

21-96

ISSUANCE OF WATER SYSTEM REFUNDING
REVENUE BONDS, SERIES 1996.

18 NOV 1996

Resolution No. 21-96

A RESOLUTION OF THE CITY OF VERNONIA, COLUMBIA COUNTY,
OREGON, AUTHORIZING THE ISSUANCE OF WATER SYSTEM
REFUNDING REVENUE BONDS, SERIES 1996

The City Council of the City of Vernonia, Columbia County, Oregon, resolves as follows:

Section 1. Findings.

1.1. The City issued its Revenue Installment Water Bond No. 1 (the "Refundable Bonds") to the Farmers Home Administration of the United States Department of Agriculture, now known as the United States Department of Agriculture Rural Development (the "Government"), in the amount of \$225,000 on July 27, 1987. The Refundable Bonds are subject to redemption prior to maturity at the request and with the consent of the Government. The Government has requested and consented to redeeming the Refundable Bonds prior to maturity.

1.2. The City is authorized pursuant to the Constitution and ORS 288.592 to issue refunding bonds to refund the Refundable Bonds.

1.3. The City Council adopts this Resolution to authorize the issuance of the City's Water System Refunding Revenue Bonds, Series 1996 to currently refund the Refundable Bonds and to provide the terms under which future Parity Obligations and Subordinate Obligations may be issued.

Section 2. Definitions.

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

2.1.1. "Audit" means the audit required by ORS 297.425.

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

2.1.3. "Bondowner" means a registered owner of a Bond.

2.1.4. "Bond Purchaser" means the initial bond purchaser.

2.1.5. "Bond Registrar" or "Registrar" means the paying agent and registrar designated by the City.

2.1.6. "Bonds" or "Series 1996 Bonds" means the Series 1996 Bonds and any Parity Obligations issued pursuant to this Resolution.

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Exhibit A - Form of Bond

TRANSCRIPT INDEX

\$250,000
City of Vernonia
Columbia County, Oregon
Water System Refunding Revenue Bonds
Series 1996

1. General Certificate.
2. Excerpt of minutes of City Council meeting at which Resolution authorizing negotiated sale of bonds was adopted.
3. Resolution authorizing negotiated sale of bonds.
4. Purchase Contract or Purchase Offer.
5. Evaluation of Independent Expert.
6. State Treasurer's letter stating that notice was given of the sale pursuant to ORS 287.040 and that the issuer complied with the rules of the Treasurer.
7. Tax Certificate.
8. IRS Form 8038-G.
9. Certificate regarding initial offering price.
10. Receipt for bond proceeds.
11. Receipt for bonds.
12. The Depository Trust Company Letter of Representations.
13. Specimen bond.
14. Legal Opinion.
15. Preliminary Official Statement.
16. Final Official Statement.
17. Closing Memorandum.

RESOLUTION

by

**City of Vernonia
Columbia County, Oregon**

**\$250,000
Water System Refunding Revenue Bonds
Series 1996**

Exhibit A
(Form of Bond)

No. R- _____

\$ _____

United States Of America
State Of Oregon
City of Vernonia
Columbia County, Oregon
Water System Refunding Revenue Bond
Series 1996

Dated Date: January 1, 1997
Interest Rate: _____ %
Maturity Date: _____ 1, _____
CUSIP Number: _____ - _____

Registered Owner: -----
Principal Amount: ----- Dollars -----

City of Vernonia, Columbia County, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the registered owner hereof, or registered assigns, the principal amount as indicated above on the above maturity date together with interest thereon from the date hereof at the rate per annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first day of _____ and the first day of _____ in each year until maturity or prior redemption, commencing _____ 1, 199_. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, on each payment date. Such payments shall be made payable to the order of "Cede & Co."

This Bond is not a general obligation or liability of the City, and is payable solely from the Net Operating Revenues of the Water System as provided in Resolution No. _____ of the City (the "Resolution"). The City covenants and agrees with the owner of this Bond that it will keep and perform all of the covenants in this Bond and in the Resolution. The City has pledged the Net Operating Revenues of the Water System to the payment of principal and interest on this Bond on a parity with its Series 1996 Bonds.

