

**City of Milwaukie
Clackamas and Multnomah Counties, Oregon**

Resolution No. 8-1997

Authorizing Water Revenue Refunding Bonds, Series 1997

Adopted February 4, 1997

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RESOLUTION NO. 8-1997

A RESOLUTION AMENDING AND RESTATING CITY RESOLUTION NO. 25-1990 ADOPTED JULY 10, 1990, AUTHORIZING THE ADVANCE REFUNDING OF OUTSTANDING WATER REVENUE BONDS, AND PROVIDING THE TERMS UNDER WHICH FUTURE REVENUE BONDS MAY BE ISSUED.

Section 1. Findings.

The Council of the City of Milwaukie, Oregon (the "City") resolves:

1.1 The City has previously issued and has outstanding its Water Revenue Bonds, Series 1990, which are dated August 1, 1990 (the "1990 Bonds" or the "Refundable Bonds") which have a senior lien on the net revenues of the City's water system. There are no other bonds or obligations outstanding to which the revenues of the water system have been pledged.

1.2 The City is authorized pursuant to Chapter 288 of the Oregon Revised Statutes to issue advance refunding bonds to achieve debt service savings or a favorable reorganization of the City's permanent debt structure.

1.3 Issuing advance refunding bonds to refund the 1990 Bonds will reduce total debt service.

1.4 The approval of the State Treasurer is required before advance refunding bonds may be issued, and a refunding plan must be submitted to the State Treasurer demonstrating that the refunding will produce debt service savings before the State Treasurer may approve the refunding.

1.5 Seattle-Northwest Securities Corporation has prepared an advance refunding plan for the 1990 Bonds.

1.6 The City Council adopts this Resolution to authorize submission of the advance refunding plan, to authorize the issuance of the City's Water Revenue Refunding Bonds, Series 1997, to advance refund the 1990 Bonds, and to provide the terms under which future Parity Obligations and Subordinate Obligations may be issued.

1.7 If the State Treasurer approves the issuance of advance refunding bonds in accordance with the advance refunding plan proposed by Seattle-Northwest Securities Corporation, the City authorizes the issuance of advance refunding bonds (the "Refunding Bonds") in a principal amount sufficient to pay the cost of refunding the Refundable Bonds and

the costs incident to the authorization, sale and issuance of the Refunding Bonds pursuant to this Resolution.

1.8 For the proposed issue of advance refunding bonds, the firm of Preston Gates & Ellis LLP is designated as bond counsel, First Trust National Association is designated as Escrow Agent and Paying Agent, and the firm of Seattle-Northwest Securities Corporation is designated as Underwriter.

Section 2. Bonds Authorized.

2.1 For the above purpose, the City shall issue its Water Revenue Refunding Bonds, Series 1997. The Finance Director or his designee (the "Finance Director"), on behalf of the City, and without further action by the City Council, may:

2.1.1 Participate in the preparation and authorize the distribution of a preliminary official statement or other disclosure document for the Refunding Bonds;

2.1.2 Appoint an independent expert to provide services in connection with the Refunding Bonds;

2.1.3 Negotiate the terms of, and execute, a bond purchase agreement with the underwriter;

2.1.4 Establish the principal amount, interest rates, redemption terms, payment dates and other terms of the Refunding Bonds, provided that the Refunding Bonds produce debt service savings having a present value of not less than three percent of the principal amount of the Refunding Bonds and are sold at a true interest cost of not to exceed 8%;

2.1.5 Execute and deliver an escrow deposit agreement (the "Escrow Deposit Agreement"), in substantially the form attached as Exhibit B, with such changes as the Finance Director finds are in the best interests of the City, and authorize the purchase of securities to be held under the Escrow Deposit Agreement; and

2.1.6 Issue, sell and deliver the Refunding Bonds, and execute and deliver any related certificates or documents which are reasonably required to refund the Refundable Bonds in accordance with this resolution.

