

**City of Canby
Clackamas County, Oregon**

Resolution No. 648

Authorizing the issuance of Sewer Revenue Bonds

Adopted September 3, 1997

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RESOLUTION NO. ____

**A RESOLUTION OF THE CITY OF CANBY, CLACKAMAS
COUNTY, OREGON, AUTHORIZING THE ISSUANCE OF SEWER
REVENUE REFUNDING BONDS, SERIES 1997**

THE CITY COUNCIL OF THE CITY OF CANBY, CLACKAMAS COUNTY, OREGON,
RESOLVES AS FOLLOWS:

Section 1. Findings.

A. This Council submitted to the legal voters of the City of Canby (the "City"), the question of issuing sewer revenue bonds in the sum of \$4,100,000 to finance, in part, improvements, repairs and expansion of the City's sewage treatment plant.

B. The election was duly and legally held on the 24th day of March, 1992, and the Council canvassed the result thereof and declared that issuance of bonds in such sum was approved by a majority of the qualified voters of the City voting at the election.

C. The City issued its Sewer Revenue Bonds, Series 1992 in the amount of \$4,100,000, dated November 1, 1992 (the "Refundable Bonds") pursuant to Resolution No. 521 of the City.

D. The City is authorized pursuant to the Constitution and laws of the State of Oregon to issue refunding bonds to refund the Refundable Bonds.

E. The City's underwriter, Seattle-Northwest Securities Corporation, prepared an advance refunding plan for the City's Refundable Bonds.

F. The approval of the State Treasurer is required before such advance refunding bonds may be issued.

G. This Council adopted Resolution No. 605 on April 3, 1997 which authorized the issuance of Sewer Revenue Refunding Bonds, Series 1996 upon receipt of approval of the Oregon State Treasurer and appointed the First Interstate Bank of Oregon, N.A., as escrow agent and paying agent.

H. The State Treasurer did not approve issuance of bonds because of unfavorable market conditions.

I. Market conditions are presently more favorable and it is anticipated that the Oregon State Treasurer will authorize issuance of the bonds.

J. First Interstate Bank of Oregon N.A. is succeeded by another institution and consideration is being given to the appointment of a different escrow agent and paying agent.

K. Resolution No. 605 should now be repealed and this Resolution adopted to authorize the issuance of Series 1997 Bonds or such other series as designated by the City Administrator and to authorize the Administrator to appoint a paying agent and escrow agent.

L. The City has met the requirements of and is authorized to issue parity bonds pursuant to Section 12.B. of Resolution No. 521.

M. The City anticipates that it requires an additional \$1,500,000 to finance an expansion and improvement to the sewage treatment plant and will seek authorization pursuant to the Uniform Revenue Bond Act.

N. If authorization is obtained to issue additional bonds, then the bonds will be issued as Parity Obligations pursuant to this Resolution, either as a separate series or as a part of the Series 1997 Bonds, as determined by the Administrator to be in the best interests of the City. The City finds that issuance of the additional bonds meets the requirements of Section 13 hereof.

Section 2. Plan Submission.

Seattle-Northwest Securities Corporation is authorized, on behalf of the City, to resubmit an advance refunding plan for the Refundable Bonds to the State Treasurer for review and approval.

Section 3. Bonds Authorized.

For the above purpose, pursuant to ORS 288.592 and Chapter 287, ORS, and upon receipt of approval of the State Treasurer, the City shall issue its Sewer Revenue Refunding Bonds, Series 1997 or its Sewer Revenue Building Bonds, Series 1997 in one or more series or with such other designation as determined by the City Administrator (the "Refunding Bonds" or the "Refunding and Building Bonds" or the "Building Bonds"). The Bonds shall be dated, bear interest, computed on the basis of a 360-day year of twelve 30-day months, payable semiannually, and be subject to redemption as negotiated by the City Administrator.

Section 4. Definitions.

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

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

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

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

(4) "Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds.

(5) "Bond Insurer" means Financial Security Assurance Inc. as the insurer of the Series 1992 Bonds and any other bond insurer, if any, selected by the City Administrator.

(6) "Bond Purchase Contract" means the contract or agreement between the City and the Bond Purchaser that provides for the purchase of one or more Series of Bonds by the Bond Purchaser and establishes the interest rates, maturity dates, principal amounts for each maturity, redemption provisions, sale price and other terms of the sale of such Bonds to the Bond Purchaser.

(7) "Bond Purchaser" means Seattle-Northwest Securities Corporation as the initial purchaser of any Bonds issued pursuant to this Resolution.

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

(9) "Bondowner" or "Owner" means a registered owner of a Bond.

(10) "Bonds" or "Series of Bonds" means Series 1992 Bonds, the Series 1997 Bonds, the SRF Loan Agreement, and any Parity Obligations issued pursuant to this Resolution.

