

**City of Prineville
Crook County, Oregon**

Resolution No. 727

*A resolution of the City of Prineville, Crook County, Oregon,
authorizing the issuance of First Lien Sewer Revenue Bonds,
Series 1992 and repealing Resolutions No. 722 and 726*

Dated as of April 28, 1992

Table of Contents

	<u>Page Number</u>
Section 1. Findings.	1
Section 2. Definitions.	1
Section 3. Authorization, Designation.	5
Section 4. Date, Maturities and Interest.	5
Section 5. Term Bonds and Mandatory Redemption.	5
Section 6. Form of Registered Bond.	5
Section 7. Authentication, Registration and Transfer.	5
Section 8. Optional Redemption.	7
Section 9. Notice of Redemption.	7
Section 10. Disposition of Bond Proceeds and Deposit to the Construction Fund.	9
Section 11. Deposit, Pledge and Use of Revenues.	9
Section 12. Funds and Accounts.	9
Section 13. Rate Covenant.	11
Section 14. General Covenants.	12
Section 15. Maintenance of Tax-Exempt Status.	13
Section 16. Parity Obligations.	13
Section 17. Subordinate Obligations.	15
Section 18. Default.	15
Section 19. Remedies on Default.	15

Table of Contents

	<u>Page Number</u>
Section 20. No Remedy Exclusive.	16
Section 21. Amendment of Resolution.	16
Section 22. Defeasance.	17
Section 23. Bank Qualified.	17
Section 24. Sale of Bonds.	17
Section 25. Additional Actions.	17
Section 26. Resolution No. 722 and Resolution No. 726 Repealed.	18

Exhibit A Form of Bond

RESOLUTION NO. ___

A RESOLUTION OF THE CITY OF PRINEVILLE, CROOK COUNTY, OREGON, AUTHORIZING THE ISSUANCE OF FIRST LIEN SEWER REVENUE BONDS, SERIES 1992 AND REPEALING PRIOR RESOLUTIONS.

Section 1. Findings.

WHEREAS, on October 8, 1991, the City of Prineville, Crook County, Oregon (the "City") adopted Resolution No. 719 whereby the City provided for the issuance of \$3,000,000 of its Sewer Revenue Bonds and provided for the publication of notice, pursuant to ORS 288.805 through 288.945, the Uniform Revenue Bond Act (the "Act"); and

WHEREAS, publication of notice was duly given, no petitions were filed which would require an election, and the City now has authority to issue its bond pursuant to the Act.

NOW, THEREFORE, the City resolves as follows:

Section 2. Definitions.

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

(1) "City" means the City of Prineville, Crook County, Oregon.

(2) "Audit" means the audit required by ORS 297.425.

(3) "Auditor" means a person authorized by the State Council of Accountancy to conduct municipal audits pursuant to ORS 297.670.

(4) "Council" means the City Council of the City of Prineville, Crook County, Oregon.

(5) "Bondowner" means a registered owner of a Bond.

(6) "Bond Purchase Agreement" means that purchase agreement executed by the Underwriter and the City.

(7) "Bond Registrar" or "Registrar" means the paying agent and registrar designated by the City.

(8) "Bonds" or "Series 1992 Bonds" means the Series 1992 Bonds and any Parity Obligations issued pursuant to this Resolution.

(9) "Certificate of City" or "City Certificate" means a certificate executed on behalf of the City by the City Administrator of the City or his designee.

(10) "Code" means the Internal Revenue Code of 1986, rules and regulations promulgated thereunder and amendments thereto.

(11) "Construction Account" means the Wastewater Treatment Plant Construction Account, heretofore created, to be maintained pursuant to Section 10 of this Resolution.

(12) "Costs of Construction" means all appropriate capitalizable costs to be incurred to construct the Project in accordance with generally-accepted accounting principles.

(13) "Default" or "Event of Default" means any event specified in Section 18 of this Resolution.

(14) "Equipment Replacement and Operating Reserve Fund" means that fund established to Section 12 of this Resolution.

(15) "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.

(16) "General Fund" means the General Fund of the City.