This Bond is one of a series of \$250,000 aggregate principal amount of Water System Refunding Revenue Bonds, Series 1996, of the City, and is issued by the City for the purpose of financing Water System improvements in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

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

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

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

[insert term bond provisions, if applicable]

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 Bond Resolution. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Issuer's paying agent and registrar, which is currently <<Paying Agent>>, in Portland, Oregon (the "Registrar"), will notify The Depository Trust Company promptly of any Bonds called for redemption.

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.

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

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

City of Vernonia, Columbia County, Oregon

Mayor

Recorder

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

Dated: _____

Certificate of Authentication

This is one of City's \$250,000 unobligated net revenues of water system Revenue Bonds, Series 1996, issued pursuant to the Resolution described herein.

<<Paying Agent>>, 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 bond and does hereby irrevocably constitute and appoint _____
_____ as attorney to transfer this bond on the books kept for registration
thereof with the full power of substitution in the premises.

Dated: _____

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

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

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

TEN COM -- tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of survivorship and not as tenants in common
OREGON CUSTODIANS use the following:
_____ CUST UL OREG _____ MIN
as custodian for (name of minor)
OR UNIF TRANS MIN ACT
under the Oregon Uniform Transfer to Minors Act

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

2.1.7. "Bond Payment Date" means any date upon which Bond principal or interest is payable.

2.1.8. "Bond Purchase Agreement" or "Purchase Agreement" means a purchase agreement to be negotiated with the Underwriter.

2.1.9. "Certificate of City" or "City Certificate" means a certificate executed on behalf of the City by the City Administrator of the City or her designee.

2.1.10. "City" means the City of Vernonia, Columbia County, Oregon.

2.1.11. "City Council" means the City Council of the City of Vernonia, Columbia County, Oregon.

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

2.1.13. "Default" or "Event of Default" means any event specified in Section 15 of this Resolution.

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

2.1.15. "Gross Revenues" means all fees and charges, including system development charges, connection fees and other revenues resulting from operation of the Water System, including revenues from product sales, credits from the Rate Stabilization Account and any interest earnings and other revenues required to be placed in the Water Bond Fund under this Resolution; however, Gross Revenues does not include:

2.1.15.1. any payments of improvement assessments levied against benefited properties;

2.1.15.2. the proceeds of any grants if such monies are restricted as to their use;

2.1.15.3. the proceeds of any borrowing for capital improvements;

2.1.15.4. the proceeds of any liability or other insurance;

2.1.15.5. the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Water System;

2.1.15.6. sales of assets pursuant to Section 11 of this Resolution, and

2.1.15.7. ad valorem taxes received by the City which are, at any time, pledged, designated or dedicated to other debt or obligations of the City.

2.1.16. "Net Operating Revenues" means the Gross Revenues less the Operating Expenses.

2.1.17. "Operating Expenses" means all costs which are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles. However, Operating Expenses do not include:

2.1.17.1. any rebates or penalties paid from Gross Revenues under Section 148 of the Code;

2.1.17.2. payments of judgments against the City and payments for the settlement of litigation;

2.1.17.3. depreciation and amortization of property values or losses, and all amounts treated for accounting purposes as payments for capital expenditures;

2.1.17.4. debt service payments;

2.1.17.5. franchise fees paid to the City by the Water System or from Gross Revenues; or

2.1.17.6. payments in lieu of taxes.

2.1.18. "ORS" means the Oregon Revised Statutes.

2.1.19. "Outstanding Bonds" means all Bonds and obligations authorized and delivered pursuant to this Resolution and any Supplemental Resolution except Bonds theretofore canceled or defeased pursuant to Section 20 of this Resolution.

2.1.20. "Parity Obligations" means any revenue bonds or other obligations of the City which comply with the provisions of Section 13 of this Resolution for the issuance of Parity Obligations.

2.1.21. "Permitted Indebtedness" means:

2.1.21.1. all indebtedness which would, in accordance with sound accounting practice, be classified as current liabilities, including all indebtedness payable on demand or maturing not more than one year after the date of incurrence thereof,

2.1.21.2. indebtedness, including lease purchase agreements, secured by security interests,

2.1.21.3. revolving credit, line of credit or letter of credit indebtedness, provided that there shall have been a period of at least 30

consecutive days in the 12-month preceding period during which the City shall have been free from all such indebtedness,

2.1.21.4. indebtedness to the extent secured by or payable from sources other than Net Operating Revenues,

2.1.21.5. Bond and Tax Anticipation Notes issued pursuant to Oregon Law, and

2.1.21.6. any other indebtedness in existence on the date of initial issuance and delivery of the Bonds.

