

RESOLUTION NO. 876

A RESOLUTION AUTHORIZING THE SALE OF WATER REVENUE BONDS AND EXECUTION OF A MASTER WATER REVENUE BOND DECLARATION

WHEREAS, the City adopted resolution No. 868 on June 16, 2004, authorizing the issuance of \$2,900,000 of water revenue bonds pursuant to ORS 288.805 to 288.945, published notice pursuant to those statutes, and more than sixty days have passed since the notice was published; and,

WHEREAS, no petitions were filed requiring that the question of issuing the bonds be submitted to the City's voters, and the City is now authorized to issue the bonds described in that resolution and notice; and,

WHEREAS, the City adopts this resolution to authorize the sale of its Water Revenue Bonds, Series 2004 pursuant to that resolution and notice;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CANBY, OREGON, that:

Section 1. Bonds Authorized

1.1 The City hereby authorizes the sale and delivery of water revenue bonds in a maximum principal amount of \$2,900,000 (the "Series 2004 Bonds") in accordance with City Resolution No. 868, this Resolution and the Master Declaration authorized by Section 2.5 of this Resolution (the "Master Declaration"). Proceeds of the Series 2004 Bonds shall be used to finance improvements to the City's water system, including storage, treatment and security improvements, to fund the required debt service reserve and to pay costs of issuing the Series 2004 Bonds, including the costs of any bond insurance or other credit enhancement.

1.2 The Series 2004 Bonds shall be special obligations of the City that are payable solely from the revenues of the City's water system and related amounts that are pledged as provided in the Master Declaration.

Section 2. Delegation

The General Manager of the Electric Board, the Finance Manager of the Electric Board, or any person designated by the City Council to act as on behalf of the City under this resolution (any of whom is referred to in this resolution as a "Canby Utility Official") may, on behalf of the City:

2.1 Participate in the preparation of, authorize the distribution of, and deem final the preliminary and final official statements and any other disclosure documents for the Series 2004 Bonds.

2.2 Establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, record dates and other terms for the Series 2004 Bonds, and either publish a notice of sale, receive bids and award the sale of that series to the bidder complying with the notice and offering the most favorable terms to the City, or select one or more underwriters and negotiate the sale of that series with those underwriters.

2.3 Undertake to provide continuing disclosure for the Series 2004 Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.

2.4 Apply for and purchase municipal bond insurance, reserve sureties or other forms of credit enhancements for the Series 2004 Bonds, and enter into related agreements.

2.5 Finalize the terms of, execute and deliver the Master Declaration, which pledges the revenues of the City's water system, contains covenants regarding the levels of water system fees and charges that the City must impose, describes the terms of the Series 2004 Bonds, and describes the terms under which future obligations may be issued on a parity with the Series 2004 Bonds. The Master Declaration shall be in substantially the form attached to this Resolution as Exhibit A, but with such changes as the Canby Utility Official may approve.

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

2.7 Enter into covenants to maintain the excludability of Series 2004 Bond interest from gross income under the Internal Revenue Code of 1986, as amended (the "Code").

2.8 Designate the Series 2004 Bonds as qualified tax-exempt obligations pursuant to Section 265(b)(3) of the Code.

2.9 Execute any documents and take any other action in connection with the Series 2004 Bonds which the Canby Utility Official finds will be advantageous to the City.

Section 3. Effective Date

This resolution takes effect upon adoption by the City Council.

The foregoing Resolution was adopted this 1 day of September, 2004.

City of Canby



~~Mayor~~ Council President

Attest:



Recorder

RESOLUTION NO. 206

**A RESOLUTION APPROVING THE ISSUANCE OF WATER REVENUE BONDS AND
AUTHORIZING EXECUTION OF A BOND DECLARATION.**

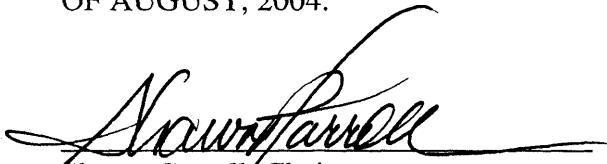
The CANBY UTILITY BOARD resolves as follows:

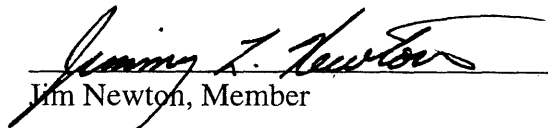
Section 1. The City of Canby expects to issue water revenue bonds and execute and deliver a Master Water Revenue Bond Declaration in substantially the form that has been presented to the Canby Utility Board. The Master Water Revenue Bond Declaration contains promises that are intended to assure that the water system will generate water system revenues that are sufficient pay the water revenue bonds and obtain favorable credit ratings for those bonds. Those promises and ratings should lower the interest rates on the bonds. The Canby Utility Board hereby authorizes the General Manager of the Canby Utility Board or the Finance Manager of the Canby Utility Board, on behalf of the Canby Utility Board, to approve and execute the Master Water Revenue Bond Declaration that the City of Canby delivers in connection with the proposed water revenue bonds. The Canby Utility Board shall operate the water system in compliance with the Master Water Revenue Bond Declaration.

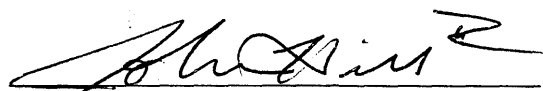
Section 2. The General Manager of the Canby Utility Board and the Finance Manager of the Canby Utility Board are hereby authorized to take any additional actions and deliver any additional documents that are required to facilitate the sale and delivery of the proposed water revenue bonds.

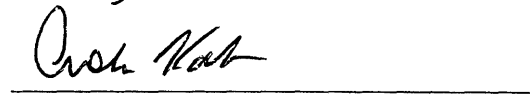
Section 3. This resolution shall take effect on the date of its adoption.


THIS RESOLUTION ADOPTED BY THE CANBY UTILITY BOARD THIS 24th DAY
OF AUGUST, 2004.