(11) "Book-Entry-Only System" means a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

(12) "Building Bonds" means bonds sold by the City to further expand the City's sewer treatment facilities.

(13) "Business Day" means any day which is not a Saturday, Sunday, legal holiday or a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed and which shall not be a day on which the New York Stock Exchange is closed.

(14) "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.

(15) "City" means the City of Canby, Clackamas County, Oregon.

(16) "City Administrator" means the duly appointed and acting City Administrator of the City or his or her designee or designees.

(17) "City Treasurer" means the duly appointed and acting Treasurer of the City or his or her designee or designees.

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

(19) "Construction Account" means that account heretofore created in the Sewer Construction Reserve Fund to be maintained pursuant to Section 9 of this Resolution.

(20) "Council" means the City Council of the City of Canby, Clackamas County, Oregon.

(21) "Debt Service Fund" means the Enterprise Debt Service Fund heretofore created to hold funds to pay principal, interest and premium, if any, on the Bonds or any other obligations payable from Net Revenues.

(22) "DEQ" means the State of Oregon, acting by and through the Director of the Oregon Department of Environmental Quality, or the Director's authorized representative.

(23) "Default" or "Event of Default" means any event specified in Section 16 of this Resolution.

(24) "Depository" or "DTC" means The Depository Trust Company or any other qualified securities depository designated by the City as its successor.

(25) "Financial Security Assurance Inc." means the successor to Capital Guaranty Insurance Company as the Bond Insurer for the Series 1992 Bonds.

(26) "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.

(27) "Government Securities" means (a) direct obligations of the United States of America, and (b) obligations on which the timely payment of principal and interest is fully and unconditionally guaranteed by the United States of America.

(28) "Gross Revenues" means all fees and charges, including system development charges, resulting from operation of the Sewer System, revenues from product sales, credits from the Rate Stabilization Account to the Sewer Operating Fund, if any, and any interest earnings and other revenues placed in the Sewer Operating Fund; 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) any amounts realized from the sales of assets pursuant to Section 14.A.(7) 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.

(29) "Maximum Annual Debt Service" means the greatest Fiscal Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

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

(31) "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 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 Sewer System. Operating Expenses do not include any rebates or penalties paid from Gross Revenues under Section 148 of the Code, depreciation and amortization of property, values or losses, and all amounts treated for accounting purposes as payments for capital expenditures.

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

(33) "Outstanding Bonds" means all Bonds authorized and delivered pursuant to Resolution No. 521, this Resolution No. 648, the SRF Loan Agreement and any Parity Obligations except Bonds theretofore canceled or defeased pursuant to Section 20 of this Resolution.

(34) "Parity Obligations" means any revenue bonds or other obligations of the City which comply with the provisions of Section 12 of this Resolution for the issuance of Parity Obligations.

(35) "Permitted Investments" shall mean any of the following, with an appropriate market value and of an appropriate maturity:

(a) Obligations of, or guaranteed as to principal and interest by, the United States of America, or by any agency or instrumentality thereof hereinafter designated when such obligations are backed by the full faith and credit of the United States of America. These are limited to:

- U.S. Treasury obligations
All direct or fully guaranteed obligations
- Farmers Home Administration
Certificates of beneficial ownership
- General Services Administration
Participation certificates
- U.S. Maritime Administration
Guaranteed Title XI financing

- Small Business Administration
 - Guaranteed participation certificates
 - Guaranteed pool certificates
- Government National Mortgage Association (GNMA)
 - GNMA-guaranteed mortgage backed securities
 - GNMA-guaranteed participation certificates
- U.S. Department of Housing and Urban Development
 - Local authority bonds
- Washington Metropolitan Area Transit Authority
 - Guaranteed transit bonds.

(b) Obligations of instrumentalities or agencies of the United States of America. These are specifically limited to:

- Federal Home Loan Mortgage Corporation (FHLMC)
 - Participation certificates
 - Debt Obligations
- Federal Home Loan Banks (FHL Banks)
 - Consolidated debt obligation
 - Letter of credit (LOC) backed issues
- Federal National Mortgage Association (FNMA)
 - Debt obligations

Mortgage backed securities (Excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal).

Book-entry securities listed in (a) and (b) above must be held in a trust account with the Federal Reserve Bank or with a clearing corporation of chain of clearing corporations which has an account with the Federal Reserve Bank.

(c) Federal Housing Administration debentures.

(d) Commercial paper, payable in the United States of America, having original maturities of not more than 92 days and which are rated in the highest rating category by Standard & Poor's Corporation.