2.1.22. "Permitted Investments" means those investments authorized by Oregon Law for the City.

2.1.23. "Public Works Fund" means the Public Works Fund heretofore created, to be maintained pursuant to Section 9.

2.1.24. "Project" means any purpose for which Gross Revenues may be spent.

2.1.25. "Rate Stabilization Account" means the Rate Stabilization Account which may be established pursuant to Section 9 of this Resolution.

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

2.1.27. "Registrar" means the Registrar and paying agent as established in Section 5 of this Resolution.

2.1.28. "Required Reserve" means an amount equal to the lesser of:

2.1.28.1. the maximum annual debt service due in any Fiscal Year on the Outstanding Bonds determined as of the date of issuance of the Bonds,

2.1.28.2. 1.25 times the average annual debt service on the Outstanding Bonds or

2.1.28.3. ten percent of the proceeds of all issues of Bonds which have Bonds outstanding, in accordance with Section 148(d) of the Code.

2.1.29. "Reserve Account" means the Reserve Account established pursuant to Section 9 of this Resolution.

2.1.30. "Reserve Equivalent" means an insurance policy or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy or letter of credit is issued) of at least Aa or AA as determined by Moody's Investors Services or Standard & Poor's Corporation, or their successors, in

which the insurance company or commercial bank agrees to unconditionally provide the City with funds in an amount which, when combined with available bond proceeds or other available funds, that have been previously deposited into the Reserve Account, equals the Required Reserve.

2.1.31. "Resolution" means this Resolution.

2.1.32. "Series 1996 Bonds" means the City's Water System Refunding Revenue Bonds, Series 1996, issued pursuant to this Resolution.

2.1.33. "Subordinate Obligations" means any obligations of the City payable from Net Operating Revenues which comply with the provisions of Section 14 of this Resolution.

2.1.34. "Supplemental Resolutions" means any Resolution which supplements or amends this Resolution in compliance with Section 19.

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

2.1.36. "Underwriter" initially means Strand, Atkinson, Williams & York Incorporated as the initial purchaser of the Bonds and Underwriters named under any Supplemental Resolution.

2.1.37. "Water Bond Fund" means the Water Bond Fund, heretofore created, to be maintained pursuant to Section 9 by the City to hold funds to be used to pay Bond principal and interest and premiums if any.

2.1.38. "Water System" means all utility property now or hereafter used by the City to provide water services within and without the City.

Section 3. The Series 1996 Bonds.

Pursuant to the authority of ORS 288.805 to 288.945, the City Council hereby authorizes and directs the issuance of the City of Vernonia, Columbia County, Oregon Water System Refunding Revenue Bonds, Series 1996, in the aggregate principal amount of Two Hundred Fifty Thousand Dollars (\$250,000) (the "Series 1996 Bonds"). The City Administrator or her designee (the "City Administrator"), on behalf of the City, and without further action by the City Council, may:

3.1. Participate in the preparation and authorize the distribution of a preliminary official statement or other disclosure document for the Series 1996 Bonds;

3.2. Appoint a paying agent to provide services in connection with the Series 1996 Bonds;

3.3. Negotiate the terms of, and execute, a Bond Purchase Agreement with the Underwriter;

3.4. Establish the principal amount, interest rates, redemption terms, payment dates and other terms of the Series 1996 Bonds, provided that the Series 1996 Bonds are sold at a true interest cost of not to exceed 9%; and

3.5. Issue, sell and deliver the Series 1996 Bonds, and execute and deliver any related certificates or documents which are reasonably required to issue the Series 1996 Bonds in accordance with this Resolution.

Section 4. Bond Book-Entry-Form.

4.1. The Bonds shall be initially issued in book-entry-form, with no Bonds being made available to the Bondowners. The City Administrator shall execute and deliver letters of representations to The Depository Trust Company, New York, New York ("DTC") for the Bonds, in form and substance satisfactory to DTC. So long as the Bonds are in book-entry form:

4.1.1. 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 system. The Bonds shall be initially issued in the form of a global bond. Each global bond shall be registered in the name of Cede & Co. as nominee of DTC as the owner of the Bond, and such global bonds shall be lodged with DTC until early redemption or maturity of the Bond issue.