(17) "Gross Revenues" means all fees and charges, including system development charges, resulting from operation of the Sewer System, revenues from product sales and such revenues as may be deposited to the Sewer Fund by the City from the operation of the Prineville Meadows Golf Course plus investment income from Sewer User revenues on deposit with the City under this Resolution; however, Gross Revenues does not include: (a) any payments of improvement assessments levied against benefited properties; (b) the proceeds of any grants; (c) the proceeds of any borrowing for capital improvements; (d) the proceeds of any liability or other insurance; (e) the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System; (f) sales of assets pursuant to Section 14 of this Resolution, and (g) ad valorem taxes received by the City which are, at any time, pledged, designated or dedicated to other debt or obligations of the City.

(18) "Net Operating Revenues" means the Gross Revenues less the Operating Expenses.

(19) "Parity Notes" or "Notes" means the State of Oregon Revolving Fund Notes or obligations to be issued by the Oregon Department of Environmental Quality to finance, in part, the Project.

(20) "Operating Expenses" means all expenses incurred for operation, maintenance and repair of the Project and the Sewer System, including but not limited to administrative expenses, financial and auditing expenses, insurance premiums, claims (to the extent monies 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 Sewer System. Operating Expenses do not include any rebates paid from Gross Revenues under Section 148 of the Code and any interfund transfers of the City.

(21) "ORS" means the Oregon Revised Statutes.

(22) "Outstanding Bonds" means all Bonds authorized and delivered pursuant to this Resolution except Bonds theretofore cancelled or defeased pursuant to Section 22 of this Resolution.

(23) "Parity Obligations" means any revenue bonds or other obligations of the City which comply with the provisions of Section 16 of this Resolution for the issuance of Parity Obligations.

(24) "Permitted Indebtedness" means (i) subordinate lien debt, (ii) indebtedness to the extent secured by or payable from sources other than Net Operating Revenues, (iii) Bond and Tax Anticipation Notes issued pursuant to Oregon Law, and (iv) any other indebtedness in existence on the date of initial issuance and delivery of the Bonds.

(25) "Permitted Investments" means those investments authorized by Oregon Law for the City.

(26) "Project" means the sewerage facilities as described in the City's final Wastewater Facilities Plan, dated March 25, 1991, and together with other necessary improvements to the collection and treatment system of the City which will be financed with the proceeds of the Bonds.

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

(28) "Redemption Account" means the First Lien Sewer System Revenue Bond Debt Redemption Account, to be maintained pursuant to Section 12 by the City to hold funds to be used to pay Bond principal and interest and premiums if any.

(29) "Registrar" means the Registrar and paying agent as established in Section 7 of this Resolution.

(30) "Required Reserve" means an amount equal to the lesser of (a) the maximum annual debt service due in any Fiscal Year on the Outstanding Bonds determined as of the date of issuance of the Bonds, (b) 1.25 times the average annual debt service on the Outstanding Bonds or (c) ten percent of the proceeds of all issues of Bonds which have Bonds outstanding, in accordance with Section 148(d) of the Code.

(31) "Reserve Account" or "Debt Service Reserve Account" means the Reserve Account established pursuant to Section 12 of this Resolution.

(32) "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.

(33) "Resolution" means this Resolution.

(34) "Series 1992 Bonds" means the City's First Lien Sewer Revenue Bonds, Series 1992, issued pursuant to this Resolution.

(35) "Sewer Fund" means that fund heretofore established to which all Gross Revenues are deposited.

(36) "Sewer System" or "System" means all real and personal property now or hereafter owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited to, intercepting sewers, diversion sewers, relieving or interconnection sewers, lift stations and equipment enhancements to stream flow augmentation, and facilities for treatment, processing and disposal of sewage.

(37) "Subordinate Obligations" means any obligations of the City payable from Net Operating Revenues which comply with the provisions of Section 17 of this Resolution.

(38) "Term Bonds" means the Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such bonds on or before their specified maturity date or dates.

(39) "Underwriter" means Seattle-Northwest Securities Corporation, Portland, Oregon.

Section 3. Authorization, Designation. To provide sufficient funds in accordance with and subject to the terms, conditions and limitations established in the Resolution, bonds will be issued in the aggregate principal amount of Three Million Dollars (\$3,000,000), in registered form as to both principal and interest, without interest coupons. The bonds are hereby designated as the "City of Prineville, Crook County, Oregon First Lien Sewer Revenue Bonds, Series 1992" (the "1992 Bonds").