(e) Interest bearing demand or time deposits issued by state banks or trust companies, savings and loan associations, federal savings banks or any national banking associations, the deposits of which are insured by the Bank Insurance Fund (BIF), or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation (SAIF) or any successors thereto. These deposits: (i) must be continuously and fully insured by BIF or

SAIF or, (ii) must have maturities of less than 366 days and be deposited with banks and short-term obligations of which are rated A-1+ by Standard & Poor's Corporation.

(f) Money market mutual funds or portfolios investing in short-term U.S. Treasury securities rated AAA by Standard & Poor's Corporation. The City shall provide Financial Security Assurance Inc. annual certification that the money market portfolio into which funds are invested is then rated AAA by Standard & Poor's and, upon notice that the Standard & Poor's rating of the money market portfolio has dropped below AAA, the City shall immediately withdraw funds and reinvest in Permitted Investments.

(g) Investments in the Local Government Investment Pool provided by ORS 294.805 to 295.895, inclusive.

(h) Such other investments as are approved in writing by the Bond Insurer.

All funds and accounts are to be mark to market valuation conducted on a quarterly basis by the City. The City shall promptly deliver copies of such quarterly valuations to the Bond Insurer.

(36) "Project" means the repair, expansion and improvement of the City's sewage treatment plant which were financed with the proceeds of the Refundable Bonds and any improvements thereto financed with non-Refunding Bond proceeds.

(37) "Rate Stabilization Account" means the Rate Stabilization Account which may be established pursuant to Section 18 of this Resolution.

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

(39) "Registrar" means the Registrar and paying agent as established in Section 6 of this Resolution.

(40) "Required Reserve" means an amount equal to the lesser of the maximum annual debt service due in any Fiscal Year 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 the maximum annual debt service due in any Fiscal Year on all Outstanding Bonds exceeds the Tax Maximum calculated with respect to such Series of Bonds, then the Required Reserve shall mean the Required Reserve on all Outstanding Bonds for any future Fiscal Year in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to such Series of Bonds.

(41) "Reserve Account" means the Reserve Account established pursuant to Section 9 of this Resolution.

(42) "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) within one of the two highest rating categories 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. The form and provider of any Reserve Equivalent must be approved in writing by Financial Security Assurance Inc. as long as any of the Bonds are insured by that company.

(43) "Resolution" means this Resolution No. 648 adopted September 3, 1997.

(44) "Series" or "Series of Bonds" means all of the Bonds issued, authenticated and delivered pursuant to this Resolution or a Supplemental Resolution and any Bonds thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to this Resolution or such Supplemental Resolution regardless of variations in maturity, interest rate or other provisions.

(45) "Series 1992 Bonds" means the City's Sewer Revenue Bonds, Series 1992, issued pursuant to Resolution No. 521.

(46) "Series 1997 Bonds" or "1997 Bonds" means the City's Sewer Revenue Refunding Bonds, Series 1997 or its Sewer Revenue Refunding and Building Bonds, Series 1997, or its Sewer Revenue Building Bonds, Series 1997 issued pursuant to Resolution No. 648.

(47) "Sewer Construction Reserve Fund" means that fund heretofore created to which all system development charges are deposited.

(48) "Sewer Operating Fund" means the Sewer Operating Fund of the City, heretofore created, to be maintained pursuant to Section 9 of this Resolution.

(49) "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 plants for treatment, processing and disposal of sewage.

(50) "SRF Loan Agreement" means that State Revolving Fund Agreement No. R20520 executed by the City and the State of Oregon, Department of Environmental Quality, dated March 16, 1992, evidencing the loan of \$127,700 from the DEQ to the City.

(51) "Subordinate Obligations" means any obligations of the City payable from Net Operating Revenues which comply with the provisions of Section 13 of this Resolution.

(52) "Supplemental Resolution" shall mean any resolution supplemental to or amendatory of this Resolution, entered into by the City in accordance with this Resolution.

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

(54) "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.

Section 5. Book-Entry Only System.

A. The 1997 Bonds shall be initially issued as a book-entry only security issue with no 1997 Bonds being made available to the Bondowners upon the execution and delivery of the Letter of Representations among the Bond Registrar, The Depository Trust Company and the City, attached hereto as Exhibit A. Ownership of the 1997 Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on The Depository Trust Company book-entry-only system. The 1997 Bonds shall be initially issued in the form of separate single fully registered typewritten Bonds for each maturity of the 1997 Bonds (the "Global Bonds") in substantially the form attached hereto as Exhibit B with such changes as are required to conform with the Bond Purchase Contract. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the "Nominee") of The Depository Trust Company ("DTC") (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the "Depository") as the "Registered Owner", and such Global Bonds shall be lodged with the Depository until early redemption or maturity of the Bond issue. The Bond Registrar shall remit payment for the maturing principal and interest on the 1997 Bonds to the Bondowner for distribution by the Nominee for the benefit of the owners (the "Beneficial Owner" or "Record Owner") by recorded entry on the books of the Depository participants and correspondents. While the 1997 Bonds are in book-entry-only form, the 1997 Bonds will be available in denominations of \$5,000 or any integral multiple thereof.