Shawn Carroll, Chairman


Jim Newton, Member


John Hill, Member


Andrew Kahut, Member


Scott Taylor, Member

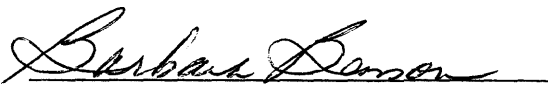

Barbara Benson, Board Secretary

Exhibit A to Resolution

**MASTER WATER REVENUE BOND
DECLARATION**

City of Canby, Oregon

Water Revenue Bonds

Series 2004

Executed on behalf of the City of Canby, Oregon

And Approved by the Canby Utility Board

As of this 30th day of September, 2004

TABLE OF CONTENTS

Section 1. Findings.....	1
Section 2. Definitions.....	1
Section 3. Deposit, Pledge and Use of Gross Water Revenues	7
Section 4. Bond Funds and Accounts	9
Section 5. Rate Covenant; Calculation of Estimated Average Interest Rate and Refunding Rate; Operating Leases.....	12
Section 6. Parity Obligations	14
Section 7. Subordinate Obligations.....	16
Section 8. Separate Utility System.....	16
Section 9. General Covenants	16
Section 10. Events of Default and Remedies.....	18
Section 11. Amendment of Master Declaration.....	21
Section 12. Defeasance	23
Section 13. BEO System.....	24
Section 14. Redemption of Bonds	25
Section 15. Authentication, Registration and Transfer	27
Section 16. The Series 2004 Bonds.	28
Section 17. Concerning the Series 2004 Insurer.	30
Exhibit A: Form of Water Revenue Bond, Series 2004	

MASTER WATER REVENUE BOND DECLARATION

THIS MASTER WATER REVENUE BOND DECLARATION is executed as of September __, 2004, by the City Official of the City of Canby, Oregon pursuant to the authority granted to the City Official by City Resolution No.876 to establish the terms under which the City's Water Revenue Bonds, Series 2004 and future Parity Obligations may be issued.

Section 1. Findings.

The City finds:

1. The City is authorized by ORS 288.592 to issue revenue bonds to refund outstanding revenue bonds. The City has adopted Resolution No. 876 which authorizes the City to execute this Master Water Revenue Bond Declaration.
2. The City executes this Master Water Revenue Bond Declaration to specify the terms under which the City's Water Revenue Bonds, Series 2004 are issued, and to describe the terms under which future obligations may be issued that are secured by a senior lien on Net Water Revenues of the Water System.

Section 2. Definitions

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

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

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

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

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

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

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

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

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

“Bonds” means the Series 2004 Bonds and any Parity Obligations.

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

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

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

“Bond Reserve Requirement” means the lesser of Maximum Annual Debt Service or the amount described in the next sentence. If, at the time of issuance of a Series of Parity Obligations, the amounts required to be added to the Bond Reserve Account to make the balance in the Bond Reserve Account equal to the Maximum Annual Debt Service exceeds the Tax Maximum for that Series, then the Bond Reserve Requirement shall mean the Bond Reserve Requirement in effect on the date of issuance of the Series of Parity Obligations (calculated as if the Series of Parity Obligations were not Outstanding), plus the Tax Maximum for the Series of Parity Obligations. However, the City may elect to fund the Bond Reserve Requirement for any Series of Bonds in equal annual installments over a period of five years, as provided in Section 4.3.K. If the City makes this election for a Series of Bonds, the Bond Reserve Requirement shall be reduced by any installments the City has elected to make, but which are not yet due to be deposited in the Bond Reserve Account.

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

“Canby Utility Board” means the Canby Electric Board that is created and operating under Chapter X of the City Charter.

“Canby Utility Official” means the General Manager of the Canby Utility Board, the Finance Manager of the Canby Utility Board, or any person designated by the City Council to act as “Canby Utility Official” under this Master Declaration.

“City” means the City of Canby, Clackamas County, Oregon, a municipal corporation of the State of Oregon.

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

“City Official” means the City Administrator, the Finance Manager of the Canby Utility Board, or any person designated by the City Administrator to act as “City Official” under Resolution No. _____.

“City” means the City of Canby, Multnomah, County, Oregon, a municipal corporation of the State of Oregon.

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

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

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

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

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

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

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

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

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

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

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

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

“Gross Water Revenues” means all fees and charges and other revenues that are properly accrued as revenues of the Water System under generally accepted accounting principles applicable in the United States of America to the Water System, including system development charges, revenues from product sales and interest earnings on Gross Water Revenues. Gross Water Revenues also shall also include transfers out of the Rate Stabilization Account.

However, the term “Gross Water Revenues” shall not include:

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

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

- (c) The proceeds of any borrowing;

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

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

- (g) The proceeds derived from the sales of assets pursuant to Section 9.9 of this Master Declaration;

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

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

“Insurance Policy” means a municipal bond insurance policy issued by an Insurer at the request of the City guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insurer” means any person or entity providing an Insurance Policy.

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

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

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

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

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

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles applicable in the United States of America to the Water System, plus transfers to the Rate Stabilization Account that are permitted under Section 3.2.H. However, Operating Expenses do not include:

- (a) Any rebates or penalties paid from Gross Water Revenues under Section 148 of the Code;
- (b) Payments of judgments against the Operator and payments for the settlement of litigation;
- (c) Depreciation and amortization of property values or losses, and all amounts treated for accounting purposes as payments for capital expenditures;
- (d) Debt service payments, paying agent fees, broker-dealer fees and similar charges for the maintenance of borrowings;
- (e) The expenses of owning, operating or maintaining any Separate Utility System;
- (f) Franchise fees and similar charges imposed by the City on the Water System or its operations;
- (g) Expenditures made from any liability insurance proceeds;
- (h) Expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Water System;
- (i) Expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Water System; and
- (j) Expenditures allocable to any other funding source which does not constitute Gross Water Revenues of the Water System.