Section 4. Date, Maturities and Interest. All Bonds shall be dated April 1, 1992, shall bear interest payable on July 1 and January 1 of each year, commencing January 1, 1993, until maturity or prior call and redemption and shall mature as referenced in the Bond Purchase Agreement.

Section 5. Term Bonds and Mandatory Redemption. Term bonds, if any are specified by the Bond Purchase Agreement, shall be subject to mandatory redemption at par and by lot, in the amounts and on the dates shown in the Bond Purchase Agreement. Bonds optionally redeemed shall be credited against the Bonds subject to mandatory redemption in inverse order of maturity by the Paying Agent.

Section 6. Form of Registered Bond. The City may issue the Bonds as one or more typewritten, temporary Bonds which shall be exchangeable for definitive Bonds when definitive Bonds are required. The Bonds shall be in substantially the form attached hereto as Exhibit A with such changes as are required to conform with the Bond Purchase Agreement.

Section 7. Authentication, Registration and Transfer.

A. No Bond shall be entitled to any right or benefit under this Resolution unless it shall have been authenticated by an authorized officer of the Fiscal Agent. The Fiscal Agent shall authenticate all Bonds to be delivered at closing of this Bond issue, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Resolution.

B. All Bonds shall be in registered form. A successor Fiscal Agent may be appointed for the Bonds by the City. The Fiscal Agent shall provide notice

to Bondowners of any change in the Fiscal Agent not later than the Bond payment date following the change in Fiscal Agent.

C. The ownership of all Bonds shall be entered in the Bond Register maintained by the Fiscal Agent, and the City and the Fiscal Agent may treat the person listed as owner in the Bond Register as the owner of the Bond for all purposes.

D. The Fiscal Agent shall mail each Bond interest payment to the registered owner at the address appearing on the Bond Register as of the fifteenth day of the month preceding a Bond payment date (the "Record Date"). If payment is so mailed, neither the City nor the Fiscal Agent shall have any further liability to any party for such payment.

E. Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different denominations, and Bonds may be transferred to other owners if the Bondowner submits the following to the Fiscal Agent:

(1) written instructions for exchange or transfer satisfactory to the Fiscal Agent, signed by the Bondowner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Fiscal Agent; and

(2) the Bonds to be exchanged or transferred.

F. The City shall notify the Fiscal Agent of any Bonds to be called prior to maturity not less than 40 days prior to the redemption date. The Fiscal Agent shall establish a Special Record Date for the Bonds subject to redemption special which shall be a date established within a five-day period after receipt of notice from the City.

G. The Fiscal Agent shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date or Special Record Date and ending on the next following payment date.

H. The Fiscal Agent shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Bondowner's name is listed on the Bond Register.

I. For purposes of this section, Bonds shall be considered submitted to the Fiscal Agent on the date the Fiscal Agent actually receives the materials described in subsection (5) of this section.

J. The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Bondowners. 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 8. Optional Redemption. Bonds designated as being subject to optional redemption in the Bond Purchase Agreement will be called in whole at any time or in part on any interest payment date (with maturities to be selected by the City) at a price of par plus accrued interest to the date of redemption.

Section 9. Notice of Redemption.

A. Unless waived by the registered owner of the Bond or Bonds to be redeemed, official notice of any such redemption shall be given by the Fiscal Agent on behalf of the City of Prineville, by mailing a copy of an official redemption notice, by registered or certified mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered 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 registered owner to the Fiscal Agent.

B. All official notices of redemption shall be dated and shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) 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,
- (4) 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
- (5) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office of the Fiscal Agent.

C. On or prior to any redemption date, the City shall deposit with the Fiscal Agent 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.

D. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so 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 Fiscal Agent 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 cancelled and destroyed by the Fiscal Agent and shall not be reissued.

E. In addition to the foregoing notice, further notice shall be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

(1) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds as originally issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each further notice of redemption shall be sent at least 35 days before the redemption date by registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds (such depositories now being Depository Trust Company of New York, New York, Midwest Securities Trust Company of Chicago, Illinois, and Philadelphia Depository Trust Company of Philadelphia, Pennsylvania) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds (such as Financial Information, Inc.'s Financial Daily Called Bond Service; Interactive Data Corporation's Bond Service; Kenny Information Service's Called Bond Service; Moody's Municipal and Government; and Standard and Poor's Called Bond Record).