Section 3. Definitions. As used in this Resolution, the following words shall have the following meanings:

3.1 "Bonds" means the Series 1997 Bonds and any Parity Obligations issued pursuant to this Resolution.

3.2 "Code" means the Internal Revenue Code of 1986, as amended.

3.3 "Construction Account" means the Water Construction Account established pursuant to Section 7 hereof by the City.

3.4 "City" means the City of Milwaukie in Clackamas and Multnomah Counties, Oregon, a municipal corporation of the State of Oregon.

3.5 "Council" means the governing body of the City.

3.6 "Default" means any event specified in Section 19.1 of this Resolution.

3.7 "Gross Revenues" means all fees and charges, including systems development charges, resulting from provision of water services, revenues from product sales, and other revenues required to be placed in the Water Fund and Water SDC Reserve Fund under this Resolution, and any interest earnings on the Water Fund which earnings are held in the Water Fund; however, Gross Revenues does not include: (i) any payments of assessments levied against benefited properties; (ii) the proceeds of any grants; (iii) the proceeds of any borrowing for capital improvements; (iv) the proceeds of any liability insurance, and (v) the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of Water Facilities.

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

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

3.10 "Parity Obligations" means any revenue bonds or other obligations of the City which comply with the provisions of Section 15 of this Resolution for the issuance of Parity Obligations.

3.11 "Redemption Account" means the debt service account previously established pursuant to Section 9 hereof by the City to hold funds to be used to pay Bond principal and interest.

3.12 "Registrar" or "Bond Registrar" means that entity which is under contract with the City to serve as paying agent and registrar for the Bonds.

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

3.13.1 10 percent of the par value of the Bonds;

3.13.2 the maximum annual debt service on the Bonds, defined as the maximum amount in the aggregate of principal of and interest on the Bonds due in one fiscal year, or;

3.13.3 125 percent of the average annual debt service on the Bonds, defined as the average amount in the aggregate of principal of and interest on the Bonds due in one fiscal year.

3.14 "Reserve Account" means the Debt Service Reserve Account established pursuant to Section 9 hereof.

3.15 "Resolution" means this Resolution.

3.16 "Reserve Equivalent" means an insurance policy, surety bond or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy, bond, 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 unconditionally to provide the City with funds for the payment of debt service on the Series 1997 Bonds and any obligations issued on a parity therewith. Each Reserve Equivalent must be unconditional and irrevocable, and either be in effect until the final maturity date of a series of bonds, or if it expires sooner, the City shall provide a substitute Reserve Equivalent or fund the Reserve Account with cash prior to the expiration date of the Reserve Equivalent.

3.17 "Water Fund" means the Water Fund maintained by the City into which the Gross Revenues are deposited.

3.18 "Water Facilities," "water system," or "system" means all real and personal property now or hereafter owned, operated, used, or maintained by the City for water distribution, treatment and purification within or without the corporate limits of the City.

3.19 "Subordinate obligations" means any obligations of the City payable from Net Operating Revenues which comply with the provisions of Section 16 hereof.

3.20 "Underwriter" means Seattle-Northwest Securities Corporation.

Section 4. Refunding Bond Book-Entry Form.

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

4.1.1 Ownership of the Refunding 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 Refunding 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 Refunding Bond, and such global bonds shall be lodged with DTC until early redemption or maturity of the Refunding Bond issue.

4.1.2 The Registrar shall remit payment for the maturing principal and interest on the Refunding Bonds to DTC as owner of the Refunding Bonds for distribution by the nominee to the beneficial owners by recorded entry on the books of DTC participants and correspondents. While the Refunding Bonds are in book-entry form, the Refunding 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 Refunding Bonds, or the City determines that DTC shall no longer so act; then the City will discontinue maintaining the Refunding Bonds in the book-entry form with DTC.