“Operator” means the Canby Utility Board to the extent that the responsibility for an action has been delegated to the Canby Utility Board by the City under Chapter X, Section 2 of the City Charter and the Canby Utility Board performs that action. In all other cases “Operator” means the City.

“ORS” means the Oregon Revised Statutes.

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

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

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

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

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

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

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

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

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

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

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

“Registrar” means the registrar and paying agent for the Bonds, which is Wells Fargo Bank, National Association on the date of this Master Declaration.

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

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

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

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

“Series 2004 Bonds” means the City's Water Revenue Bonds, Series 2004 issued pursuant to Section 16 of this Master Declaration.

“Series 2004 Insurance Policy” means the insurance policy issued by the Series 2004 Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2004 Bonds when due.

“Series 2004 Insurer” means _____, or any successor thereto or assignee thereof, the issuer of the Series 2004 Insurance Policy.

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

“State” means the State of Oregon.

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

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

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

“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.

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

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

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

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

- 3.1. The City has delegated to the Canby Utility Board the responsibility for administration and operation of the Water System pursuant to an intergovernmental agreement dated

January 20, 1993 (the "IGA"), and City Resolution No. 387 adopted on June 18, 1986. Chapter X, Section 2 of the City Charter provides that the City may assign or delegate all or a portion of its powers and duties over the Water Department to the Canby Utility Board; provided, however, that the City Council shall retain ultimate jurisdiction, control and management of the Water Department and its operations and facilities. By executing this Declaration the City acknowledges that it retains ultimate jurisdiction, control and management of the Water Department, the Canby Utility Board acknowledges that it accepts its responsibilities under the IGA and City Resolution No. 387, and both the City and the Canby Utility Board agree that the Water System shall be operated in compliance with the requirements of this Master Declaration.

- 3.2. All Gross Water Revenues shall be deposited to and maintained in the Water Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. The Operator shall apply Gross Water Revenues in the Water Fund on or before the following dates for the following purposes in the following order of priority:
 - A. At any time to pay Operating Expenses which are then due;
 - B. One Business Day prior to each Payment Date, to transfer Net Water Revenues to the Bond Account an amount sufficient (with amounts available in the Bond Account) to pay in full all Bond principal, interest and premium, if any, which is due to be paid on that Payment Date;
 - C. On each date specified in a schedule for installment funding of the Bond Reserve Account pursuant to Section 4.3.K, to transfer Net Water Revenues in the amount specified in that schedule to the Bond Reserve Account;
 - D. On the first day of each month following a Valuation Date on which the balance in the Bond Reserve Account is determined to be less than the Bond Reserve Requirement, to transfer to the Bond Reserve Account the amount required by Sections 4.3.C and 4.3.D;
 - E. On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, to pay the amounts due to the United States;
 - F. On the dates specified in any proceedings authorizing Subordinate Obligations, the Operator shall transfer to the Subordinate Obligations Account the Net Water Revenues required by those proceedings;
 - G. After all transfers and payments having a higher priority under this Section have been made, Net Water Revenues shall be applied to any franchise fees, utility license fees and similar charges imposed by the Operator on the Water System or its operations.
 - H. On any date, the Operator may transfer Net Water Revenues to the Rate Stabilization Account or spend Net Water Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.

- 3.3. The City hereby pledges the Net Water Revenues to the payment of principal of, premium (if any) and interest on all Bonds. In addition, the City hereby pledges the Net Water Revenues available for transfer to the Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 288.594, these pledges of the Net Water Revenues hereby made by the City shall be valid and binding from the time of the adoption of this Master Declaration. The Net Water Revenues so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act. The lien of these pledges shall be superior to all other claims and liens except liens and claims for the payment of Operating Expenses. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge.

Section 4. Bond Funds and Accounts

- 4.1. So long as Bonds are Outstanding, the Operator shall maintain the Bond Account and the Bond Reserve Account and the Rate Stabilization Account as discrete accounts in the Water Fund. If the Operator creates the Subordinate Obligations Account, that account shall be maintained in the Water Fund.
- 4.2. **Bond Account.** The Bond Account shall be held by the Operator. Until all Bonds are paid or defeased, amounts in the Bond Account shall be used only to pay Bonds. The Operator shall transfer sufficient amounts from the Bond Account to the Registrar in time to permit the Registrar to pay all Bond principal, interest and premium (if any) when due in accordance with the Bonds. Amounts in the Bond Account shall be invested only in Permitted Investments. Earnings on the Bond Account shall be credited to the Bond Account.
- 4.3. **Bond Reserve Account.** Amounts credited to the Bond Reserve Account shall be used only to pay Bonds, and only if amounts in the Bond Account and Net Water Revenues credited to other accounts in the Water Fund are insufficient.
- A. If, on any Payment Date the amounts on deposit in the Bond Account are insufficient to pay all Bond principal of, premium (if any) and interest due on that Payment Date, the Operator shall transfer Net Water Revenues in the Water Fund (other than amounts in the Bond Reserve Account) to the Bond Account in an amount equal to the deficiency. If the Operator is unable to make the transfer described by the preceding sentence, then the Operator shall transfer an amount equal to the deficiency from the Bond Reserve Account to the Bond Account.
- B. Transfers to the Bond Reserve Account shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Bond Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).

