



Gregory L. Geist
Director

July 7, 2016

Board of County Commissioners
Clackamas County

Members of the Board:

Approval of an Order Authorizing Refunding Revenue Bonds to
Reduce Debt Service Expense
for Clackamas County Service District No. 1

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| Purpose/Outcomes | Approval will allow Clackamas County Service District No. 1 (“CCSD #1”) to refund outstanding bonds to achieve annual debt service savings and to unencumber certain cash reserves currently required to be maintained as debt service reserves. |
| Dollar Amount and Fiscal Impact | Costs for professional services related to the refunding will be paid from the proceeds of the refunding. The fiscal impact will be reduced annual debt service costs for CCSD#1. The current estimate of savings is in the range of \$400,000 to \$800,000 annually. |
| Funding Source | Bond proceeds for CCSD #1. No General Funds are impacted. |
| Duration | The refunding is expected to be completed by the end of August 2016. |
| Previous Board Action/Review | Approval Amending Order No. 2008-108 to Remove Certain Conditions – 092409 2009-99 Authorizing Conditional Rate Increases to Support the Issuance of Revenue Obligations to Finance Wastewater Treatment and Conveyance Infrastructure – 092409 2009-100 |
| Strategic Plan Alignment | <ol style="list-style-type: none"> 1. Supports WES’ Budget and Financial Planning Program, specifically the result: By the end of Fiscal Year 2017/2018, WES’ priorities and policy recommendations will reflect optimum economies of scale, defined as lowest rate per user per district to achieve the 20 year Comprehensive Plan. 2. Supports the County strategic goal of building public trust through good government. |
| Contact Person | Doug Waugh 503.742.4564 dougwau@clackamas.us |
| Contract No. | N/A |

BACKGROUND:

Interest rates on all borrowings typically done by government are at or near all-time lows. Consequently, there is an opportunity to create significant annual savings on the bonds issued by CCSD #1 in 2009 and 2010. In order to realize these savings, CCSD #1 needs to refund the borrowings done in 2009 and 2010 with new borrowings. These new borrowings are authorized by the Resolution and Order and the Master Sewer Revenue Bond Declaration attached to this staff report. These new borrowings in turn will partially reduce the need for future adjustments to

the CCSD #1's monthly sewer fee due to the annual savings created. The RiverHealth Advisory Committee approved this refunding at their meeting on May 23, 2016.

This Resolution and Order and the Master Sewer Revenue Bond Declaration have been reviewed and approved by County Counsel.

RECOMMENDATION:

CCSD #1 staff recommends the Board of County Commissioners of Clackamas County, acting as the governing body of Clackamas County Service District No. 1, approve the Order Authorizing Refunding Revenue Bonds to Reduce Debt Service Expense for Clackamas County Service District No. 1.

Respectfully submitted,

Greg Geist, Director
Water Environment Services

**BEFORE THE BOARD OF COUNTY COMMISSIONERS
OF CLACKAMAS COUNTY, STATE OF OREGON**

In the matter of authorizing refunding)
revenue bonds to reduce debt service)
expense for Clackamas County Service)
District No. 1 and providing for related)
matters.

Order No.
(Page 1 of 2)

This matter coming before the Board of County Commissioners of Clackamas County, Oregon, (the "Board") acting as the governing body of Clackamas County Service District No. 1 (the "District") and it appearing to the Board that the District is authorized by Oregon Revised Statutes Sections 287A.360 to 287A.375 to issue refunding bonds to refund outstanding obligations of the District; and

It appearing that the District may obtain debt service savings by refunding some of its outstanding obligations; and

It appearing that the District's outstanding bonds were issued under District Order No. 94-1085, as amended, which specifies the District's obligations to its bond owners; and

It appearing that, with the consent of the purchasers of the refunding bonds, the District may amend that order and replace it with a Master Sewer Revenue Bond Declaration substantially in the form attached hereto as Exhibit A (the "Master Declaration") which will give the district greater flexibility;