(3) Each such further notice shall be published one time in *The Bond Buyer* of New York, New York or, if such publication is impractical or unlikely to reach a substantial number of the holders of the Bonds, in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the Bonds, such publication to be made at least 30 days prior to the date fixed for redemption.

(4) Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 10. Disposition of Bond Proceeds and Deposit to the Construction Fund. Interest accrued from the date of the Bonds until the date of closing shall be placed in the First Lien Sewer System Revenue Bond Debt Redemption Account (the "Redemption Account") heretofore created, and shall be used to pay interest on the Bonds. An amount shall be deposited in the Reserve Account sufficient to fund the Reserve Account equal to the Required Reserve unless other provisions have been made to fund the Reserve Account pursuant to Section 12 of this Resolution, in which event, all proceeds shall be placed in the Construction Fund (the "Construction Fund"), heretofore created. The balance of the Bond proceeds shall be placed in the Construction Fund, and shall be disbursed only to finance Costs of Construction of the Sewer System and costs incurred in connection with the issuance of the Bonds.

Monies in the Construction Fund may be invested in Permitted Investments as are authorized by law for the City. Earnings from investment of the funds in the Construction Fund shall be maintained in the Construction Fund, and shall be treated and disbursed as Bond proceeds. Construction Fund balances attributable to Bond proceeds which are not needed for construction may be transferred to the Redemption Account.

Section 11. Deposit, Pledge and Use of Revenues.

A. All Gross Revenues shall be deposited to or maintained in the Sewer Fund, heretofore created. The City hereby pledges the Net Operating Revenues to the payment of principal and interest on all Bonds and Parity Notes. As long as any Bonds or Notes remain issued and outstanding, monies in the Sewer Fund shall be used solely to pay the following amounts in the following order:

- (1) To pay Operating Expenses,
- (2) To credit the Redemption Account to pay Bond and Note principal and interest,
- (3) To credit the Reserve Account to eliminate any deficiency in the Required Reserve,
- (4) To credit the Equipment Replacement and Operating Reserve Fund, and
- (5) To pay any other expenses relating to the Sewer System.

Section 12. Funds and Accounts.

A. The First Lien Sewer System Revenue Bond Redemption Account (the "Redemption Account") is hereby created. The City shall deposit into the Redemption Account, from the Sewer Fund, or the Reserve Account, money

sufficient to make payments of Bond principal and interest in accordance with Section 11 of this Resolution.

(1) 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 Redemption Account:

(a) Not less than five business days prior to a Bond interest payment date, the City will deposit into the Redemption 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 Redemption 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.

(b) Not less than five business days prior to a Bond principal payment date, the City will deposit into the Redemption 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 Redemption 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.

B. The Debt Service Reserve Account (the "Reserve Account") is hereby created within the Sewer Fund.

(1) The City shall maintain a balance in the Reserve Account at least equal to the Required Reserve. Monies 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 monies in the Redemption Account are insufficient to pay Bond principal and interest when due.

(2) 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 Sewer 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 Construction Fund, or, after completion of the Project, to the Redemption Account.

(3) The balance in the Reserve Account shall include, in addition to cash deposits and bond proceeds, the face amount of any Reserve Equivalents.

(4) Monies in the Reserve Account may be invested only in "Permitted Investments."

C. The Equipment Replacement and Operating Reserve Account (the "Operating Reserve Account") is hereby created in the Sewer Fund.

(1) The City shall fund the Operating Reserve Account, to the extent funds are available, as described in the City's Five Year Financial Plan which has been incorporated into the Report on the City's Wastewater Utility Financial Plan, Cost of Service and User Charge Design Analysis, prepared by Watson Consulting Service.

Section 13. Rate Covenant.

A. The City covenants that it will charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Operating Revenues in each fiscal year at least equal to 1.25 times Bond principal and interest due in that fiscal year. If the Net Operating Revenues fail to meet this level, the City will promptly increase its rates and fees to a level so that Net Operating Revenues are projected to meet the required level. The City will demonstrate its compliance with the provisions of this Section 13 by providing a report, certified by the City's Auditor, and prepared at the time of the delivery of the City's year-end audit. This report will demonstrate the City's compliance with this covenant, or the methods by which the City intends to achieve compliance with this covenant, and shall be filed with the City Recorder.