- C. If a transfer is made from the Bond Reserve Account to the Bond Account pursuant to Section 4.3.A, the Operator shall value the amounts in the Bond Reserve Account as of the date of the transfer. If the transfer has reduced the balance in the Bond Reserve Account below the amount the Operator is required to maintain in the Bond Reserve Account, then beginning on the first day of the month that follows the Payment Date for which the transfer is made, the Operator shall make consecutive monthly transfers to the Bond Reserve Account until the earlier of the date on which the Operator has restored the amount of the reduction, or the Bond Reserve Account contains a balance that is equal to the Bond Reserve Requirement. Each transfer required by this Section 4.3.C shall be at least equal to one twelfth of the reduction. The following examples illustrate this requirement. Example 1: The Bond Reserve Requirement on July 1 is \$100, the Bond Reserve Account has a balance of \$105 because the Operator has not transferred earnings out of the Bond Reserve Account, and the Operator transfers \$29 from the Bond Reserve Account to the Bond Account. The transfer causes the Bond Reserve Account to have a balance that is \$24 less than the amount the Operator is then required to maintain in the Bond Reserve Account (the reduction is calculated by subtracting the \$5 surplus from the \$29 transfer). The Operator must make monthly transfers of \$2 to the Bond Reserve Account beginning on August 1st. Example 2. The Operator makes the transfer described in Example 1, and commences making \$2 monthly transfers to the Bond Reserve Account. On the next January 1st the Operator has deposited \$12 into the Bond Reserve Account, so the balance in the Bond Reserve Account on January 1st is \$88, or \$12 less than the amount the Operator is required to maintain in the Bond Reserve Account. On that January 1st, the Operator is required to make another transfer of \$12 to the Bond Account. This transfer reduces the balance in the Bond Reserve Account to \$76, and requires the Operator to make twelve monthly transfers of \$1 to the Bond Reserve Account, beginning on February 1st. On February 1st, the Operator will be required to make one of the remaining six monthly transfers of \$2 that resulted from the July 1st transfer, and to start making twelve monthly transfers of \$1 because of the January 1st transfer. Assuming no other transactions in the Bond Reserve Account, the balance in the Bond Reserve Account will again be equal to the Bond Reserve Requirement on the following January 1st.
- D. If the value of the Bond Reserve Account on a Valuation Date is less than the Bond Reserve Requirement, and the deficiency is not due to a transfer from the Bond Reserve Account to the Bond Account pursuant to Section 4.3.A, then beginning on the first day of the month that follows the month in which the Valuation Date occurs, the Operator shall make consecutive monthly transfers to the Bond Reserve Account until the Bond Reserve Account until the Operator has restored the deficiency described in the first sentence of this Section 4.3.D or the balance in the Bond Reserve Account is at least equal to the Bond Reserve Requirement. Each transfer shall be at least equal to one fourth of the deficiency.
- E. If the value of the investments in the Reserve Account on a Valuation Date exceeds the Bond Reserve Requirement, the Operator may transfer the excess to any account of the Water Fund.

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

- (ii) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such Bond Reserve Account; and
 - (iii) **Third**, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.
- J. All amounts on deposit in the Bond Reserve Account may be applied to the final payment (whether at maturity, by prior redemption or by means of a defeasance as provided in Section 12) of Outstanding Bonds. Amounts so applied shall be credited against the amounts the Operator is required to transfer into the Bond Account under Section 3.2.B.
- K. Any Supplemental Declaration authorizing the issuance of a Series of Bonds shall require deposits into the Bond Reserve Account in amounts sufficient to make the balance in the Bond Reserve Account at least equal to the Bond Reserve Requirement. The deposit required by this Section 4.3.K may be made in not more than five annual installments, with the final installment due not later than the fifth anniversary of the issuance of the Series of Bonds. If the Operator elects to fund the portion of the Bond Reserve Requirement which is allocable to a Series of Bonds in installments, the election and the schedule for such deposits shall be stated prominently in the proceedings authorizing the Series of Bonds.
- 4.4. **Subordinate Obligations Account.** If the Operator issues Subordinate Obligations, the Operator shall create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding. The Subordinate Obligations Account may be divided into subaccounts, and the Operator may establish priorities for funding the subaccounts in the Subordinate Obligations Subaccount. Net Water Revenues shall be deposited into the Subordinate Obligations Account only as permitted by Section 3.2.F. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.
- 4.5. **Rate Stabilization Account.** The Operator shall maintain the Rate Stabilization Account as long as Bonds are Outstanding. Net Water Revenues may be transferred to the Rate Stabilization Account at the option of the Operator as permitted by Section 3.2.H. Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Water Revenues may be used. Except as provided in this Section 4.5, deposits to the Rate Stabilization Account increase Operating Expenses for the Fiscal Year in which the deposit is made. Withdrawals from the Rate Stabilization Account increase Gross Water Revenues for the Fiscal Year in which the withdrawal is made. The Operator may adjust deposits to and withdrawals from the Rate Stabilization Account for a Fiscal Year at any time prior to the date on which the audit for that Fiscal Year is finalized. Earnings on the Rate Stabilization Account shall be credited to the Water Fund.

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

- 5.1. The Operator covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Water System which are

sufficient to permit the Operator to pay all Operating Expenses and all lawful charges against the Net Water Revenues, and to make all transfers required by this Master Declaration to the Bond Account, the Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the Operator on the Water System or its operations.

- 5.2. The Operator covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Water Revenues, but without regard to transfers from and to the Rate Stabilization Account, are adequate to generate Net Water Revenues each Fiscal Year at least equal to one hundred percent (100.00%) of Annual Debt Service due in that Fiscal Year.
- 5.3. The Operator covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Water Revenues, are adequate to generate Net Water Revenues each Fiscal Year at least equal to one hundred twenty-five percent (125.00%) of Annual Debt Service due in that Fiscal Year.
- 5.4. The Operator shall determine whether it complied with Sections 5.2 and 5.3 for each Fiscal Year not later than ninety (90) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the Operator at that time, and compliance with Sections 5.2 and 5.3 shall be determined based on that financial information. A failure to comply with Sections 5.2 or 5.3 shall not constitute an Event of Default if, within one hundred fifty (150) days after the beginning of the subsequent Fiscal Year, the Operator implements the recommendations of a Qualified Consultant that is engaged by the Operator to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the Operator to comply with Sections 5.2 or 5.3 for the remainder of the Fiscal Year in which the recommendations are delivered to the Operator (with calculations for the partial year made on an annualized basis).
- 5.5. The Estimated Debt Service Requirement for Balloon Indebtedness shall be calculated in accordance with this Section 5.5.
 - A. For the Rate Covenants: For each Balloon Payment that is Outstanding on May 1 of any Fiscal Year, the Canby Utility Official shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds that Balloon Payment in accordance with Section 5.5.D. The Canby Utility Official shall prepare that schedule as of that first day of May, and that schedule shall be used to determine compliance with the rate covenants in Sections 5.2 and 5.3 for the following Fiscal Year.
 - B. For Parity Obligations: Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Obligations is issued, the Canby Utility Official shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds each Outstanding Balloon Payment in accordance with this Section 5.5.D. The Canby Utility

Official shall prepare that schedule as of the date the Parity Obligations are sold, and that schedule shall be used to determine compliance with the tests for Parity Obligations in Section 6.