NOW THEREFORE, IT IS HEREBY RESOLVED AND ORDERED that the District Administrator or the District Director (each of whom is referred to as a "District Official") are each hereby authorized, on behalf of the District and without further action by the Board, to:

1. Select the District's outstanding sewer revenue bonds and loans that may be refunded to obtain debt service savings (the "Refundable Obligations").
2. Negotiate, execute and deliver the Master Declaration, with any changes that a District Official determines are advantageous to the District and/or consistent with the purposes of this resolution and order.
3. Determine their final terms and issue revenue refunding bonds (the "Refunding Bonds") to refund the Refundable Obligations pursuant to the Master Sewer Revenue Bond Declaration. The Refunding Bonds may be issued in one or more series. The aggregate principal amount of the Refunding Bonds shall not exceed the amount the District Official estimates will be required to refund the Refundable Obligations, and to pay costs related to the Refunding Bonds.
4. Determine whether the interest payable on each series of Refunding Bonds will be taxable (includable in gross income under the Internal Revenue Code of 1986, as amended (the "Code")), or tax-exempt (excludable from gross income under the Code).
5. Covenant for the benefit of and as an investment inducement to the owners of tax-exempt Refunding Bonds to comply with all provisions of the Code which are required for the interest on

that series of Refunding Bonds to be excluded from gross income for federal income tax purposes.

6. Deem final and authorize the distribution of a preliminary official statement for each series of Obligations, authorize the preparation and distribution of a final official statement or other disclosure document for each series of Refunding Bonds, and enter into agreements to provide continuing disclosure for owners of each series of Refunding Bonds.
7. Undertake to provide continuing disclosure for each series of Refunding Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
8. Apply for ratings for each series of Refunding Bonds, determine whether to purchase municipal bond insurance, reserve credit facilities or obtain other forms of credit enhancement for each series of Refunding Bonds, enter into agreements with the providers of credit enhancement, and execute and deliver related documents.
9. Engage the services of escrow agents or trustees and any other professionals whose services are desirable for the refunding.
10. Solicit competitive bids for the purchase of any series of the Refunding Bonds and award their sale to the bidder offering the most favorable terms to the District.
11. Authorize submission of one or more advance refunding plans for the Refundable Obligations to the State Treasurer, call the Refundable Obligations for redemption, contribute amounts in existing debt service funds and debt service reserves to the refunding, and defease the Refundable Obligations.
12. Execute and deliver any other certificates, agreements or documents and take any other actions which the District Official determines are desirable to carry out this resolution and order.

DATED this 7th day of July, 2016.

Chair

Recording Secretary

Exhibit A

MASTER SEWER REVENUE BOND DECLARATION

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1

CLACKAMAS COUNTY, OREGON

_____, 2016

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MASTER SEWER REVENUE BOND DECLARATION

Section 1. Master Declaration

THIS MASTER SEWER REVENUE BOND DECLARATION is executed as of _____, 2016, by the Authorized Officer of Clackamas County Service District No. 1, Clackamas County, Oregon.

Section 2. Recitals

2.1. The Board of County Commissioners of Clackamas County, Oregon, acting as the governing body of the District, adopted Order No. 94 1085 on September 15, 1994, which established the terms under which the District could issue obligations secured by the Net Revenues of the Sewer System. The District's outstanding Series 2002B Bonds, Series 2009A Obligations, Series 2009B Obligations and Series 2010 Obligations were issued under Order No. 94 1085 , as amended (the "Order").

2.2. Section 12.2 of the Order allows the District to amend the Order with the consent of not less than 51% in aggregate principal amount of the Bonds that are outstanding at the time of the amendment, so long as the amendment does not: (i) extend the maturity of any Bond, reduce the rate of interest upon any Bond, extend the time of payment of interest on any Bond, reduce the amount of principal payable on any Bond, or reduce any premium payable on any Bond; or (ii) reduce the percent of Bondowners required to approve amendatory orders.