4.1.2. The Registrar shall remit payment for the maturing principal and interest on the Bonds to DTC as owner of the Bonds for distribution by the nominee to the beneficial owners by recorded entry on the books of DTC participants and correspondents. While the Bonds are in book-entry-form, the Bonds will be available in denominations of \$5,000 or any integral multiple thereof.

4.2. In the event DTC determines not to continue to act as securities depository for the Bonds, or the City determines that DTC shall no longer so act, then the City will discontinue maintaining the Bonds in the book-entry-form with DTC.

4.3. Notwithstanding the provisions regarding exchange and transfer of Bonds set forth in this Resolution, while the Bonds are in book-entry-form they may not be transferred or exchanged on the registration books maintained by the Paying Agent except:

4.3.1. to any successor depository designated by the City as provided below;

4.3.2. to any successor nominee designated by a depository; or

4.3.3. if the City elects to discontinue maintaining the Bonds in book-entry-form, the City shall cause the Paying Agent to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial

owners or their nominees; thereafter the provisions set forth herein, regarding registration, transfer and exchange of Bonds shall apply.

4.4. Upon the resignation of any institution acting as depository hereunder, or if the City determines that continuation of any institution in the role of depository is not in the best interests of the beneficial owners, the City shall attempt to identify another institution qualified to act as depository hereunder or shall discontinue maintaining the Bonds in book-entry-form by resolution or ordinance. If the City is unable to identify such successor depository prior to the effective date of the resignation, the City shall discontinue maintaining the Bonds in book-entry-form as provided above.

4.5. With respect to Bonds registered in the registration books maintained by the Paying Agent in the name of the nominee of DTC, the City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:

4.5.1. the accuracy of the records of DTC, the Nominee or any participant or correspondent with respect to any beneficial owner's interest in the Bonds;

4.5.2. the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;

4.5.3. the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or

4.5.4. the payment to any participant, correspondent, or any other person other than the registered owner of the Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal or interest on the Bonds.

4.6. So long as the Bonds are in book-entry-form, the Paying Agent will give any notice of redemption or any other notices required to be given to registered owners of Bonds only to DTC or its nominee registered as the registered owner thereof. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Neither the City nor the Paying Agent is responsible or liable for the failure of DTC or any participant to make any payment or give any notice to a beneficial owner in respect of the Bonds or any error or delay relating thereto.

4.7. The City shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the owner, as shown in the registration books maintained by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

4.8. Upon delivery by DTC to the City and to the owner of written notice to the effect that DTC has determined to substitute a new nominee in place of the nominee, then the word "nominee" in this Resolution shall refer to such new nominee of DTC, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Paying Agent. DTC shall tender the Bonds it holds to the Paying Agent for reregistration.

4.8.1. The provisions of this Section may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC for bonds issued in book-entry-form.

Section 5. Authentication, Registration and Transfer.

5.1. No Series 1996 Bond shall be entitled to any right or benefit under this Resolution unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar shall authenticate all Series 1996 Bonds to be delivered at closing, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Resolution.

5.2. All Bonds shall be in registered form. The City shall appoint a paying agent "Paying Agent" to serve as Registrar for the Bonds. A successor Registrar may be appointed for the Series 1996 Bonds by ordinance or Resolution of the City. The Registrar shall provide notice to Bondowners of any change in the Registrar not later than the Bond payment date following the change in Registrar.

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

5.4. The Registrar shall mail each interest payment on the interest payment date (or the next business day if the payment date is not a business day) to the name and address of the Bondowner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.

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

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

5.5.2. the Bonds to be exchanged or transferred.

5.6. 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.

5.7. 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.

5.8. 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 5.5.

5.9. The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Bondowners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Section 6. Redemption.

6.1. Optional. The City reserves the right to redeem all or any portion of the Series 1996 Bonds as provided in the Bond Purchase Agreement.

6.2. Mandatory. Certain Term Bonds, if any, may be subject to mandatory partial redemption prior to maturity, by lot, as determined by the Registrar, as set forth in the Bond Purchase Agreement.