B. The City shall annually, within six months after the close of each Fiscal Year, file with the City Recorder an City Certificate showing for the preceding Fiscal Year (i) Net Operating Revenues and (ii) the debt service requirements for such Fiscal Year. If the statement filed shows that such Net Operating Revenues are less than one hundred twenty-five percent (125%) of such debt service requirements, then the City shall simultaneously file with the City Recorder a Certificate of the City stating in effect that changes in operating procedures or revisions in rates can and will be made which, in the opinion of such signatory, would have resulted in greater Net Operating Revenues sufficient to provide that such Net Revenues would have been at least equal to one hundred twenty-five percent (125%) of such debt service requirements, together with a copy of a resolution, adopted by the Council and certified of the City, authorizing and

directing that such changes or revisions be effectuated as promptly as possible, but in no event in greater than ninety (90) days.

Section 14. General Covenants.

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

(1) That it will, 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.

(2) That it will maintain complete books and records relating to the operation of the Sewer 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 Bondowners.

(3) That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Operating Revenues.

(4) That it will promptly deposit into all funds and accounts all sums required to be so deposited.

(5) That it will operate the Sewer System in a sound, efficient and economic manner.

(6) The City will 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 Redemption Account.

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.

(7) The City may not sell or exchange or otherwise dispose of any property constituting a part of the Sewer System unless such property is either worn out or obsolete or, in the opinion of the City and as certified and notice given by the City Administrator to Trustee for any item whose purchase or book value exceeds \$250,000, is no longer useful in the operation of the Sewer System. Any proceeds of such sale, exchange or other disposition not used to replace the property so sold or exchanged shall be deposited in the General Fund or Capital Replacement Fund.

(8) The City shall not incur debt or other obligations except (a) as authorized by this Resolution or (b) for Permitted Indebtedness as defined in this Resolution.

Section 15. Maintenance of Tax-Exempt Status.

A. The City covenants for the benefit of the owners of the Bonds to comply with all provisions of the Code which are required for Bond interest to be excluded from gross income for federal taxation purposes (except for taxes on corporations), unless the City obtains an opinion of nationally recognized bond counsel that such compliance is not required in order for the interest paid on the Bonds to be so excluded. 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 Bonds to become "arbitrage bonds" under Section 148 of the Code.

(2) The City shall operate the facilities financed with the Bonds so that the Bonds are not "private activity bonds" within the meaning of Section 141 of the Code.

(3) The City shall comply with appropriate reporting requirements.

(4) The City shall pay, when due, all rebates on the gross proceeds of the Bonds which are required under Section 148 of the Code.

The covenants contained in this section and any covenants in the closing documents for the Bonds shall constitute contracts with the owners of the Bonds, and shall be enforceable by them.

Section 16. Parity Obligations.

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

- (1) No Default has occurred and is continuing;
- (2) At the time of the issuance of the Parity Obligations there is no deficiency in the Redemption Account and the Reserve Account;
- (3) 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.
- (4) 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 13 of this Resolution, including the proposed Parity Obligations.
- (5) Either (i) 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 and the Parity Notes 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 (ii) 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 Council) are not less than 1.25 times the actual debt service for the ensuing three fiscal year's debt service on all outstanding Bonds and the Parity Notes plus the average annual debt service on the proposed Parity Obligations.

B. The City may issue Parity Obligations to refund Outstanding Bonds, notwithstanding the requirements of Section 16.A, if the required debt service of the refunding bonds does not exceed the debt service for the refunded bonds payable in any Fiscal Year.

The requirements of Section 16.A shall apply if the debt service on the refunding bonds exceeds the debt service on the refunded bonds payable in any Fiscal Year.

C. The City may issue (1) Parity Notes; and, (2) additional revenue bonds in an amount not to exceed \$500,000, if required to complete the Project, notwithstanding the requirements of this Section 16.

D. All Bonds issued in accordance with this Section shall have a lien on the Net Operating Revenues which is equal to the lien of the Bonds, the Parity Notes and all Parity Obligations issued in accordance with this Section.

Section 17. 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, the Parity Notes and all Parity Obligations issued in accordance with Section 16 of this Resolution. In the event of any insolvency or bankruptcy proceedings relative to the City or to its property, the holders of the Bonds, the Bonds and the Parity Obligations 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 Subordinated Obligations are entitled to receive any payment on account of principal, premium (if any) or principal upon the Subordinated Obligations.