2.3. The District executes this Master Declaration to replace the Order and amend, modernize and restate its terms. The amendments to the Order that are made by this Master Declaration do not: (i) extend the maturity of any Bond, reduce the rate of interest upon any Bond, extend the time of payment of interest on any Bond, reduce the amount of principal payable on any Bond, or reduce any premium payable on any Bond; or (ii) reduce the percent of Bondowners required to approve amendatory Master Declarations.

2.4. Concurrently with the execution of this Master Declaration the District is issuing its Sewer Revenue and Refunding Bonds, Series 2016, and refunding and defeasing certain of the District's previously issued Bonds. By accepting delivery of the Series 2016 Bonds their Owners will be deemed to have consented to the amendments to the Order that are made by this Master Declaration. Because the aggregate principal amount of the Series 2016 Bonds exceeds 51% in aggregate principal amount of all the Bonds that will be outstanding when the Series 2016 Bonds are issued, and the owners of the Series 2016 Bonds have consented to the amendments to the Order that are made by this Master Declaration, the Owners of more than 51% in aggregate principal amount of all the Bonds have consented to the amendments to the Order that are made by this Master Declaration in compliance with Section 12.2 of the Order.

2.5. This Master Declaration describes the covenants of the District that apply to the District's outstanding Bonds, including the Series 2016 Bonds, and to all Bonds of the District that are issued in the future.

Section 3. Definitions

Capitalized terms used in this Master Declaration shall have the following meanings unless the context clearly requires use of a different meaning:

3.1. “Annual Debt Service” means the amount of principal and interest on Outstanding Bonds which is required to be paid in a Fiscal Year, calculated as follows:

(A) interest which is to be paid from Bond Proceeds shall be subtracted;

(B) District Payments to be made in the Fiscal Year under a Parity Derivative Product shall increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Derivative Product shall reduce Annual Debt Service;

(C) Bonds which are subject to scheduled, noncontingent redemption or tender shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption or tender, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date;

(D) Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates;

(E) Interest subsidies shall be subtracted from the interest due on Interest Subsidy Bonds as provided in Section 6.4; and,

(F) Variable Rate Obligations shall be deemed to bear interest from each respective date of computation until their scheduled maturity date at their Estimated Average Interest Rate, calculated as of the date of computation.

3.2. “Audit” means the audit, if any, required by ORS 297.425, as it may be amended from time to time.

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

3.4. “Authorized Officer” means the District Administrator or the District Director.

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

3.6. “Board” means the Board of County Commissioners of Clackamas County, acting as the governing body of the District, or its successors.

3.7. “Bond Counsel” means Hawkins Delafield & Wood LLP or another law firm having knowledge and expertise in the field of municipal law and which offers opinions on municipal bonds which are generally accepted by purchasers of municipal bonds.

3.8. “Bondowner” or **“Owner”** means a registered owner of a Bond.

3.9. “Bondowners Committee” means that committee described in Section 13.

3.10. “Bonds” means the outstanding Series 2002B Bonds, Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any Parity Obligations.

3.11. “BEO” or “Book-Entry-Only System” means a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

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

3.13. “Code” means the Internal Revenue Code of 1986, as amended, including the rules and regulations promulgated thereunder.

3.14. “Construction Account” means the Sewer Construction Account in the Sewer Enterprise Fund, which the District has created to hold proceeds of Bonds and other revenues related to capital improvements.

3.15. “Credit Facility” means a letter of credit, a municipal bond insurance policy, standby bond purchase agreement, or other credit enhancement device which is obtained by the District, which provides for payment in full of Bonds, and which is issued or provided by a Credit Provider.

3.16. “Credit Provider” means the person or entity that is: (i) obligated to make or guarantee payments under a Credit Facility; and (ii) whose long-term debt obligations or claims-paying ability (as appropriate) are rated, at the time the Credit Facility is issued, in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees, by a Rating Agency which has issued a rating on Outstanding Bonds. Under rating systems in effect on the date of this Master Declaration, a rating in one of the three highest rating categories by a Rating Agency would be a rating in the “AA” category or better.