B. In the event the Depository determines not to continue to act as securities depository for the 1997 Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry-only system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a book-entry-only system, the 1997 Bonds shall no longer be a book-entry-only issue but shall be registered in the registration books maintained by the Bond Registrar in the name of the Bondowner as appearing on the Bond register and thereafter in the name or names of the Bondowners of the 1997 Bonds transferring or exchanging 1997 Bonds.

C. With respect to 1997 Bonds registered in the registration books maintained by the Bond Registrar in the name of the Nominee of the Depository, the City and the Bond Registrar shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Registered Owner on behalf of which such participants or correspondents act as agent for the Bondowner with respect to:

(1) the accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the 1997 Bonds;

(2) the delivery to any participant or correspondent or any other person, other than a Bondowner as shown in the registration books maintained by the Bond Registrar, of any notice with respect to the 1997 Bonds, including any notice of prepayment;

(3) the selection by the Depository of the beneficial interest in 1997 Bonds to be redeemed prior to maturity; or

(4) the payment to any participant, correspondent, or any other person other than the Bondowner of the 1997 Bonds as shown in the registration books maintained by the Bond Registrar, of any amount with respect to principal of or interest on the 1997 Bonds.

D. Notwithstanding the book-entry-only system, the City may treat and consider the Beneficial Owner in whose name each Bond is registered in the registration books maintained by the Bond Registrar as the Bondowner and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid all principal and interest on the 1997 Bonds only to or upon the order of the Registered Owner, as shown in the registration books maintained by the Bond Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

E. Upon delivery by the Depository to the City and to the Bondowner of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in this Master Resolution shall refer to such new nominee of the Depository, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Bond Registrar. The Depository shall tender the 1997 Bonds it holds to the Bond Registrar for reregistration.

Section 6. Redemption of Series 1997 Bonds.

A. Optional. The City reserves the right to redeem all or any portion of the Series 1997 Bonds by lot within a maturity on the dates and upon the conditions stated in the Bond Purchase Contract.

B. Mandatory. Term Bonds, if any, shall be subject to mandatory partial redemption prior to maturity, by lot, as determined by the Registrar, beginning in the years and in the amounts set forth in the Bond Purchase Contract.

C. Unless waived by any holder of Series 1997 Bonds to be redeemed, official notice of any such redemption shall be given by the Registrar on behalf of the City 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 Series 1997 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 Registrar. Notice shall also be published in one issue of a business and financial newspaper published in Portland, Oregon, at least 30 days prior to the date fixed for redemption. Failure to give such notice, or a defect therein, shall not affect the validity of the redemption.

D. In the case where the Depository Trust Company ("DTC") is acting as securities depository for the Bonds and less than all Bonds of a maturity are to be redeemed, the Registrar shall notify DTC not more than 45 days prior to the date fixed for redemption of the maturity to be redeemed in the manner required in the City's Letter of Representations to DTC.

E. Except as provided in Section 5.D hereof, 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 Series 1997 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 1997 Bonds to be redeemed,
- (4) that on the redemption date the redemption price will become due and payable upon each such Series 1997 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 Series 1997 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

F. The City shall deposit with the Registrar, on or before the date that notice is given pursuant to Sections 5.C. and 5.D. of this Resolution, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Series 1997 Bonds which are to be redeemed on that date.

G. Official notice of redemption having been given as aforesaid, the Series 1997 Bonds or portions of Series 1997 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 Series 1997

Bonds or portions of Series 1997 Bonds shall cease to bear interest. Upon surrender of such Series 1997 Bonds for redemption in accordance with said notice, such Series 1997 Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Series 1997 Bond, there shall be prepared for the registered owner a new Series 1997 Bond or Bonds of the same maturity in the amount of the unpaid principal. All Series 1997 Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued.

H. The provisions of this paragraph apply only if the Bonds cease to be a book-entry only issue. In addition to the foregoing notice, further notice shall be given by the City 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 Series 1997 Bonds being redeemed; (ii) the date of issue of the Series 1997 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 Series 1997 Bonds being redeemed.

(2) 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 Series 1997 Bondowners, in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the Series 1997 Bonds, such publication to be made at least 30 days prior to the date fixed for redemption.

(3) Upon the payment of the redemption price of Series 1997 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 Series 1997 Bonds being redeemed with the proceeds of such check or other transfer.

I. Parity or Subordinate Obligations shall be subject to redemption as provided in the resolutions authorizing issuance of those obligations.