- C. For the Bond Reserve Requirement: Whenever a Series of Bonds that contains a Balloon Payment is issued, the Canby Utility Official shall prepare a schedule of principal and interest payments for a hypothetical Series of Bonds that refunds each Balloon Payment in that Series in accordance with this Section 5.5.C. The Canby Utility Official shall prepare that schedule as of the date the Series is sold, and that schedule shall be combined with the schedule for payment of any debt service on that Series that is not a Balloon Payment, and that combined schedule shall be used to determine the Bond Reserve Requirement as long as that Series is Outstanding.
- D. Each hypothetical Series of Bonds shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Canby Utility Official; however, the Canby Utility Official shall not select a term that exceeds the lesser of 20 years from the date the Balloon Payment is originally scheduled to be paid or the Operator's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Balloon Payment. The annual installments shall be assumed to be due on the anniversaries of the date the Balloon Payment is originally scheduled to be paid, with the first installment due on the date the Balloon Payment is scheduled to be paid. The hypothetical Series of Bonds shall be assumed to bear interest at the Canby Utility Official's estimate of the average rate that a Series of Bonds would bear if it is amortized as provided in this Section 5.5.D and is sold at the time the applicable schedule described in Section 5.5.A, Section 5.5.B or Section 5.5.C is prepared.

Section 6. Parity Obligations

- 6.1. The Operator may issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if:
 - A. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing;
 - B. At the time of the issuance of the Parity Obligations there is no deficiency in the Bond Account, and the balance in the Bond Reserve Account is at least equal to the Bond Reserve Requirement;
 - C. The Supplemental Declaration authorizing the issuance of the Bonds contains a covenant requiring the Operator to charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Water Revenues, are adequate to satisfy the requirements of Section 5.2 and 5.3; and,
 - D. There shall have been filed with the Operator either:

- (i) A certificate of the Canby Utility Official stating that the Net Water Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred twenty-five percent (125.00%) of Maximum Annual Debt Service on all then Outstanding Bonds, calculated as of the date the Parity Obligations are issued and with the proposed Parity Obligations treated as Outstanding; or
 - (ii) A certificate or opinion of a Qualified Consultant:
 - (a) Stating the amount of the Adjusted Net Water Revenues computed as provided in Section 6.3 below for each of the four Fiscal Years after the last Fiscal Year for which interest on the Parity Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the four Fiscal Years after the proposed Parity Obligations are issued;
 - (b) Concluding that the respective amounts of Adjusted Net Water Revenues in each of the Fiscal Years described in Section 6.1.D(ii)(a) are at least equal to one hundred twenty-five percent (125.00%) of the Annual Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding;
 - (c) Stating the projected amount of the Adjusted Net Water Revenues for the fifth Fiscal Year after the last Fiscal Year for which interest on the Parity Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, the fifth Fiscal Year after the Parity Obligations are issued; and,
 - (d) Concluding that this amount described in Section 6.1.D(ii)(c) is at least equal to one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding.
- 6.2. Net Water Revenues may be adjusted for purposes of Section 6.1.D(i) by adding any Net Water Revenues the Canby Utility Official calculates the Operator would have had during the Base Period because of increases in Water System rates, fees and charges which have been adopted by the Operator on or before the date the Parity Obligations are issued.
- 6.3. Adjusted Net Water Revenues for purposes of Section 6.1.D(ii) shall be computed by adjusting the Net Water Revenues for the Base Period in any of the following ways:
- A. To reflect any changes in rates and charges which the Qualified Consultant determines are reasonable.
 - B. To reflect any customers added to the Water System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate; and

- C. To reflect any additional Net Water Revenues not included in the preceding paragraphs that will be derived from additions and extensions to the Water System that are being financed with the proposed Parity Obligations, or that have been financed with previously issued Bonds.
- 6.4. The Operator may issue Parity Obligations to refund Outstanding Bonds without complying with Section 6.1 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.
- 6.5. All Parity Obligations issued in accordance with this Section shall have a lien on the Net Water Revenues which is equal to the lien of all other Outstanding Bonds.

Section 7. Subordinate Obligations

The Operator may issue Subordinate Obligations only if:

- 7.1. The Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to Section 3.2.F;
- 7.2. The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Water Revenues which is subordinate to the lien on, and pledge of, the Net Water Revenues for the Bonds.

Section 8. Separate Utility System

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

Section 9. General Covenants

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

- 9.1. The Operator shall promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.

- 9.2. The Operator shall maintain complete books and records relating to the operation of the Water System in accordance with generally accepted accounting principles in the United States of America, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of Bond Owners.
- 9.3. Neither the City nor the Canby Utility Board shall issue obligations which have a lien on the Net Water Revenues that is superior to the lien of the Bonds.
- 9.4. The Operator shall promptly deposit the Gross Water Revenues and other amounts described in this Master Declaration into the funds and accounts specified in this Master Declaration.
- 9.5. The Operator shall work in good faith to cause the Water System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the Operator's operation and ownership of the Water System.
- 9.6. The Operator shall maintain the Water System in good repair, working order and condition.
- 9.7. The Operator shall not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and shall not provide free Water System products or services except in case of emergencies. However, the Operator may provide free Water System products or services to the City for so long as those free products and services do not, in the opinion of the Operator, have a negative and material impact on the Net Revenues.
- 9.8. The Operator shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.
 - A. The net proceeds of insurance against damage to or destruction of the Water System shall be used to repair or rebuild the damaged or destroyed Water System, and to the extent not so applied, will be applied to the payment or redemption of the Bonds;
 - B. Insurance described in Section 9.8 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Operator, or in the form of self-insurance by the Operator. The Operator shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance;
- 9.9. The Operator shall not, nor shall it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:
 - A. The Operator may dispose of all or substantially all of the Water System, only if the Operator pays all Bonds or defeases them pursuant to Section 12.