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

3.18. “Derivative Product” means a written contract between the District and a Reciprocal Payor under which the District is obligated to pay the District Payments in exchange for the Reciprocal Payor’s obligation to pay Reciprocal Payments; and which provides that the District is not required to fulfill its obligations under the contract if:

- (A) the Reciprocal Payor fails to make any Reciprocal Payment; or
- (B) the Reciprocal Payor fails to comply with its financial status covenants.

3.19. “Direct Obligations” means direct obligations of the United States, and any obligations the payment of which is fully and unconditionally guaranteed by the United States.

3.20. “District” means the Clackamas County Service District No. 1, Clackamas County, Oregon, a municipal corporation of the State of Oregon.

3.21. “District Payment” means any scheduled payment required to be made by or on behalf of the District under a Derivative Product which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

3.22. “Estimated Average Interest Rate” is the rate at which Variable Rate Obligations are assumed to bear interest. Estimated Average Interest Rate shall be assumed to be equal to (1) if those Bonds were Outstanding during the 12 calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (2) if those Bonds were not Outstanding during the 12 calendar months immediately preceding the date of calculation, (A) with respect to Tax Exempt Bonds, an average of the SIFMA Index during the 12 calendar months immediately preceding the date of calculation, (B) with respect to Bonds that are not Tax-Exempt Bonds, an average of an index determined by the District to be comparable to SIFMA for Bonds that are not Tax Exempt Bonds during the 12 calendar months immediately preceding the date of calculation, (C) with respect to Derivative Products with an index-based rate formula, the rate produced by applying that rate formula to an average of such index during the 12 calendar months immediately preceding the date of calculation, or (D) with respect to Derivative Products that do not have an index-based rate, the rate described in (A) above if the related Bonds are Tax-Exempt Bonds or in (B) above if the related Bonds are taxable, all as specified in either, at the election of the District, a certificate of the District Official or a written statement from an investment banking or financial advisory firm.

3.23. “Event of Default” means any event specified in Section 11.2 of this Master Declaration.

3.24. “First Reserve Subaccount” means the subaccount of the Revenue Bond Reserve Account that secures the Series 2002B Bonds, Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any subsequent Series of Bonds to which the amounts in the First Reserve Subaccount are pledged and is described in Section 5.4.

3.25. “First Reserve Subaccount Reserve Requirement” means an amount equal to the Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount or the amount described in the next sentence. If at the time of issuance of a Series of Bonds secured by the First Reserve Subaccount, the amount required to be added to the First Reserve Subaccount to make the balance in the First Reserve Subaccount equal to Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount exceeds the Tax Maximum calculated with respect to such Series of Bonds, then the First Reserve Subaccount Reserve Requirement shall mean the First Reserve Subaccount Reserve Requirement in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to that Series of Bonds. On the date of Closing of the Series 2016 Bonds, the First Reserve Subaccount Reserve Requirement is \$_____, which is equal to _____, and is funded with _____.

3.26. “First Reserve Subaccount Valuation Date” means the first Business Day of each Fiscal Year, each date on which amounts are withdrawn from the First Reserve Subaccount, and each Closing date for a Series of Bonds that is secured by the First Reserve Subaccount.

3.27. “Fiscal Year” means the fiscal year of the District as established by Oregon Law. At the time this Master Declaration is adopted, the fiscal year of the District begins on July 1 of each calendar year and ends on the next succeeding June 30.

3.28. “Fitch” means Fitch Ratings, its successors and assigns.

3.29. “Gross Revenues” means all revenues, fees and charges and other revenues resulting from the operation of the Sewer System, including systems development charges, revenues from product sales and interest earnings on Gross Revenues in the Sewer Enterprise Fund. However, the term “Gross Revenues” does not include:

(A) the interest income or other earnings derived from the investment of the Rebate Fund or any escrow fund established for the defeasance or refunding of outstanding indebtedness of the District; (B) any gifts, grants, donations or other moneys received by the District from any State or Federal District or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Bonds;

(C) the proceeds of any borrowing;

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

(E) the proceeds of any casualty insurance which the District intends to utilize for repair or replacement of the Sewer System;

(F) the proceeds derived from the sales of assets pursuant to Section 10.7 of this Master Declaration;

(G) any ad valorem or other taxes imposed by the District (except charges or payments for Sewer System services which become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property);

(H) any income, fees, charges, receipts, profits or other moneys derived by the District from its ownership or operation of any Separate Utility System; and

(I) Any federal interest subsidies the District receives for Interest Subsidy Bonds.