Section 7. Authentication, Registration and Transfer. (No Book-Entry).

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 Registrar. The Registrar shall authenticate all Bonds to be delivered at closing, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Resolution.

B. All Bonds shall be in registered form. The City hereby designates First Interstate Bank of Oregon, N.A. to serve as Registrar for the Bonds. A successor Registrar may be appointed for the Bonds by ordinance or resolution of the City. The Registrar shall

provide notice to Bondowners of any change in the Registrar not later than the Bond payment date following the change in Registrar.

(1) The Registrar may be removed at any time, at the request of Financial Security Assurance Inc., for any breach of the trust set forth herein.

(2) The original and every successor Registrar shall:

(a) be a trust company or bank in good standing located in or incorporated under the laws of the State of Oregon,

(b) be duly authorized to exercise trust powers,

(c) be subject to examination by a federal or state authority and

(d) maintain a reported capital and surplus of not less than seventy-five million dollars (\$75,000,000).

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

D. The Registrar 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 Bondowner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.

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

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

(2) the Bonds to be exchanged or transferred.

F. The Registrar shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date and ending on the next following interest payment date; however, such Bonds shall be exchanged or transferred promptly following the interest payment date.

G. The Registrar shall not be required to exchange or transfer any Bonds which have been designated for redemption if such Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.

H. For purposes of this section, Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in subsection E. of this section.

I. 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. Registered Bond Payment/Insurance.

A. As long as an insurance policy shall be in full force and effect to guaranty the Bonds, the City agrees to comply with the following provisions:

(1) The gross amount to be deposited to the Debt Service Fund by the City required to pay in full:

(a) the interest on the Bonds on each stated interest date and,

(b) the principal of the Bonds on each stated maturity date thereof and on each date on which such principal shall have been duly called for mandatory sinking fund redemption (if any) (in either event the "Payment Date") shall be deposited by the City at least five (5) business days prior to each such stated Payment Date.

(2) If the City determines that after having exhausted the amounts, if any, available in the Debt Service Reserve Account, there will be insufficient moneys in the funds and accounts available to pay in full the principal of and/or interest on the Bonds on such Payment Date, the City shall so notify the Registrar not later than the close of the fifth Business Day prior to a Payment Date and the Registrar shall immediately notify the Bond Insurer in the form and in the manner required by the Bond Insurer and shall provide all other information as required by the Bond Insurer.

Section 9. Disposition of Bond Proceeds.

A. Interest accrued from the date of the Series 1997 Bonds until the date of closing shall be placed in the Debt Service Fund heretofore created, and shall be used to pay interest on the Series 1997 Bonds. If required, 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 8 of this Resolution, in which event, all proceeds shall be deposited pursuant to Section 19 hereof.

Section 10. Funds and Accounts.

A. The Enterprise Debt Service Fund (the "Debt Service Fund") was heretofore created. The City shall deposit into the Debt Service Fund, from the Sewer Operating Fund, the Sewer Construction Reserve Fund or the Reserve Account, money

sufficient to make payments of Bond principal and interest in accordance with this Section 10.A. and with Section 10 of this Resolution.

(1) The City hereby covenants with the owners of the Bonds that it will, so long as any Bonds remain outstanding and subject to the requirements of Section 7.A(1) hereof, make the following deposits from the Net Revenues into the Debt Service Fund:

(a) Commencing on the first day of the sixth month preceding a Payment Date, and the first day of each month thereafter, the City will deposit into the Debt Service Fund an amount equal to one-sixth (1/6th) of the amount necessary to pay Bond interest which will become due during the six months following the deposit. Prepayment of monthly deposits will fulfill this requirement. Notwithstanding the foregoing, the City shall deposit into the Debt Service Fund from the Net Revenues an amount sufficient to permit all interest due on the Bonds to be paid on the date it is due.

(b) Commencing on the first day of the twelfth month preceding a Payment Date, and on the first day of each month thereafter, the City will deposit into the Debt Service Fund an amount equal to one-twelfth (1/12th) of the amount necessary to pay any Bond principal which will become due during the twelve months following the deposit. Prepayment of monthly deposits will fulfill this requirement. Notwithstanding the foregoing, the City will deposit into the Debt Service Fund from the Net Revenues an amount sufficient to permit all principal due on the Bonds to be paid on the date it is due.

(c) The City shall immediately deposit into the Reserve Account all moneys available to equal any deficiency in the Required Reserve but, in any event, the Required Reserve shall be fully funded within one year of the date of any deficiency.

B. The Reserve Account is hereby created within the Debt Service Fund.

(1) 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 Revenues and moneys in the Debt Service Fund are insufficient to pay Bond principal and interest when due.