- B. Except as provided in Section 9.9.C, the Operator will not, in any fiscal year, dispose of any part of the Water System in excess of 5% of the value of the Water System in service unless prior to such disposition either:
- (i) There has been filed with the City and the Canby Utility Board a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the Operator to comply with the rate covenants contained in Sections 5.2 and 5.3 of this Master Declaration; or
 - (ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Bonds equal to the greater of the following amounts:
 - (a) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Water Fund) that the Gross Water Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Gross Water Revenues for such period; or
 - (b) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.
- C. The Operator may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Water System.
- D. If the ownership of all or part of the Water System is transferred from the Operator through the operation of law, the Operator shall apply any amounts the Operator receives as compensation for the transfer to reconstruct or replace such transferred property or to redeem or defease Bonds, unless the City Council reasonably determines that the transfer will not prevent the Operator from operating the Water System and complying with Section 5.

Section 10. Events of Default and Remedies.

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

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

- A. Failure of the Operator to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- B. Failure of the Operator to perform any of its obligations under this Master Declaration, but only if:
 - (i) the failure continues for thirty (30) days after the Operator receives a written notice, specifying the Event of Default and demanding the cure of such default, from a Credit Provider or from the Owners of not less than 20% in aggregate principal amount of the Bonds Outstanding, and,
 - (ii) The failure is not excused by Section 5.4 or Section 10.2.F;
- C. Failure of the Operator to comply with its obligations under Section 9.9 (which relates to transfer of properties constituting the Water System);
- D. Entry of an order, judgment or decree by any court of competent jurisdiction:
 - (i) Appointing a receiver, trustee or liquidator for the Operator or the whole or any part of the Water System;
 - (ii) Approving a petition filed against the Operator seeking the bankruptcy, arrangement or reorganization of the Operator under any applicable law of the United States or the State; or
 - (iii) Assuming custody or control of the Operator or of the whole or any part of the Water System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
- E. If the Operator shall:
 - (i) Admit in writing its inability to pay its debts generally as they become due;
 - (ii) File a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
 - (iii) Consent to the appointment of a receiver of the whole or any part of the Water System; or
 - (iv) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the Operator or of the whole or any part of the Water System.

- F. Exception. It shall not constitute an Event of Default under 10.2.B if the default cannot practicably be remedied within thirty (30) days after the Operator receives notice of the default, so long as the Operator promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied.
- G. Remedies. If an Event of Default occurs, any Bond Owner may exercise any remedy available at law or in equity. However, the Bonds shall not be subject to acceleration.
- H. Books of Water System Open to Inspection.
- (i) The Operator covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Water System shall at all reasonable times be subject to the inspection and use of any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.
 - (ii) The Operator covenants that if the Event of Default shall happen and shall not have been remedied, the Operator will account, as a trustee of an express trust, for all Net Water Revenues and other moneys, securities and funds pledged under this Master Declaration.
- I. Waivers of Event of Default.
- (i) No delay or omission of any Bond Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 10 to the Bond Owners may be exercised from time to time and as often as may be deemed expedient by the Bond Owners.
 - (ii) [Except as provided in Section 17], the owners of not less than twenty-five percent (25%) in principal amount of the affected Bonds that are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Bonds, waive any past default under this Master Declaration with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.
- J. Remedies Granted in Master Declaration Not Exclusive.

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

Section 11. Amendment of Master Declaration

- 11.1. This Master Declaration may be amended by Supplemental Declaration without the consent of any Bond Owners for any one or more of the following purposes:
- A. To cure any ambiguity or formal defect or omission in this Master Declaration;
 - B. To add to the covenants and agreements of the City or the Operator in this Master Declaration, other covenants and agreements to be observed by the City or the Operator which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
 - C. To authorize the issuance of Bonds and Subordinate Obligations.
 - D. To allow the City's obligations under interest rate swaps, caps, collars or similar agreements that relate to Bonds to be secured on a parity with the Bonds;
 - E. To modify, amend or supplement this Master Declaration and any Supplemental Declaration to qualify those declarations under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;
 - F. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
 - G. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;
 - H. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
 - (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or,
 - (ii) Changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds; or,
 - (iii) Diminishes the security afforded to Owners by the Credit Facility; or,
 - (iv) Materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility; or

- (v) Reduces the number or percentage of Owners who are required to consent to a modification of this Master Declaration.
- I. To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification does not take effect until all Bonds that were issued before the date of the modification have been paid or defeased.
- 11.2. This Master Declaration may be amended for any other purpose only upon consent of Bond Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Bond Owners of 100 percent (100%) of the aggregate principal amount of the Bonds outstanding which:
 - A. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bond Owner; or
 - B. Reduces the number or percentage of Owners who are required to consent to a modification of this Master Declaration.
- 11.3. For purposes of Section 11.2, and subject to Section 11.4, the initial purchaser of a series of Bonds may be treated as the Owner of that Series at the time that series of Bonds is delivered in exchange for payment.
- 11.4. Except as expressly provided in this Master Declaration or any Supplemental Declaration, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bond Owner of the Bonds secured by such Credit Facility at all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of this Master Declaration, any waiver of a default by the City or the Operator, or the initiation by Bond Owners of any action which under this Master Declaration requires the written approval or consent of or can be initiated by the Bond Owners of at least a majority in principal amount of the affected Bonds at the time Outstanding; and following an Event of Default for all other purposes.
 - A. The issuer of a Credit Facility shall not be allowed to consent to any amendment, change or modification of this Master Declaration which:
 - (i) Results in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or
 - (ii) Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bond Owner; or