6.3. Notice of Redemption. Unless waived by any holder of Series 1996 Bonds to be redeemed, official notice of any such redemption shall be given by the Registrar on behalf of the City by mailing a copy of an official redemption notice by registered or certified mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of the Series 1996 Bond or Bonds to be redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such registered owner to the Registrar. Notice shall also be published in one issue of a business and financial newspaper published in Portland, Oregon, at least 30 days prior to the date fixed for redemption. Failure to give such notice, or a defect therein, shall not affect the validity of the redemption.

6.4. In the case where The Depository Trust Company ("DTC") is acting as securities depository for the Bonds and less than all Bonds of a maturity are to be redeemed, the Registrar shall notify DTC not more than 45 days prior to the date fixed for redemption of the maturity to be redeemed. DTC shall determine by lot the principal of the maturity of Bonds to be redeemed of each DTC participant's interest in such maturity to be redeemed.

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

6.5.1. the redemption date,

6.5.2. the redemption price,

6.5.3. if less than all outstanding Series 1996 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 1996 Bonds to be redeemed,

6.5.4. that on the redemption date the redemption price will become due and payable upon each such Series 1996 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and

6.5.5. the place where such Series 1996 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

6.6. The City shall deposit with the Registrar, on or before the date that notice is given pursuant to Sections 6.3. and 6.4. of this Resolution, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Series 1996 Bonds which are to be redeemed on that date.

6.7. Official notice of redemption having been given as aforesaid, the Series 1996 Bonds or portions of Series 1996 Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Series 1996 Bonds or portions of Series 1996 Bonds shall cease to bear interest. Upon surrender of such Series 1996 Bonds for redemption in accordance with said notice, such Series 1996 Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Series 1996 Bond, there shall be prepared for the registered owner a new Series 1996 Bond or Bonds of the same maturity in the amount of the unpaid principal. All Series 1996 Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued.

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

6.8.1. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus

6.8.1.1. the CUSIP numbers of all Series 1996 Bonds being redeemed;

6.8.1.2. the date of issue of the Series 1996 Bonds as originally issued;

6.8.1.3. the rate of interest borne by each bond being redeemed;

6.8.1.4. the maturity date of each bond being redeemed; and

6.8.1.5. any other descriptive information needed to identify accurately the Series 1996 Bonds being redeemed.

6.8.2. Each such further notice shall be published one time in The Bond Buyer of New York, New York or, if such publication is impractical or unlikely to reach a substantial number of the Series 1996 Bondowners, in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the Series 1996 Bonds, such publication to be made at least 30 days prior to the date fixed for redemption.

6.8.3. Upon the payment of the redemption price of Series 1996 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Series 1996 Bonds being redeemed with the proceeds of such check or other transfer.

Section 7. Disposition of Bond Proceeds.

7.1. Interest accrued from the date of the Series 1996 Bonds until the date of closing shall be placed in the Water Bond Fund heretofore created, and shall be used to pay interest on the Series 1996 Bonds.

7.2. An amount shall be deposited in the Reserve Account sufficient to fund the Reserve Account equal to the Required Reserve unless other provisions have been made to fund the Reserve Account pursuant to Section 9 of this Resolution.

7.3. The balance of the Series 1996 Bond proceeds shall be placed in the Water Bond Fund, and shall be disbursed immediately to redeem the Refundable Bonds.

Section 8. Deposit, Pledge and Use of Revenues.

8.1. All Gross Revenues shall be deposited to or maintained in the Public Works Fund, heretofore created.

8.2. The City hereby pledges the Net Operating Revenues, after required payments of any Rebates, to the payment of principal and interest on all Bonds.

8.3. As long as any Bonds remain issued and outstanding, moneys in the Public Works Fund shall be used solely to pay the following amounts in the following order:

8.3.1. To pay Operating Expenses (other than payments to the Rate Stabilization Account),

8.3.2. To pay any required Rebates,

8.3.3. To credit the Water Bond Fund to pay Bond principal and interest,

8.3.4. To credit the Reserve Account to eliminate any deficiency in the Required Reserve.

8.3.5. To credit the Rate Stabilization Account, if any, and

8.3.6. Retire by redemption or purchase in the open market any Outstanding Bonds as determined by the City to be payable from the revenues of the Water System and to make necessary additions, betterments, improvements and repairs to and extensions and replacements of the Water System or for any other or lawful City purpose.