(2) The City covenants with the owners of the Bonds that it will, maintain so long as any Bonds remain outstanding, an amount in the Reserve Account at least equal the Required Reserve, except as otherwise provided in Section 9.A.(1)(c) hereof. 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 Account, or, after completion of the Project, to the Debt Service Fund.

(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) Moneys in the Reserve Account may be invested only in Permitted Investments. At least one-half of the Reserve Account, if any, shall be invested in Permitted Investments with maturities of less than six months; the remainder shall be invested in Permitted Investments with maturities of not more than five years, unless otherwise approved in writing by Financial Security Assurance Inc.

C. The Rate Stabilization Account may be created within the Sewer Operating Fund as provided in Section 18 of this Resolution. Moneys in the Rate Stabilization Account shall be used solely to make appropriations to the Sewer Operating Fund as determined from time to time by the City; provided, however, no amount on deposit in the Rate Stabilization Account shall, at any time, exceed the maximum annual debt service due in any Fiscal Year on the Outstanding Bonds.

Section 11. Deposit, Pledge and Use of Revenues.

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

- (1) To pay Operating Expenses (other than payments to the Rate Stabilization Account, if any),
- (2) To credit the Debt Service Fund to pay Bond principal and interest,
- (3) To credit the Reserve Account to eliminate any deficiency in the Required Reserve.
- (4) To pay rebates or penalties to the federal government pursuant to Section 148(f) of the Code or credit a rebate account with respect to the Bonds.
- (5) To credit the Rate Stabilization Account, if any, and
- (6) To pay any other expenses relating to the Sewer System.

Section 12. 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, but exclusive of system development charges and connection fee income, are adequate to generate Net Revenues in each Fiscal Year at least equal to 1.25 times the principal and interest due in that Fiscal Year on the Bonds. If the Net Revenues (calculated in the manner described in the preceding sentence) fail to meet this level, the City will promptly increase its rates and fees to a level so that Net Revenues are projected to meet the required level. The City will demonstrate its compliance with the provisions of this Section 11 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 Treasurer.

B. The City shall annually, within six months after the close of each Fiscal Year, file with the City Administrator or Treasurer and the Bond Insurer a City Certificate showing for the preceding Fiscal Year (i) Net Revenues (calculated in the manner described in the first sentence of Section 11.A. of this Resolution) and (ii) the debt service requirements for such Fiscal Year. If the statement filed shows that such Net Revenues are less than one hundred twenty-five percent (125%) of such debt service requirements, then the City shall simultaneously file with the City Treasurer 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 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 13. 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 Debt Service Fund 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 Revenues (calculated in the manner described in the first sentence of Section 11.A. of this Resolution) equal to the amount described in Section 11 of this Resolution, including the proposed Parity Obligations.
- (5) Either (i) the Net Revenues (calculated in the manner described in the first sentence of Section 11.A. of this Resolution) 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 Outstanding Bonds for the immediately preceding 12 months, plus the maximum annual debt service for the proposed Parity Obligations as certified by a qualified engineering, auditing, or other qualified firm; or (ii) the Net Revenues (calculated in the manner described in the first sentence of Section 11.A. of this Resolution), 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 and implemented 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 plus the maximum annual debt service on the proposed Parity Obligations.

B. The City may issue Parity Obligations to refund Outstanding Bonds, notwithstanding the requirements of Section 12.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 12.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. All Bonds issued in accordance with this Section shall have a lien on the Net Revenues which is equal to the lien of the 1997 Bonds and all Parity Obligations issued in accordance with this Section.

Section 14. 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 Revenues which is subordinate to the lien of the Outstanding Bonds. In the event of any insolvency or bankruptcy proceedings relative to the City or to its property, the holders of the Outstanding 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 Subordinated Obligations are entitled to receive any payment on account of principal, premium (if any) or principal upon the Subordinated Obligations.

Section 15. 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 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 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 by lot, and for such purpose paid into the Debt Service 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.

(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 filed by the City Administrator 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.

Section 16. 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 or penalties on the gross proceeds of the Bonds which are required under Section 148(f) 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 17. 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 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 18. Remedies upon Default.

A. Whenever any Event of Default exists for the Series 1997 Bonds, the Bond Insurer may take one or more of the following steps. In the event that the Bond Insurer is in default with respect to its obligations pursuant to the bond insurance policy, Bondowners representing 51 percent or more of Outstanding Bonds, may, without any further demand or notice, take one or more of the following 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; and

(3) May appoint a commercial bank with a reported capital and surplus in excess of \$75 million as trustee to represent the interest of said Bondowners.

C. Whenever the term Bondowner or a term of like meaning appears herein, the Bond Insurer shall be deemed to be a owner of a sufficient percentage of the outstanding Bonds:

(1) to initiate any action or effect any demand which Bondowners may initiate or effect, and,

(2) to approve or disapprove any action, forbearance or amendment which is subject to Bondowner approval or initiation.