4.3 Notwithstanding the provisions regarding exchange and transfer of Refunding Bonds set forth in this resolution, while the Refunding 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 Refunding Bonds in book-entry form, the City shall cause the Paying Agent to authenticate and deliver replacement Refunding 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 Refunding 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 Refunding 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 Refunding Bonds in book-entry form as provided above.

4.5 With respect to Refunding 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 Refunding Bonds;

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

4.5.3 the selection by DTC of the beneficial interest in Refunding 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 Refunding Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal or interest on the Refunding Bonds.

4.6 So long as the Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding Bonds it holds to the Paying Agent for reregistration.

4.9 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. Optional Redemption.

5.1 The City reserves the right to redeem all or any portion of the Bonds as authorized in the Bond Purchase Agreement.

Section 6. Notice of Redemption of Bonds.

6.1 Notice of Redemption (DTC). So long as the Refunding Bonds are in book-entry form, the Paying Agent shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by a letter of representations submitted to DTC in connection with the issuance of the Refunding Bonds.

6.2 Notice of Redemption (No DTC). During any period in which the Refunding Bonds are not in book-entry form, unless waived by any Owner of the Refunding Bonds to be redeemed, official notice of any redemption of Refunding Bonds shall be given by the Paying Agent on behalf of the City 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 Refunding 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 Paying Agent. The City shall notify the Paying Agent 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:

6.2.1 the redemption date,

6.2.2 the redemption price,

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

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

6.2.5 the place where such Refunding Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

6.3 Prior to any redemption date, the City shall deposit with the Registrar 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.

6.4 Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the 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.

Section 7. Authentication, Registration And Transfer.

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

7.2 The ownership of all Refunding Bonds shall be entered in the bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the bond register as the owner of the Refunding Bond for all purposes.

7.3 While the Refunding Bonds are in book-entry form, the Paying Agent shall transfer Refunding Bond principal and interest payments in the manner required by DTC.

7.4 If the Refunding Bonds cease to be in book-entry form, the Paying Agent shall mail each interest payment on the interest payment date (or the next business day if the payment date is not a business day) to the name and address of the Refunding Bondowners as they appear on the bond register as of the fifteenth day of the month preceding an interest payment date (the "Record Date"). If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.

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

7.5.1 written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Refunding Bondowner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and

7.5.2 the Refunding Bonds to be exchanged or transferred.

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

7.7 The Paying Agent shall note the date of authentication on each Refunding Bond. The date of authentication shall be the date on which the Refunding Bondowner's name is listed on the bond register.

7.8 For purposes of this section, Refunding Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 5.

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

Section 8. Disposition of Bond Proceeds. Interest accrued from the date of the Bonds until the date of closing shall be placed in the Redemption Account, and shall be used to pay interest on the Series 1997 Bonds. An amount equal to the Required Reserve or Reserve Equivalents shall be placed in the Reserve Account. An amount sufficient to provide for the payment of all 1990 Bonds shall be deposited in irrevocable escrow pursuant to an escrow deposit agreement in substantially the form previously approved by the City, with such changes as the Finance Director may approve. The balance of the Series 1997 Bond proceeds shall be held for the account of the City and used to pay costs of issuing and administering the Series 1997 Bonds.

Section 9. Deposit and Use of Revenues. The City shall deposit all Gross Revenues into the Water Fund. As long as any Bonds remain issued and outstanding, moneys in the Water Fund shall be used solely to pay the following amounts in the following order:

- 9.1 To pay Operating Expenses,
- 9.2 To make payments to the Redemption Account to pay Bond principal and interest,
- 9.3 To make any payment required under a Reserve Equivalent,
- 9.4 To make payments to the Reserve Account to eliminate any deficiency in the Required Reserve, and
- 9.5 To pay for capital improvements to the Water System and for the repair, restoration and enlargements or for administrative expenses of the Water System.

Section 10. Accounts.

10.1 A debt service account was previously created by the City and is known as the Redemption Account. The City shall deposit into the Redemption Account, solely from the Water Fund and the Reserve Account, money sufficient to make payments of Bond principal and interest in accordance with Section 10 of this Resolution.