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

Section 12. Defeasance

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

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

Section 13. BEO System

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

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

Section 14. Redemption of Bonds

- 14.1. Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the redemption terms of this Section 14.
- 14.2. If Bonds are subject to mandatory redemption the Registrar shall, without further action by the Operator, select the particular Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Bonds, and give notice of their redemption in accordance with this Section 14.
- 14.3. If certain maturities of Bonds are subject to both optional and mandatory redemption, the Operator may elect to apply any of those Bonds which it has previously optionally redeemed. In addition, if the Operator purchases Bonds which are subject to mandatory redemption, the Operator may elect to apply against the mandatory redemption requirement any such Bonds which it has previously purchased. If the Operator makes

such an election, it shall notify the Registrar not less than sixty days prior to the mandatory redemption date to which the election applies.

- 14.4. So long as the BEO-System remains in effect with respect to the Bonds, the Operator shall notify the Registrar of any early redemption not less than 40 days prior to the date fixed for redemption, the Registrar shall notify the Depository of any early redemption not less than 30 but no more than 60 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the letter of representations submitted to DTC in connection with the issuance of the Bonds.
- 14.5. During any period in which the BEO System is not in effect with respect to the Bonds, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Registrar on behalf of the Operator by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed, at the address shown on the Bond Register or at such other address as is furnished in writing by such owner to the Registrar. The Operator shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:
 - A. The redemption date;
 - B. The redemption price;
 - C. If less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;
 - D. That on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and
 - E. The place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.
- 14.6. The Operator shall deposit with the Registrar, on or before the redemption date, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.
- 14.7. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Operator shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond or Bonds of the same

maturity in the amount of the unpaid principal. All Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued. Notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Bonds. From and after such notice having been given and such deposit having been made, the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the Operator shall be under no further liability in respect thereof.

Section 15. Authentication, Registration and Transfer

- 15.1. The provisions of this Section 15 apply only if the Bonds cease to be a BEO issue, and unless otherwise specified in a Supplemental Declaration.
- 15.2. No Bond shall be entitled to any right or benefit under this Master Declaration unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar shall authenticate all Bonds to be delivered at closing, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Master Declaration.
- 15.3. All Bonds shall be in registered form. BNY Western Trust Company is hereby appointed to serve as Registrar for the Bonds. A successor Registrar may be appointed for the Bonds by ordinance or resolution of the Operator. The Registrar shall provide notice to Bond Owners of any change in the Registrar not later than the Bond payment date following the change in Registrar.
- 15.4. The ownership of all Bonds shall be entered in the Bond register maintained by the Registrar and the Operator and Registrar may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- 15.5. The Registrar shall mail each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Bond Owner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the Operator nor the Registrar shall have any further liability to any party for such payment.
- 15.6. Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different authorized denominations, and Bonds may be transferred to other owners if the Bond Owner submits the following to the Registrar:
 - A. Written instructions for exchange or transfer satisfactory to the Registrar, signed by the Bond Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar; and
 - B. The Bonds to be exchanged or transferred.
- 15.7. The Registrar shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date and ending on the next following

payment date; however, such Bonds shall be exchanged or transferred promptly following the payment date.

- 15.8. The Registrar shall not be required to exchange or transfer any Bonds which have been designated for redemption if such Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.
- 15.9. For purposes of this section, Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in Section 15.6.
- 15.10. The Operator may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Bond Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Section 16. The Series 2004 Bonds.

- 16.1. Pursuant to the authority of the ORS 288.805 to 288.945, City Resolution No. ____ and this Master Declaration, the City has issued its Water Revenue Bonds, Series 2004, in the aggregate principal amount of \$2,900,000. The Series 2004 Bonds shall be "Bonds" as defined in this Master Declaration. The Series 2004 Bonds shall bear interest payable on April 1 and October 1 of each year at the following rates, commencing April 1, 2005, and shall mature in the following years in the following principal amounts:

Maturity Date (October 1)	Amount	Rate
2005		
2006		
2007		
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		

- 16.2. The Series 2004 Bonds shall be special obligations of the Operator, and shall be payable solely from the Net Water Revenues and amounts required to be deposited in the Bond Account and Bond Reserve Account as required and as provided by this Master Declaration.
- 16.3. The Series 2004 Bonds shall be in substantially the form attached as Exhibit A and shall be signed with the facsimile or manual signature of the Mayor and a Canby Utility Official.
- 16.4. The Series 2004 Bonds maturing after October 1, 2014 are subject to redemption prior to maturity at the option of the Operator, in whole or in part, on October 1, 2014 and on any date thereafter (with maturities selected by the Operator and by lot within a maturity) at a price of par, plus accrued interest to the date of redemption.
- 16.5. Tax-Exempt Status:
- A. The Operator covenants for the benefit of the Owners of the Series 2004 Bonds to comply with all provisions of the Code which are required for interest on the Series 2004 Bonds to be excluded from gross income for federal taxation purposes. In determining what actions are required to comply, the Operator may rely on an opinion of Bond Counsel. The Operator makes the following specific covenants with respect to the Code:
- (i) The Operator will not take any action or omit any action if it would cause the Series 2004 Bonds to become "arbitrage bonds" under Section 148 of the Code;
 - (ii) The Operator shall operate the facilities financed with the Series 2004 Bonds so that the Series 2004 Bonds do not become private activity bonds within the meaning of Section 141 of the Code;
 - (iii) The Operator shall pay, when due, all rebates and penalties with respect to the Series 2004 Bonds which are required by Section 148(f) of the Code.
- B. The covenants contained in Section 16.5.A and any covenants in the closing documents for the Series 2004 Bonds shall constitute contracts with the owners of the Series 2004 Bonds, and shall be enforceable by them.
- C. The Series 2004 Bond proceeds shall be applied as follows:
- (i) An amount of proceeds of the Series 2004 Bonds required to make the balance in the Bond Reserve Account equal to the Bond Reserve Requirement shall be deposited in the Bond Reserve Account.