D. 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.

E. Notwithstanding any other provision of this Resolution, in the event that the principal and redemption price, if applicable, and interest due on the Series 1997 Bonds, shall be paid by the Bond Insurer pursuant to the Bond Insurer, the assignment and pledge of the Net Revenues and all covenants, agreements and other obligations of the City to the Bondowners shall continue to exist and the Bond Insurer shall be subrogated to the rights of such Bondowners.

Section 19. Escrow.

The net proceeds of the Refunding Bonds shall be placed in irrevocable escrow. The City Administrator may appoint an escrow agent. The City Administrator is hereby authorized to execute an escrow agreement in substantially the form attached hereto as Exhibit C, with such changes as may be approved by the City Administrator. The escrow agent or the City Administrator are hereby authorized to subscribe for and purchase the government obligations to be placed in the escrow, on behalf of the City.

Section 20. Redemption of Refundable Bonds.

Contingent solely on the issuance of the 1997 Bonds and the deposit of the net proceeds with the escrow agent, the City hereby irrevocably calls for redemption all of its then outstanding Refundable Bonds which are refunded with the Refunding Bonds, on the earliest date they are subject to redemption.

Section 21. Amendment of Resolution.

A. Except as provided in subsection D. of this Section 21, 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, with reference to the

Bond Insurer and Permitted Investments, 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 12 hereof.

(4) To create a Rate Stabilization Account as heretofore referenced if (a) the City certifies to the City Treasurer that the City met the requirements of Section 11.A for the preceding three Fiscal Years and (b) the City Sewer System will generate Net Revenues (calculated in the manner described in the first sentence of Section 11.A. of this Resolution) in each Fiscal Year at least equal to 1.10 times Bond principal and interest due in that Fiscal Year exclusive of any credits for the Rate Stabilization Account.

B. Except as provided in subsection D. of this Section 21, 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.

D. The prior written consent of the Bond Insurer is required for amendments proposed under subsection A. (1), (2) and (4) and subsection B. of this Section 21 as long as an insurance policy is in full force and effect.

Section 22. Notice to the Bond Insurer.

A. The Bond Insurer shall be deemed to be a Bondowner of the Bonds guarantied by the Bond Insurer for all purposes.

B. At the time that notice is required to be given to any party in the transaction, like notice shall be given to the Bond Insurer. In addition, the City shall immediately notify the Bond Insurer:

(1) not less than ten (10) business days in advance of the execution of any supplement, amendment or change to this Resolution,

- (2) upon any draw upon the Debt Service Reserve Account, if any,
- (3) upon any deficiency in any fund or account
- (4) upon a direction for the City to redeem all or any portion of the Bonds,
- (5) upon the resignation or petition for removal of the Registrar or the appointment of a successor Registrar, and
- (6) upon any event of default or upon any event that with notice and/or with the lapse of time could become an event of default under this resolution.

Section 23. Defeasance.

A. In the event that the Bonds insured by the Bond Insurer are to be defeased, the Bond Insurer shall be notified and provided with draft copies of the proposed Escrow Agreement, CPA Certification, Preliminary Official Statement of the refunding issue (if applicable) and Bond Counsel opinion. These materials shall be delivered to the Bond Insurer no later than five (5) business days prior to the scheduled defeasance.

B. Defeasance shall be accomplished only with an irrevocable deposit in escrow of certain investments referred to in this Section. Further substitutions of securities in the Escrow are not permitted. The deposit in the Escrow must be sufficient, without reinvestment, to pay all principal and interest as scheduled on the Obligations to and including the date of redemption.

C. A copy of the Escrow Agreement and Certified Public Accountant's certificate stating that the Escrow is sufficient to meet the standards of this Section, together with the final Official Statement for the refunding issue (if applicable), Bond Counsel opinion, Escrow Agent's receipt and Escrow Agent's certification as to the application of funds shall be furnished to the Bond Insurer no later than ten (10) business days subsequent to the defeasance.

D. The investments for a defeasance must consist solely of one or more of the following:

- (1) cash;
- (2) State and Local Government Series issued by the United States Treasury ("SLGS");
- (3) United States Treasury bills, notes and bonds, as traded on the open market; and
- (4) Zero Coupon United States Treasury Bonds.

Section 24. Bank Qualified.

The City (and all subordinate entities, if any) reasonably anticipates that it will not issue more than \$10,000,000 of tax-exempt obligations during calendar year 1997. 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").

Section 25. Sale of Bonds.

The City Administrator is hereby authorized to negotiate and execute a Bond Purchase Contract for the sale of the 1997 Bonds with Seattle-Northwest Securities Corporation.