Section 18. Default.

A. The following events shall constitute Default:

- (1) Failure to pay Bond principal or interest when due; or
- (2) Failure to perform any other obligation of the City imposed by this Resolution or the Bonds, but only if:
 - (a) the failure continues for a period of more than ninety (90) days after demand has been made on the City by the Trustee to remedy the failure; and
 - (b) the City fails to take reasonable steps to remedy the failure within that ninety-day period; or
- (3) Imposition of a receivership upon, or liquidation of, the General Fund; or,
- (4) Written admission by the City that the City is unable to pay its debts as they become due.

Section 19. Remedies on Default.

A. Whenever any Event of Default exists, Owners representing 51 percent or more of outstanding Bonds, may, without any further demand or notice, take one or more of the following remedial steps:

- (1) Declare all the Bonds immediately due and payable, together with interest accrued thereon to the date of payment;
- (2) Exercise any other remedy available at law or in equity, except that the Property shall not be subject to foreclosure or attachment.

B. 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 to represent the interests of said Bondowners.

Section 20. No Remedy Exclusive. No remedy herein conferred upon or reserved to Bondowners 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 Bondowners 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 21. Amendment of Resolution.

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

(1) 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 Bondowners.

(2) To cure any ambiguity or formal defect contained in this Resolution, if that cure does not, in the opinion of a nationally recognized bond counsel, filed with the Council, adversely affect the interests of the Bondowners.

(3) To issue Parity Obligations in accordance with Section 16 hereof.

B. This Resolution may be amended for any other purpose only upon consent of Bondowners 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 Bondowners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

(1) 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 Bondowner; or

(2) Reduces the percent of Bondowners required to approve amendatory resolutions.

Section 22. Defeasance. The lien of the Bonds upon the Net Operating Revenues may be defeased, and the 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 the Bonds as they become due, either at maturity or on prior redemption.

Section 23. Bank Qualified. The City hereby designates the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The City covenants not to so designate tax-exempt obligations in the current calendar year in an aggregate amount of more than \$10,000,000. The City does not reasonably expect to issue more than \$10,000,000 of tax-exempt obligations during the current calendar year.

Section 24. Sale of Bonds.

A. Within the limits established by this Resolution, the City Administrator may, on behalf of the City:

(1) establish the final terms of the sale, including payment dates, maturity schedule (of a period not to exceed 30 years), interest payment dates, redemption provisions (including any requirements for mandatory redemption), and other terms on which the Bonds shall be sold;

(2) execute a Bond Purchase Agreement for the Bonds, and fix the price and terms on which the Bonds shall be sold to their Underwriter, and sell the Bonds; and,

(3) take any other action desirable to issue, sell and deliver the Bonds in accordance with this resolution.

The City Administrator shall report the results of the sale to the City Council promptly.

Section 25. Additional Actions.

A. The preparation and distribution of the Preliminary Official Statement and the Official Statement to be used in connection with the sale of the Bonds, and the inclusion therein of the sections describing the activities and finances of the City, are authorized, approved and confirmed. The City Administrator is authorized, empowered and directed to execute the Official Statement for and on behalf of the City for distribution to the public.

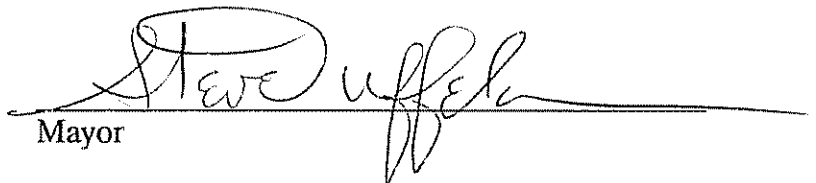
B. The City Administrator of the City and his designee are authorized and empowered to obtain a policy of insurance, a letter of credit, or any other form of enhancement of credit under the Bonds, to provide further assurance to Bondowners of the payment of the principal and interest on the Bonds, and the payment of the sum or charge (if any) for the investment from the proceeds of the Bonds is authorized and approved and to enter into a Trust Agreement in accordance with this Resolution.

C. The City Administrator of the City and his designee are authorized to execute and deliver on behalf of the City any and all additional certificates, documents or other papers and other acts (including, without limitation, the filing of any documents) as they may deem necessary or appropriate in order to implement the intent and purpose of this Resolution.