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

3.31. “Interest Subsidy Bonds” means Bonds for which the District is eligible to receive federal interest rate subsidies that are similar to the interest subsidies that were available for Build America Bonds.

3.32. “Master Declaration” means this Master Sewer Revenue Bond Declaration.

3.33. “Maximum Annual Debt Service” means the greatest Annual Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

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

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

3.36. “Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Sewer System under generally accepted accounting principles or rules of accounting applicable to municipal enterprises similar to the Sewer System. However, Operating Expenses do not include:

(A) any rebates or penalties paid from Gross Revenues under Section 148 of the Code;

(B) payments of judgments against the District and payments for the settlement of litigation;

(C) depreciation and amortization of property values or losses, other non-cash expenses and all amounts treated for accounting purposes as payments for capital expenditures;
(D) debt service payments;
(E) the expenses of owning, operating or maintaining any Separate Utility System;
(F) extraordinary non-recurring expenses of the Sewer System; or
(G) franchise fees and similar charges imposed by the District or Clackamas County on the Sewer System or its operations.

3.37. “ORS” means the Oregon Revised Statutes.

3.38. “Outstanding” refers to all Bonds authorized and delivered pursuant to this Master Declaration and any Supplemental Declaration except Bonds theretofore canceled or defeased pursuant to Section 14 of this Master Declaration, and Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Bonds have been transferred to the Paying Agent).

3.39. “Parity Derivative Product” means a Derivative Product which qualifies as a Parity Obligation in accordance with Section 7.5.

3.40. “Parity Obligation” means any obligation payable from the Net Revenues which is issued in accordance with Section 7, and includes any Parity Derivative Product.

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

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

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

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

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

3.46. “Rate Stabilization Account” means the Rate Stabilization Account of the Sewer Enterprise Fund established which is described in Section 4.5.

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

3.48. “Reciprocal Payment” means scheduled payment to be made to, or for the benefit of the District under a Derivative Product by or on behalf of the Reciprocal Payor, which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

3.49. “Reciprocal Payor” means a party to a Derivative Product (other than the District) that is obligated to make one or more Reciprocal Payments thereunder, and which has at least an investment grade rating from a Rating Agency for its obligations under the Derivative Product.

3.50. “Record Date” for the Series 2002B Bonds, the Series 2009A Obligations, the Series 2009B Obligations, the Series 2010 Obligations, and the Series 2016 Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

3.51. “Registrar” or “Paying Agent” means the paying agent and registrar designated by the District.

3.52. “Reserve Credit Facility” means any arrangement in which the District pays a fee in exchange for an agreement of a Credit Provider to advance money to the District in the future that the District will use to satisfy a reserve requirement for a subaccount in the Revenue Bond Reserve Account. “Reserve Credit Facility” does not include guaranteed investment contracts, master repurchase agreements and similar Permitted Investments.

3.53. “Reserve Credit Facility Rating” means a long-term debt, financial strength or claims paying ability rating assigned by a Rating Agency to a Reserve Credit Provider.

3.54. “Reserve Credit Provider” means a person or entity that is obligated to make payments under a Reserve Credit Facility, and any person or entity that has assumed, guaranteed, reinsured or otherwise become obligated to perform a Reserve Credit Provider’s obligations to the District under a Reserve Credit Facility.

3.55. “Revenue Bond Account” means the Revenue Bond Account described in Section 5.2 of this Master Declaration.

3.56. “Revenue Bond Reserve Account” means the Revenue Bond Reserve Account in the Sewer Enterprise Fund described in Section 5.3 of this Master Declaration.