10.2 A Debt Service Reserve Account was previously created. Immediately upon the sale and delivery of the Bonds, the City shall deposit to the Reserve Account an amount equal to the Required Reserve, if any.

10.2.1 The Reserve Account and the moneys therein are irrevocably pledged to the payment of the Bonds, and such funds may be applied upon the final maturity of the principal of and interest on the Bonds. In the event the balance in the Redemption Account is insufficient to pay the maturing principal of, or sinking fund installment, or interest on the Bonds, then the City shall withdraw from the Reserve Account for transfer to the Redemption Account sufficient moneys to make such payments when due. Thereafter, the City shall transfer from the next available deposits to the Water Fund sufficient moneys to restore the balance in the Reserve Account to the required amount.

10.2.2 The City covenants with the owners of the Bonds that it will, on each Bond payment date so long as any Bonds remain outstanding, deposit from the Net Operating Revenues into the Reserve Account an amount equal to any deficiency in the Required Reserve in accordance with Section 10 of this Resolution. In the event the amount on deposit in the Reserve Account is less than the Required Reserve, the deficiency shall be eliminated solely from payments for such purpose available from the Water Fund. In the event the amount on deposit in the Reserve Account is more than the Required Reserve, any such excess will be transferred, not less frequently than every three months, to the Construction Account, or, after completion of the Project, to the Water Fund.

10.3 Moneys in the Construction Account, the Debt Service Reserve Account, and the Redemption Account may be commingled with other moneys of the City, but shall be segregated for accounting purposes.

Section 11. Pledge and Disposition of Net Operating Revenues to Redemption Account.

11.1 Pursuant to ORS 288.660, the City hereby pledges the Net Operating Revenues to the payment of principal and interest on all Bonds and the payments of any amounts due under a Reserve Equivalent.

11.2 The City hereby covenants with the owners of the Bonds that it will, so long as any Bonds remain outstanding, deposit to the Redemption Account not later than five business days prior to the date in which a debt service payment is to be made:

11.2.1 an amount not less than the amount required to pay the interest due on the Bonds on the next interest payment date,

11.2.2 and a further amount not less than the amount required for the payment of principal of, or sinking fund installment of, the Bonds to be retired on the next principal maturity date.

Section 12. Rate Covenant.

12.1 The City covenants that it will charge fees in connection with the operation of the Water Facilities which are projected to generate Net Operating Revenues at least equal to 1.25 times the fiscal year annual debt service on all outstanding Bonds. If the Net Operating Revenues fail to meet this level, the City shall promptly increase its fees to a level so that Net Operating Revenues are projected to meet the required level; and

12.2 No free use of the Water System will be permitted, except as provided in Section 13.5 hereof.

Section 13. General Covenants. The City hereby covenants and agrees with the owners of all outstanding Bonds as follows:

13.1 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.

13.2 That it will maintain complete books and records relating to the operation of the Water System, the Water Fund, the Redemption Account, Operating Account, and the Reserve Fund, 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 and made available for the inspection of Bondowners.

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

13.4 The City will promptly deposit into the Water Fund all sums required to be so deposited.

13.5 That it will operate the Water System in a sound, efficient and economic manner, and will not enter into any agreements to provide free service or services except for fire fighting, reservoir flushing, necessary municipal purposes or in case of emergency.

13.6 The covenants, representations and warranties contained in this Resolution and each supplemental and amending resolution adopted pursuant to this Resolution

and any covenants, representations and warranties in the closing documents relating to each series of Bonds issued pursuant to this Resolution and such supplemental and amending resolutions shall constitute contracts with the Bondowners of each such series of Bonds, and shall be enforceable by them.

13.7 Nothing in this Resolution, express or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the City, the Registrar and the Bondowners any rights, remedies or claims under or by reason of this Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in this Resolution contained by or on behalf of the City shall be for the sole and exclusive benefit of the City, the Registrar and the Bondowners.