Section 9. Funds and Accounts.

9.1. The Water Bond Fund was heretofore created. The City shall deposit into the Water Bond Fund, from the Public Works Fund, or the Reserve Account, money sufficient to make payments of Bond principal and interest in accordance with Section 8 of this Resolution, as follows:

9.1.1. Commencing on February 1, 1997, and the first day of each month thereafter, the City will deposit into the Water Bond Fund an amount equal to one-sixth (1/6th) of the amount necessary to pay Bond interest which will become due during the six months following the deposit. Prepayment of deposits will fulfill this requirement. Notwithstanding the foregoing, the City shall deposit into the Water Bond Fund from the Net Operating Revenues an amount sufficient to permit all interest due on the Bonds to be paid on the date it is due.

9.1.2. Commencing on February 1, 1997, and on the first day of each month thereafter, the City will deposit into the Water Bond Fund an amount equal to one-twelfth (1/12th) of the amount necessary to pay any Bond principal which will become due during the twelve months following the deposit. Prepayment of deposits will fulfill this requirement. Notwithstanding the foregoing, the City shall deposit into the Water Bond Fund from the Net Operating Revenues an amount sufficient to permit all interest due on the Bonds to be paid on the date it is due.

9.2. The Reserve Account was heretofore created within the Redemption Fund.

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

9.2.2. The City covenants with the owners of the Bonds that it will, on each Bond Payment Date so long as any Bonds remain outstanding, maintain an amount such that the balance in the Reserve Account will at least equal the Required Reserve. In the event the amount on deposit in the Reserve Account is less than the Required Reserve, the deficiency shall be eliminated from payments for such purpose available from the Public Works Fund, in proportionate monthly amounts so that the Required Reserve is achieved within twelve months from the date of any deficiency. In the event the amount on deposit in the Reserve Account is more than the Required Reserve, any such excess may be transferred, to the Water Bond Fund or to the Public Works Fund.

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

9.2.4. Moneys in the Reserve Account may be invested only in Permitted Investments. If Permitted Investments mature later than one year from the date of purchase, then the City shall file a certificate with the City Recorder with the report required by Section 10 of this Resolution valuing such Permitted Investments at the lower of cost or market. Deficiencies in the Reserve Account shall be eliminated as provided in Section 9.2.2 of this Resolution.

9.3. A Rate Stabilization Account may be created within the Public Works Fund. Moneys in the Rate Stabilization Account shall be used solely to make appropriations to the Water Bond Fund as determined from time to time by the City; provided, however, no amount on deposit in the Rate Stabilization Account shall, at any time, exceed the maximum annual debt service due in any Fiscal Year on the Outstanding Bonds.

Section 10. Rate Covenant.

10.1. The City covenants that it will charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Net Operating Revenues in each fiscal year at least equal to 1.25 times Bond principal and interest due in that fiscal year. If the Net Operating Revenues fail to meet this level, the City will promptly increase its rates and fees to a level so that Net Operating Revenues are projected to meet the required level. The City will demonstrate its compliance with the provisions of this Section 10 by providing a report, certified by the City's Auditor, and prepared at the time of the delivery of the City's year-end audit. This report will demonstrate the City's compliance with this covenant, or the methods by which the City intends to achieve compliance with this covenant.

10.2. The City shall annually, within six months after the close of each Fiscal Year, file with the City Recorder a City Certificate showing for the preceding Fiscal Year

10.2.1. Net Operating Revenues and

10.2.2. the debt service requirements for such Fiscal Year.

If the statement filed shows that such Net Operating Revenues are less than one and twenty-five hundredths percent (1.25%) of such debt service requirements, then the City shall simultaneously file with the Recorder a Certificate of the City stating in effect that changes in operating procedures or revisions in rates can and will be made which, in the opinion of such signatory, would have resulted in greater Net Operating Revenues sufficient to provide that such Net Revenues would have been at least equal to one and twenty-five hundredths percent (1.25%) of such debt service requirements, together with a copy of a Resolution, adopted by the City Council and certified of the City, authorizing and directing that such changes or revisions be effectuated as promptly as possible, but in no event in greater than ninety (90) days.

Section 11. General Covenants.

