The Series 2003 Bonds are issued for the purpose of refunding interim financing of the construction of a water reservoir and pump station. The Series 2003 Bonds are authorized by City Resolution No. ___ and issued under City Resolution No. _____ (collectively, the "Resolution") and the Oregon Uniform Revenue Bond Act, in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Series 2003 Bonds constitute valid and legally binding special obligations of the City. The Net Operating Revenues, as defined in the Resolution, are pledged for the punctual payment of the principal of and interest on the Series 2003 Bonds. The City is not authorized to levy any additional taxes to pay the Series 2003 Bonds. The Series 2003 Bonds do not constitute a debt or indebtedness of Crook County, the State of Oregon, or any political subdivision thereof other than the City.

The Series 2003 Bonds are initially issued in book-entry-only form with no certificates provided to the beneficial owners of the Series 2003 Bonds. The Depository Trust Company and its participants will maintain records of ownership of beneficial interests in the Series 2003 Bonds.

Should the book-entry only security system be discontinued, the Series 2003 Bonds shall be issued in the form of registered Series 2003 Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such

Series 2003 Bonds may be exchanged for the Series 2003 Bonds of the same aggregate principal amount and maturity date, but different authorized denominations, as provided in the Resolution.

The Series 2003 Bonds mature and are subject to redemption as described in the final Official Statement for the Series 2003 Bonds that is dated _____.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Resolution. Interest on any Series 2003 Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company promptly of any Series 2003 Bonds called for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than thirty days nor more than sixty days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the Bond register; however, any failure to give notice shall not invalidate the redemption of the Series 2003 Bonds.

Any exchange or transfer of this Bond must be registered, as provided in the Resolution, upon the Series 2003 Bond register kept for that purpose by the Paying Agent. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Series 2003 Bond or Bonds, of the same maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The City and the Paying Agent may treat the person in whose name this Bond is registered on the Bond register as its absolute owner for all purposes, as provided in the Resolution.

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to Issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall remain in the Paying Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Registrar and The Depository Trust Company.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon; and that the issue of which this Bond is a part, and all other obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes and City Charter.

IN WITNESS WHEREOF, the Council of the City of Prineville, Oregon, by ordinance duly passed, has caused this Bond to be signed by facsimile signature of its Mayor and countersigned by facsimile signature of its Recorder, and has caused a facsimile of the corporate seal of the City to be imprinted hereon, all as of the date first above written.

City of Prineville

Stephen P. Uffilman, Mayor

Henry Hartley, City Recorder