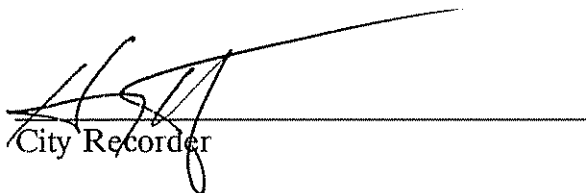
Section 26. Resolution No. 722 and Resolution No. 726 Repealed.
Resolution No. 722, adopted January 28, 1992, and Resolution No. 726, adopted April 3, 1992, are hereby repealed.

DATED this 28th day of April, 1992.

City of Prineville
Crook County, Oregon
By its City Council


Mayor

Attest:

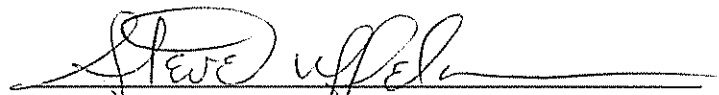

City Recorder

in the Resolution. The City has pledged the Net Operating Revenues of the Sewer System to the payment of principal and interest on this Bond on a parity with its Bonds.

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 the Charter of the City; that the issue of which this Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution and Statutes and the Charter of the City.

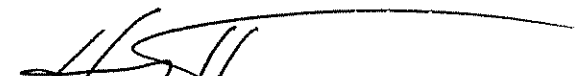
IN WITNESS WHEREOF, the City Council of the City of Prineville, Crook County, Oregon, has caused this Bond to be signed by facsimile signature of its Mayor and attested by facsimile signature of the Recorder of the City, as of the date indicated above.

City of Prineville
Crook County, Oregon



Mayor

Attest:



Recorder

THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

DATED:

Certificate of Authentication

This is one of the City of Prineville, Crook County, Oregon, First Lien Sewer System Revenue Bonds, Series 1992 issued pursuant to the Resolution described herein.

First Interstate Bank of Oregon, N.A., as Registrar

Authorized Officer

Note to Printer: The following language should be printed on the reverse of the Bond:

This Bond is one of a series of \$3,000,000 aggregate principal amount of First Lien Sewer System Revenue Bonds, Series 1992, of the City, and is issued by the City for the purpose of financing sewerage facility improvements 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 City reserves the right to redeem all or any portion of the Bonds maturing on _____, _____, by lot on _____, _____, and on any interest payment date thereafter, at par plus accrued interest to the date fixed for redemption.

The Bonds maturing _____, _____, shall be subject to mandatory redemption, by lot, at the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, in the amounts and on the dates set forth below:

Year	Amount	Year	Amount
------	--------	------	--------

The Bonds maturing _____, _____, shall be subject to mandatory redemption, by lot, at the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, in the amounts and on the dates set forth below:

Year	Amount	Year	Amount
-------------	---------------	-------------	---------------

Bonds optionally redeemed may be credited against the mandatory redemption by lot as determined by the Paying Agent.

Notice of any call for redemption, unless waived by the owners of the Bonds to be redeemed, shall be mailed not less than thirty days and not more than sixty days prior to such call to the registered owners of the Bonds, and otherwise given as required the Resolution and by law; however, any failure to give notice shall not invalidate the redemption of the Bonds. All Bonds called for redemption shall cease to bear interest from the date designated in the notice.

The Bonds are issuable in the form of registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Bonds may be exchanged for an equal aggregate principal amount of registered Bonds of the same maturity and of any other authorized denominations in the manner, and subject to the conditions set forth in the Resolution.

Any transfer of this Bond must be registered, as provided in the Resolution, upon the Bond Register kept for that purpose at the principal corporate trust office of the Registrar. This Bond may be transferred only by surrendering it, together with a written instrument of transfer which is satisfactory to the Registrar and which is executed by the registered owner or his duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The City and the Registrar 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.

Assignment

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Please insert social security or other
identifying number of assignee

this Bond and does hereby irrevocably constitute and appoint _____
_____ attorney to transfer this Bond on the books kept for registration
thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- tenants in common

TEN ENT -- as tenants by the entireties

JT TEN -- as joint tenants with right of survivorship

and not as tenants in common

OREGON CUSTODIANS use the following

_____ CUST UL OREG _____ MIN

as custodian for (name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.