Section 14. Maintenance of Tax-Exempt Status. The City covenants for the benefit of the owners of the Bonds to comply with all provisions of the Code which are required for Bond interest to be exempt from federal income taxation (except for certain taxes on corporations), unless the City obtains an opinion of nationally recognized bond counsel that such compliance is not required for the interest paid on the Bonds to be so exempt. The City makes the following specific covenants with respect to the Code:

14.1 The City will not take any action or omit any action if it would cause the Bonds to become "arbitrage bonds" under Section 148 of the Code, and shall pay any rebates to the United States which are required by Section 148(f) of the Code.

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

14.3 The City shall comply with all reporting requirements.

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 15. Parity Obligations.

15.1 The City may issue additional obligations (the "Parity Obligations") on a parity with the Bonds, which shall be secured in all respects in the same manner as the Bonds and shall be issued for the purpose of making additions, enlargements, replacements, extensions and improvements to the System. Such Parity Obligations may be issued upon compliance with the following conditions:

15.1.1 No Default has occurred or is continuing;

15.1.2 At the time of the issuance of the Parity Obligations there is no deficiency in the Redemption Account and the Reserve Account;

15.1.3 Provisions shall be made to deposit to the Debt Service Reserve Account a sum equal to the Required Reserve in connection with the Parity Obligations;

15.1.4 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 11 of this Resolution, including the proposed Parity Obligations.

15.1.5 Either: (A) the Net Operating Revenues for any 12 consecutive months during the 24 months preceding the date of issuance of the Parity Obligations were not less than 1.25 times the actual debt service of the Bonds for the immediately preceding 12 months, plus the average annual debt service for the proposed Parity Obligations as certified by a qualified engineering, auditing, or other qualified firm; or (B) the Net Operating Revenues as projected for the next ensuing three fiscal years and as certified by a qualified engineering, auditing, or other qualified firm (including any rate increases adopted by the Council) are not less than 1.25 times the actual debt service for the ensuing three fiscal years' debt service on the Bonds plus the average annual debt service on the proposed Parity Obligations.

15.1.6 In determining whether the City complies with the conditions for the issuance of Parity Obligations, the following adjustments may be made to the Net Operating Revenues in the certificate as required in the paragraph above:

15.1.6.1 Any rate change that has taken place or previously has been approved and is effective may be reflected in the Net Operating Revenues of the twelve-month term;

15.1.6.2 Any increase in the Net Operating Revenues estimated to result from any additions, betterments and improvements to and extensions of the water system which become operational during such twelve-month period, or were under construction at the time of such certificate, may be included in the determination;

15.1.6.3 Additional revenues to be realized from water system users added to the water system during or subsequent to the twelve-month term;

15.1.7 The adoption of an ordinance by the City Council containing provisions incorporating and making binding upon the registered owners of the Parity Obligations all provisions of the Ordinance which describe the rights and obligations of the registered owners of the Bonds; and

15.1.8 The Parity Obligations, when issued in accordance with this section shall be secured on a parity with and equally and ratably with the Bonds and the Parity Obligations, without preference, priority or distinction because of the date of the issue of such Bonds or the Parity Obligations.

15.2 The City may issue Parity Obligations to refund all or any portion of the Bonds without meeting the requirements of Additional Parity Obligation requirements set forth above provided that the total debt service in each year of such refunding bonds does not exceed by more than \$5,000 the amount of the debt service in the respective year of the Bonds being refunded.

Section 16. Subordinate Obligations. The City may issue Subordinate Obligations to provide funds to finance the construction of the Water Facilities improvements, the repair and improvement of the existing Water Facilities, or the refunding of outstanding Bonds, provided no default has occurred and is continuing.