Section 26. Additional Actions.

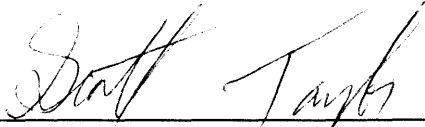
A. The preparation and distribution of the Preliminary Official Statement and the Official Statement to be used in connection with the sale of the Series 1997 Bonds, and the inclusion therein of the sections describing the activities and finances of the City, are authorized, approved and confirmed. The 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 is authorized and empowered to obtain a policy of insurance (including any side agreements with a Bond Insurer which may modify the insurance provisions of this Resolution), 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.

C. The City Administrator is authorized to execute and deliver on behalf of the City any and all additional certificates, undertakings, 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.

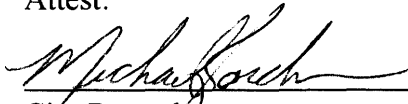
DATED this _____ day of _____, 1997.

City of Canby
Clackamas County, Oregon
By its City Council



Mayor

Attest:



City Recorder

Exhibit A
(Form of Bond - Book-Entry Only)

No. R-____

\$ _____

United States Of America
State Of Oregon
City Of Canby
Clackamas County
Sewer Revenue Refunding Bond
Series 1997

Dated Date: _____
Interest Rate: _____ %
Maturity Date: _____, ____
CUSIP Number: _____
Registered Owner: -----Cede & Co.-----
Principal Amount: ----- DOLLARS-----

CITY OF CANBY OF CLACKAMAS COUNTY, OREGON (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, but solely from the sources indicated below, the Principal Amount indicated above on the above Maturity Date together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above. Interest is payable semiannually on the first days of _____ and _____ in each year until maturity or prior redemption, commencing _____ 1, 1998. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, on each payment date. Such payments shall be made payable to the order of "Cede & Co."

This bond is one of a series of \$ _____ aggregate principal amount of Sewer Revenue Refunding Bonds, Series 1997 of the City (the "Bonds"), and is issued by the City for the purpose of financing sewerage facility improvements and to refund certain outstanding obligations of the City, 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.

This Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Sewer System as provided in Resolution No. 648 of the City adopted September 3, 1997 (the "Resolution"). The City covenants and agrees with the owner of this Bond that it will keep and perform all of the covenants in this Bond and in the Resolution. The City has pledged the Net Revenues of the Sewer System to the payment of principal and interest on this Bond and its SRF Loan Agreement.

The City reserves the right to redeem all or any portion of the Series 1997 Bonds by lot within a maturity at a price equal to 100 percent of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption.

The Bonds maturing on _____, _____, are subject to mandatory redemption on _____ 1 in each of the years and in the principal amounts set forth below, any such redemption to be at a price equal to 100 percent of the principal amount to be redeemed plus accrued and unpaid interest thereon to the date fixed for redemption. The particular Bonds to be redeemed on each such date shall be selected by lot in such manner as the Registrar shall determine.

Redemption Date

Principal Amount

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Resolution. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice.

The Bonds are initially issued as a book-entry only security issue with no certificates provided to the Bondowners. Records of bond ownership will be maintained by the City's paying agent and registrar, which is currently First Interstate Bank of Oregon, N.A., in Portland, Oregon (the "Registrar"), and The Depository Trust Company and its participants. The Registrar will notify The Depository Trust Company promptly of any Bonds called for redemption.

Should the book-entry only security system be discontinued, the Bonds shall be issued in the form of registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such Bonds may be exchanged for Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Resolution.

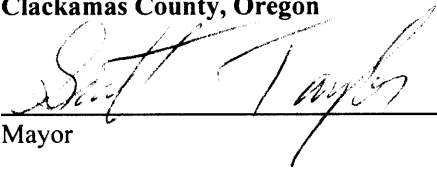
Any transfer of this Bond must be registered, as provided in the Resolution, upon the bond register kept for that purpose at the principal corporate trust office of the Registrar. This Bond may be transferred only by surrendering it, together with a written instrument of transfer which is satisfactory to the Registrar and which is executed by the Registered Owner or 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 Registrar and the City may treat the person in whose name this Bond is registered 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 TO THE CITY 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 REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

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, Statutes and Charter.

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

City of Canby
Clackamas County, Oregon



Mayor

Attest:

Recorder

This Bond shall not be valid unless properly authenticated by the Registrar in the space indicated below.

Statement of Insurance

[Add applicable insurance provision.]

Certificate of Authentication

This is one of the City of Canby of Clackamas County, Oregon Sewer Revenue Refunding Bonds, Series 1997 issued pursuant to the Resolution described herein.

Dated: _____, 1997.

_____, as Registrar

Authorized Officer