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

11.1.1. That it will, to the extent the Net Operating Revenues are sufficient, promptly cause the principal and interest on the Bonds to be paid as they become due.

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

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

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

11.1.5. That it will operate the Water System in a sound, efficient and economic manner.

11.1.6. The City will at all times maintain with responsible insurers all such insurance on the Project as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Project is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Project will be used for repairing or rebuilding the damaged or destroyed Project, and to the extent not so applied, will be applied to the payment or redemption of the Bonds on a pro rata basis, and for such purpose paid into the Public Works Fund.

Any such insurance must be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance.

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

11.1.8. The City shall not incur debt or other obligations except:

11.1.8.1. as authorized by this Resolution or

11.1.8.2. for Permitted Indebtedness as defined in this Resolution.

Section 12. Maintenance of Tax-Exempt Status.

12.1. The City covenants for the benefit of the owners of the Series 1996 Bonds to comply with all provisions of the Code which are required for Bond interest to be excluded from gross income for federal taxation purposes (except for taxes on corporations), unless the City obtains an opinion of nationally recognized bond counsel that such compliance is not required in order for the interest paid on the Series 1996 Bonds to be so excluded. The City makes the following specific covenants with respect to the Code:

12.1.1. The City will not take any action or omit any action if it would cause the Series 1996 Bonds to become "arbitrage bonds" under Section 148 of the Code.

12.1.2. The City shall operate the facilities financed with the Bonds so that the Series 1996 Bonds are not "private activity bonds" within the meaning of Section 141 of the Code.

12.1.3. The City shall comply with appropriate reporting requirements.

12.1.4. The City shall pay, when due, all rebates on the gross proceeds of the Series 1996 Bonds which are required under Section 148 of the Code.

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

Section 13. Parity Obligations.

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

13.1.1. No Default has occurred and is continuing;

13.1.2. At the time of the issuance of the Parity Obligations there is no deficiency in the Water Bond Fund and the Reserve Account;

13.1.3. The Resolution authorizing the issuance of the Parity Obligations requires that a deposit be made at closing sufficient to bring the balance in the Reserve Account equal to the Required Reserve for all outstanding Bonds, including the proposed Parity Obligations.

13.1.4. The Resolution authorizing the issuance of the Parity Obligations contains a covenant requiring the City to charge rates and fees projected to generate Net

Operating Revenues equal to the amount described in Section 10 of this Resolution, including the proposed Parity Obligations.

13.1.5. Either:

13.1.5.1. the Net Operating Revenues for any 12 consecutive months during the 18 months preceding the date of issuance of the Parity Obligations were not less than 1.25 times the sum of the actual debt service of the Series 1996 Bonds for the immediately preceding 12 months, plus the average annual debt service for the proposed Parity Obligations as certified by a qualified engineering, auditing, or other qualified firm; or

13.1.5.2. the Net Operating Revenues, as projected for the next ensuing three fiscal years and as certified by a qualified engineering, auditing, or other qualified firm (including any rate increases adopted by the City Council) are not less than 1.25 times the actual debt service for the ensuing three fiscal year's debt service on all outstanding Series 1996 Bonds plus the average annual debt service on the proposed Parity Obligations.

13.2. The City may issue Parity Obligations to refund Outstanding Bonds, notwithstanding the requirements of Section 13.1, if the required debt service of the refunding bonds does not exceed the debt service for the refunded bonds payable in any Fiscal Year.

The requirements of Section 13.1 shall apply if the debt service on the refunding bonds exceeds the debt service on the refunded bonds payable in any Fiscal Year.

13.3. All Bonds issued in accordance with this Section shall have a lien on the Net Operating Revenues which is equal to the lien of the Series 1996 Bonds, the Series 1996 Bonds and all Parity Obligations issued in accordance with this Section.

Section 14. Subordinate Obligations.

The City may issue Subordinate Obligations to provide funds for any purpose authorized by law, provided no default has occurred and is continuing. All Subordinate Obligations shall have a lien on the Net Operating Revenues which is subordinate to the lien of the Series 1996 Bonds and all Parity Obligations issued in accordance with Section 13 of this Resolution. In the event of any insolvency or bankruptcy proceedings relative to the City or to its property, the holders of the Series 1996 Bonds and the Parity Obligations shall be entitled to receive payment in full of all principal, premium (if any) and interest thereon (including interest accruing after the commencement of any proceeding) before the holders of the Subordinated Obligations are entitled to receive any payment on account of principal, premium (if any) or principal upon the Subordinated Obligations.