16.1 All Subordinate Obligations shall have a lien on the Net Operating Revenues which is subordinate to the lien of the Series 1990 Bonds and all Parity Obligations issued in accordance with Section 15 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 1990 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 17. Default.

17.1 The following events shall constitute Default:

17.1.1 Failure to pay Bond principal or interest when due; or

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

17.1.2.1 the failure continues for a period of more than ninety (90) days after demand has been made on the City to remedy the failure; and

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

17.1.2 Imposition of a receivership upon, or liquidation of, the Water Fund; or,

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

17.2 Upon Default, any Bondowner may exercise any remedy available at law or in equity.

Section 18. Insurance. The City covenants to maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of its Water Facilities.

Section 19. Sales, Leases and Encumbrances. The City may not sell or exchange or otherwise dispose of any property constituting a part of the Water Facilities unless such property is either worn out or obsolete or, in the opinion of the City, is no longer useful in the operation of the Water Facilities. Any proceeds of such sale, exchange or other disposition not used' to replace the property so sold or exchanged shall be deposited in the Water Fund.

19.1 The City may mortgage, grant security interests in, or otherwise encumber the Water Facilities, provided that the aggregate annual payments required to be made by the Water Fund under all such mortgages, security interests, encumbrances and leases shall not in any fiscal year exceed 25 percent of the Operating Expenses for such fiscal year. The City may also lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to any part of the Water Facilities if such lease, contract, license, easement or right does not, in the opinion of the City, impede the operation of the Water Facilities.

Section 20. Amendment of Resolution.

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

20.1.1 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;

20.1.2 To cure any ambiguity or formal defect contained in this Resolution, if that cure does not, in the judgment of the Council, adversely affect the interests of the Bondowners.

20.1.3 To issue Parity Obligations in accordance with Section 15 hereof.

20.1.4 To issue Subordinate Obligations in accordance with Section 16 hereof.

20.2 This Resolution may be amended for any other purpose only upon consent of the Bondowners of not less than 67 percent in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid which:

20.2.1 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

20.2.2 Reduces the percent of Bondowners required to approve amendatory resolutions and orders.

Section 21. Designation of Bonds as Qualified Tax-Exempt Obligations. The City hereby designates the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code. The City covenants not to so designate tax-exempt obligations in the current calendar year in an aggregate amount of more than \$10,000,000. The City does not reasonably expect to issue more than \$10,000,000 of tax-exempt obligations during the current calendar year.

Section 22. Rebate Exemption. The City has general taxing powers. No portion of the Bond proceeds will be used to finance property which is used in the trade or business of nongovernments, or is loaned to nongovernments. None of the Bonds are "private activity bonds" within the meaning of Section 141 of the Code. At least ninety-five percent of the net proceeds of the Bonds will be used for public improvements which will be owned and operated by the City. The City (and all subordinate entities thereof, if any) does not reasonably expect to issue tax-exempt obligations in calendar year 1997 which have an aggregate face amount of more than \$5,000,000. Accordingly, under Section 148(f)(4)(c) of the Code, no rebates to the United States are required to be paid in connection with the Bonds.

Section 23. Series 1997 Bond Reserve Equivalent. The Finance Director may contract, on behalf of the City, for a Reserve Equivalent for the Series 1997 Bonds, and may enter into a financial guaranty or other agreement necessary or desirable to obtain the Reserve Equivalent and any Parity Obligations.

Section 24. SEC Disclosure. The Finance Director (the "Finance Director") is hereby authorized and directed on behalf of the City to execute the Continuing Disclosure Certificate (the "Certificate"). The Certificate is being executed for the benefit of the holders of the Bonds and to assist the underwriter of the bonds in complying with Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). The City shall comply with the provisions of the Certificate and the Rule and shall enforce the provisions of the Certificate on behalf of the holders of the Bonds.

Section 25. Escrow.

25.1 The net proceeds of the Refunding Bonds shall be placed in irrevocable escrow, pursuant to the Escrow Deposit Agreement. The Escrow Agent or the Finance Director are hereby authorized to subscribe for and purchase the government obligations to be placed in the escrow, on behalf of the City.