3.57. “S&P” means S&P Global Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

3.58. “Separate Utility System” means any utility property which is declared by the Board to constitute a system which is distinct from the Sewer System in accordance with Section 9.

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

3.60. “Series 2002B Bonds” means the District’s Sewer System Refunding Revenue Bonds, Series 2002B, issued pursuant to this Master Declaration.

3.61. “Series 2009A Obligations” means the District’s Sewer System Revenue Obligations, Series 2009A, issued pursuant to this Master Declaration.

3.62. “Series 2009B Obligations” means the District’s Sewer System Revenue Obligations, Series 2009B, issued pursuant to this Master Declaration.

3.63. “Series 2010 Obligations” means the District’s Sewer System Revenue Obligations, Series 2010, issued pursuant to this Master Declaration.

3.64. “Series 2016 Bonds” means the District’s [Sewer System Revenue Bonds, Series 2016], issued pursuant to this Master Declaration.

3.65. “Sewer Enterprise Fund” means the collection of funds and accounts used by the District to account for the Gross Revenues and the proceeds of Bonds.

3.66. “Sewer System” means all real and personal property now or hereafter owned, operated, used, or maintained by the District for sanitary sewage disposal or sanitary sewage purification within or without the corporate limits of the District, including but not limited to, intercepting sewers, diversion sewers, relieving or interconnection sewers, lift stations, and plants for treatment, processing, and disposal of sanitary sewage. In addition, “Sewer System” includes all real and personal property now or hereafter owned, operated, used, or maintained by the District to provide surface water management, stormwater drainage or similar services to the North Clackamas Surface Water Management Area, as it now exists or may hereafter be expanded. However, the Sewer System does not include any Separate Utility System.

3.67. “Stabilized Net Revenues” means the Net Revenues for a period less deposits to the Rate Stabilization Account for the period, and plus withdrawals from the Rate Stabilization Account for the period.

3.68. “State” means the State of Oregon.

3.69. “Subordinate Obligations” means obligations having a lien on the Net Revenues that is subordinate and inferior to the lien of the Bonds. Restrictions on Subordinate Obligations are described in Section 8.

3.70. “Subordinate Obligations Account” means the Subordinate Obligations Account of the Sewer Enterprise Fund which is described in Section 5.5.

3.71. “Supplemental Declaration” means any declaration which supplements or amends this Master Declaration, entered into by the District in compliance with Section 13.

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

3.73. “Valuation Date” means July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day), and the Business Day following any transfer from the Revenue Bond Reserve Account to the Revenue Bond Account pursuant to Section 5.4.1 or any similar subsection related to a subsequent subaccount in the Revenue Bond Reserve Account.

3.74. “Variable Rate Obligations” means any Bonds issued with a variable adjustable, convertible, or other similar interest rate which changes during the term of the Bonds, and any District Payments or Reciprocal Payments under a Parity Derivative Product for which the interest portion of the payment is based on a rate that changes during the term of the Derivative Product.

Section 4. Deposit, Pledge and Use of Gross Revenues

4.1. Deposit of Gross Revenues. All Gross Revenues shall be deposited when received in accounts and invested in securities which are not subject to the prior lien or claim of any person. All Gross Revenues shall be credited to the Sewer Enterprise Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. Gross Revenues in the Sewer Enterprise Fund shall be used on or before the following dates for the following purposes in the following order of priority:

4.1.1. At any time to pay Operating Expenses which are then due.

4.1.2. Three Business Days prior to each Payment Date, the District shall credit Net Revenues to the Revenue Bond Account in an amount sufficient (with amounts available in the Revenue Bond Account) to pay in full all Bond principal, interest and premium, if any, which is due to be paid on that Payment Date.

4.1.3. On the first day of each month following a Valuation Date on which the balance in a subaccount of the Revenue Bond Reserve Account is determined to be less than its Reserve Requirement, the District shall credit to that subaccount the amount that is required to replenish that subaccount pursuant to Section 5.3.1.4. Section 5.4.7 sets the replenishment requirements for the First Reserve Subaccount.