Section 15. Default.

15.1. The following events shall constitute Default:

15.1.1. Failure to pay Bond principal or interest when due; or

15.1.2. Failure to perform any other obligation of the City imposed by this Resolution or the Bonds, but only if:

15.1.2.1. the failure continues for a period of more than ninety (90) days after demand has been made on the City by the Bondowners representing 25% of all Bondowners to remedy the failure; and

15.1.2.2. the City fails to take reasonable steps to remedy the failure within that ninety-day period; or

15.1.3. Imposition of a receivership upon, or liquidation of, the Public Works Fund; or,

15.1.4. Written admission by the City that the City is unable to pay its debts as they become due.

Section 16. Remedies on Default.

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

16.1. Declare all the Bonds immediately due and payable, together with interest accrued thereon to the date of payment;

16.2. Exercise any other remedy available at law or in equity, except that the Property shall not be subject to foreclosure or attachment.

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

Section 17. No Remedy Exclusive.

No remedy herein conferred upon or reserved to Bondowners is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Resolution now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Bondowners to exercise any remedy reserved to it in this Section it shall not be necessary to give any notice, other than such notice as may be required in this Section.

Section 18. Trustee Duties Upon Default.

18.1. Upon the occurrence and during the continuance of any Event of Default, the Trustee may, and upon written notice from the Owners of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall, declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall be immediately due and payable, anything in the Resolution or in the Bonds contained to the contrary notwithstanding; subject, however, to the right of the Owners of a majority in aggregate principal amount of the outstanding Bonds to rescind and annul such declaration if the City cures the Event of Default. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

18.1.1. In addition, upon the occurrence of an Event of Default the Trustee may pursue any other available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Resolution.

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

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

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

18.1.4.1. such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

18.1.4.2. the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Resolution;

18.1.4.3. said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and

18.1.4.4. the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee.

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

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

Section 19. Amendment of Resolution.

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

19.1.1. To add to the covenants and agreements of the City in this Resolution any other covenants and agreements thereafter to be observed by the City, or to surrender any right or power herein reserved to or conferred upon the City which in the opinion of a nationally recognized bond counsel, filed with the City Council, does not adversely affect the interests of the Bondowners.

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

19.1.3. To issue Parity Obligations in accordance with Section 13 hereof.

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

19.2.1. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or

19.2.2. Reduces the percent of Bondowners required to approve amendatory Resolutions.

Section 20. Defeasance.

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

Section 21. Designation of Bonds as Qualified Tax-Exempt Obligations.

The City designates the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

Section 22. Additional Actions.

22.1. The preparation and distribution of the Preliminary Official Statement and the Official Statement to be used in connection with the sale of the Series 1996 Bonds, and the inclusion therein of the sections describing the activities and finances of the City, are authorized, approved and confirmed. The City Administrator is authorized, empowered and directed to execute the Official Statement for and on behalf of the City for distribution to the public.

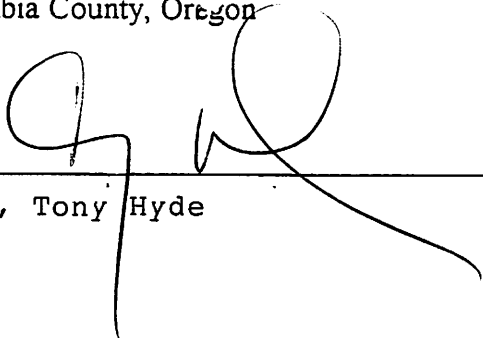
22.2. The City Administrator is authorized and empowered to obtain a rating of the Series 1996 Bonds from Standard & Poor's Corporation, Moody's Investor Services, Inc., or such other similar credit rating City as they shall determine.

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

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

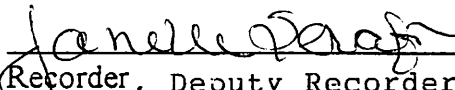
DATED this 18th day of November, 1996.

City of Vernonia
Columbia County, Oregon



Mayor, Tony Hyde

Attest:



Recorder, Deputy Recorder, Janelle Serafin