Section 26. Redemption of Refundable Bonds.

26.1 Contingent solely on the issuance of the Refunding Bonds and the deposit of the net proceeds with the escrow agent, the City hereby irrevocably calls for redemption all of the Refundable Bonds on April 15, 1998, which is the earliest date on which they are subject to redemption.

Section 27. Defeasance.

If the City:

27.1 irrevocably deposits money or noncallable Government Obligations in escrow with an independent trustee or escrow agent which are calculated to be sufficient for the payment of Refunding Bonds which are to be defeased; and,

27.2 files with the escrow agency or trustee an opinion from an independent, certified public accountant to the effect that the money and the principal and interest to be received from the Government Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Refunding Bonds when due; and,

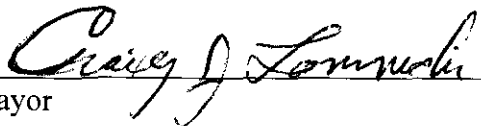
27.3 files with the escrow agent or trustee an opinion of nationally recognized bond counsel that the proposed defeasance will not cause the interest component of the Refunding Bonds to be includable in gross income under the Code;

then the City shall be obligated to pay the defeased Refunding Bonds solely from the money and Government Obligations deposited with the escrow agent or trustee, and the City shall have no further obligation to pay the defeased Refunding Bonds from any source except the amounts deposited in the escrow. For purposes of this section, "Government Obligations" means direct obligations of the United States, or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States.

ADOPTED by the unanimous vote of the Council, with a quorum in attendance,
this 4th day of February, 1997.

APPROVED by the Mayor this 4th day of February, 1997.

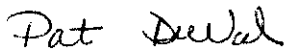
CITY OF MILWAUKIE
CLACKAMAS AND MULTNOMAH
COUNTIES, OREGON



Mayor

Executed this 4th day of February, 1997.

ATTEST:



Recorder

**EXHIBIT A
(Form of Bond)**

No. R- _____

\$ _____

United States of America
State of Oregon
City of Milwaukie
Clackamas and Multnomah Counties, Oregon
Water Revenue Refunding Bonds
Series 1997

Dated Date: «DatedDate»
Interest Rate: _____ %
Maturity Date: _____ 1, _____
CUSIP Number: _____ - _____
Registered Owner: -----Cede & Co.-----
Principal Amount: -----

Dollars-----

The City of Milwaukie, Clackamas and Multnomah Counties, 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 one of a duly authorized series of bonds aggregating «PrincipalAmount» in principal amount designated as Water Revenue Refunding Bonds, Series 1997 (the "Bonds"). The Bonds are issued for the purpose of refunding portions of the City's outstanding Water Revenue Bonds, Series 1990. The Bonds are issued under and pursuant to Resolution No. _____ (the "Resolution") of the City adopted on February 4, 1997 and 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 of the City.

This revenue bond is not a general obligation or liability of the City, and is payable solely from the Net Operating Revenues of the Water Facilities as provided in a 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 Facilities to the payment of principal and interest on this bond.

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]

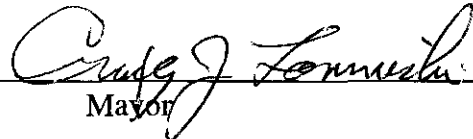
Notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Bond Resolution. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Issuer's paying agent and registrar, which is currently First Trust National Association, 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.

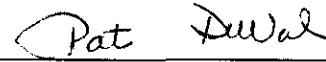
IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon and the Charter of the City; and that the issue of which this bond is a part, and all other obligations of such City, are within every debt limitation and other limit 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 Milwaukie
Clackamas and Multnomah Counties, 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 \$_____ Water Revenue Refunding Bonds, Series 1997 issued pursuant to the Resolution described herein.

First Trust 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 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.