4.1.4. On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the District shall pay the amounts due from the Net Revenues.

4.1.5. On the dates specified in any proceedings authorizing Subordinate Obligations the District shall credit to the Subordinate Obligations Account the Net Revenues required by those proceedings.

4.1.6. On any date, the District may credit Net Revenues to the Rate Stabilization Account, apply Net Revenues to any franchise fees and similar charges imposed by the District or Clackamas County on the Sewer System or its operations, or spend Net Revenues for any other lawful purpose, but only if all credits and payments having a higher priority under this Section have been made.

4.2. Pledge of Net Revenues. The District hereby pledges the Net Revenues and any federal interest subsidies the District receives for Interest Subsidy Bonds to payment of principal of, premium (if any) and interest on all Bonds, and as security for such Bonds. In addition, the District hereby pledges the Net Revenues available for transfer to the Revenue Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 287A.310, these pledges of the Net Revenues hereby made by the District shall be valid and binding from the time of the adoption of this Master Declaration. The Net Revenues so pledged and hereafter received by the District shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the pledge shall be superior to all other claims and liens whatsoever.

Section 5. Bond Funds and Accounts

5.1. Required Accounts. So long as Bonds are Outstanding, the District shall maintain the Revenue Bond Account, the Revenue Bond Reserve Account, and the Subordinate Obligations Account as discrete accounts in the Sewer Enterprise Fund.

5.2. Revenue Bond Account. The Revenue Bond Account shall be held and maintained by the District, and amounts credited to the Revenue Bond Account shall be deposited in accounts and invested in securities which are not subject to the prior lien or claim of any person. Until all Bonds are paid or defeased; amounts in the Revenue Bond Account shall be used only to pay Bonds. The District shall transfer sufficient amounts from the Revenue Bond Account to the Registrar in time to permit the Registrar to pay all Bond principal, interest and, premium (if any) when due in accordance with the Bonds. Amounts in the Revenue Bond Account shall be invested only in Permitted Investments. Earnings on the Revenue Bond Account shall be credited to the Revenue Bond Account.

5.3. Revenue Bond Reserve Account.

5.3.1. The Revenue Bond Reserve Account shall be held by the District and the District may create subaccounts in the Revenue Bond Reserve Account to secure Bonds. When each subaccount is created, the District shall determine whether the subaccount will secure one or more Series of Bonds. If the District creates a subaccount in the Revenue Bond Reserve Account, the District shall, when it issues the first Series of Bonds that is secured by that subaccount:

5.3.1.1. establish the Reserve Requirement for that subaccount and pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount;

5.3.1.2. determine if the Reserve Requirement for that subaccount may be funded with a Reserve Credit Facility and the requirements for such Reserve Credit Facility;

5.3.1.3. Establish the valuation requirements for that subaccount; and,

5.3.1.4. Establish the replenishment requirements for that subaccount.

5.3.2. The District shall not create any subaccounts in the Revenue Bond Reserve Account for any purpose except securing Bonds in accordance with this Master Declaration.

5.4. The First Reserve Subaccount and the First Reserve Subaccount Reserve Requirement.

5.4.1. The First Reserve Subaccount is hereby created in the Revenue Bond Reserve Account. The First Reserve Subaccount shall secure only the Series 2002B Bonds, Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any subsequent Series of Bonds to which the amounts in the First Reserve Subaccount are pledged. Except as specifically provided in this Section 5.4, amounts credited to the First Reserve Subaccount shall be used only to pay principal, interest and premium, if any, on any Series of Bonds that are secured by the First Reserve Subaccount, and only if amounts in the Revenue Bond Account are not sufficient to make those payments.

5.4.2. The District hereby irrevocably pledges the amounts that are credited to the First Reserve Subaccount to pay the Series 2002B Bonds, Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the Series 2016 Bonds. The amounts so pledged and hereafter received by the District shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 287A.310.