- (ii) The balance of the Series 2004 Bond proceeds shall be placed in the Construction Fund, and shall be disbursed only to finance Projects and costs incurred in connection with the issuance of the Series 2004 Bonds.

16.6. Earnings from investment of the funds in the Construction Fund shall be maintained in the Construction Fund, and shall be treated and disbursed as Series 2004 Bond proceeds. Construction Fund balances attributable to Series 2004 Bond proceeds which are not needed for the Projects may be transferred to the Bond Account.

Section 17. Concerning the Series 2004 Insurer.

17.1. Notwithstanding any contrary provision in this Master Declaration:

- A. The Series 2004 Insurer shall be entitled to exercise the rights given to it under this Master Declaration only while the Series 2004 Insurance Policy is in effect, the Series 2004 Insurer is not in payment default under the Series 2004 Insurance Policy and only in relation to the Series 2004 Bonds which the Series 2004 Insurer is insuring.
- B. If the Series 2004 Insurance Policy is not in effect or the Series 2004 Insurer is in payment default under that Series 2004 Insurance Policy, the consent of the Series 2004 Insurer shall not be required for any action to be taken under this Master Declaration and notices of certain events shall not be required to be provided to the Series 2004 Insurer under this Master Declaration.

[insert insurer provisions if bonds are insured]

EXECUTED ON BEHALF OF THE CITY OF CANBY BY ITS CITY OFFICIAL AS OF THE 30th DAY OF SEPTEMBER, 2004.

City of Canby, Oregon

By: _____
City Official

Approved and accepted as of the 30th day of September, 2004

Canby Utility Board

By: _____
Board Official

Exhibit A

Form of Series 2004 Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Clackamas County
City of Canby
Water Revenue Bond, Series 2004

Dated Date: September 30, 2004

Interest Rate Per Annum: «CouponRate»%

Maturity Date: October 1, «MaturityYear»

CUSIP Number: «CUSIPNumbr»

Registered Owner: -----Cede & Co.-----

Principal Amount: -----«PrincipalAmtSpelled» Dollars-----

THE CITY OF CANBY, State of 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 on the 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 April 1 and October 1 in each year until maturity or prior redemption, commencing April 1, 2005. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. Such payments shall be made payable to the order of "Cede & Co." as nominee of The Depository Trust Company, New York, New York

This Series 2004 Bond is not a general obligation or liability of the City, and is payable solely from the Net Water Revenues of the Water System as provided in the Master Water Revenue Bond Declaration dated as of September 30, 2004 (the "Master Declaration"). The City covenants and agrees with the owner of this Series 2004 Bond that it will keep and perform all of the covenants in this Series 2004 Bond and in the Master Declaration. The City has pledged the Net Water Revenues of the Water System to the payment of principal and interest on this Series 2004 Bond.

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 Master Declaration. Interest on any Series 2004 Bond or Series 2004 Bonds so called for redemption shall cease on the redemption date designated in the notice. The City's paying agent and registrar, which is currently BNY Western Trust Company (the "Registrar"), will notify The Depository Trust Company of any Series 2004 Bonds called for redemption not less than 30 days prior to the date fixed for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the Bond register.

The Series 2004 Bonds are initially issued as a book-entry-only security issue with no certificates provided to the Series 2004 Bondowners. Records of Series 2004 Bond ownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the Series 2004 Bonds shall be issued in the form of registered Series 2004 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such Series 2004 Bonds may be exchanged for Series 2004 Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Master Declaration.

Any transfer of this Series 2004 Bond must be registered, as provided in the Master Declaration, upon the Series 2004 Bond register kept for that purpose by the Registrar. Upon registration, a new registered Series 2004 Bond or Series 2004 Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Master Declaration. The Registrar and the City may treat the person in whose name this Series 2004 Bond is registered as its absolute owner for all purposes, as provided in the Master Declaration.

The Series 2004 Bondowner may exchange or transfer this Series 2004 Bond only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and duly executed by the registered owner or their duly authorized attorney, at the principal corporate trust office of the Registrar in the manner and subject to the conditions set forth in the Master Declaration.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as 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.

This Series 2004 Bond is one of a series of \$2,900,000 aggregate principal amount of Water Revenue Bond, Series 2004, of the City, and is issued by the City for the purpose of financing improvements to the city's water system, 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 Series 2004 Bonds on October 1, 2014 and on any date thereafter (with maturities selected by the City and by lot within a maturity) at a price of par, plus accrued interest to the date of redemption.

The Series 2004 Bonds are issuable in the form of registered Series 2004 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Series 2004 Bonds may be exchanged for an equal aggregate principal amount of registered Series 2004 Bonds of the same maturity and of any other authorized denominations in the manner, and subject to the conditions set forth in the Master Declaration.

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

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Series 2004 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; that the issue of which this Series 2004 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.

IN WITNESS WHEREOF, the City Council of the City of Canby, Oregon, has caused this Series 2004 Bond to be signed by facsimile signature of its Mayor and attested by facsimile signature of its City Recorder as of the date indicated above.

City of Canby, Oregon

Mayor

City Recorder

STATEMENT OF INSURANCE

[add if bonds are insured]

THIS SERIES 2004 BOND SHALL NOT BE VALID UNLESS PROPERLY
AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

This Series 2004 Bond is one of a series of \$2,900,000 aggregate principal amount of Water
Revenue Bonds, Series 2004, of the City, issued pursuant to the Master Declaration described herein.

Date of authentication: September __, 2004.

Wells Fargo Bank, National Association, as Registrar

Authorized Officer

ASSIGNMENT

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

(Please insert social security or other identifying number of assignee)

this Series 2004 Bond and does hereby irrevocably constitute and appoint _____
_____ as attorney to transfer this Series 2004 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 Series 2004 Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or
trust company

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Series 2004 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.