5.4.3. At Closing of the Series 2016 Bonds the District shall deposit into the First Reserve Subaccount an amount equal to the First Reserve Subaccount Reserve Requirement. The deposit may be made from Net Revenues, from Series 2016 Bond proceeds, from other amounts available to the District, or by crediting a Reserve Credit Facility to the First Reserve Subaccount. If the District elects to secure a Series of Parity Obligations with the First Reserve Subaccount, when the District issues that Series the District shall deposit an amount in the First Reserve Subaccount that is sufficient to make the balance in the First Reserve Subaccount at least equal to the First Reserve Subaccount Reserve Requirement, calculated with the Series of Parity Obligations treated as Outstanding.

5.4.4. At Closing of the 2016 Bonds, the First Reserve Subaccount Reserve Requirement is equal to \$_____ and is funded by _____.

5.4.5. The District covenants to maintain a balance in the First Reserve Subaccount which is equal to the First Reserve Subaccount Reserve Requirement, but solely from deposits of Net Revenues pursuant to Section 4.1.3, from the Closing deposit pursuant to Section 18.5.1.1. , and similar Closing deposits for any subsequent Series of Bonds secured by the First Reserve Subaccount. However, the District reserves the right to make deposits to the First Reserve Subaccount from other sources.

5.4.6. The District shall value the First Reserve Subaccount on each First Reserve Subaccount Valuation Date. The value of the First Reserve Subaccount shall be equal to the

sum of the values of the Permitted Investments credited to the First Reserve Subaccount, calculated as provided in Section 5.4.12, plus the value of any Reserve Credit Facilities for the First Reserve Subaccount, calculated as provided in Section 5.4.10.

5.4.7. If the balance in the First Reserve Subaccount on a First Reserve Subaccount Valuation Date is less than the First Reserve Subaccount Reserve Requirement, the District shall begin making transfers of Net Revenues to the First Reserve Subaccount in accordance with Section 4.1.3.

5.4.7.1. If the deficiency results from a transfer from the First Reserve Subaccount or from the loss of value of Permitted Investments credited to the First Reserve Subaccount, each transfer required under Section 4.1.3 for the First Reserve Subaccount shall: 1) be equal to at least 1/12 of the deficiency discovered on the first First Reserve Subaccount Valuation Date on which the balance in the First Reserve Subaccount is less than the First Reserve Subaccount Requirement and 2) continue until the balance in the First Reserve Subaccount is equal to the First Reserve Subaccount Reserve Requirement.

5.4.7.2. If the deficiency results from a loss or withdrawal a Reserve Credit Facility Rating, each transfer required under Section 4.1.3 for the First Reserve Subaccount shall: 1) be equal to at least 1/60 of the deficiency discovered on the first First Reserve Subaccount Valuation Date on which the balance in the First Reserve Subaccount is less than the First Reserve Subaccount Requirement and 2) continue until the balance in the First Reserve Subaccount is equal to the First Reserve Subaccount Reserve Requirement.

5.4.8. If the balance in the First Reserve Subaccount on a First Reserve Subaccount Valuation Date is greater than the First Reserve Subaccount Reserve Requirement the District may transfer the excess to the Revenue Bond Account or the Subordinate Obligations Account. In addition the District may use the excess for any other purpose if the District obtains an opinion of Bond Counsel stating that the use of the excess for that purpose will not cause interest on any Bonds to become includable in gross income under the Code.

5.4.9. Earnings on the First Reserve Subaccount shall be credited to that subaccount whenever the balance in that subaccount is less than the First Reserve Subaccount Reserve Requirement. Otherwise, earnings shall be credited to the Revenue Bond Account.

5.4.10. Reserve Credit Facilities credited to the First Reserve Subaccount shall be valued on each First Reserve Subaccount Valuation Date in the following manner:

5.4.10.1. A Reserve Credit Facility shall be valued at the amount available to be drawn on it when a Rating Agency has a Reserve Credit Facility Rating in effect for the Reserve Credit Provider that is in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees. Under rating systems in effect on the date of this Master Declaration, a long-term debt rating in one of the two highest rating categories by a Rating Agency would be a rating in the "AA" or "Aa" category or better.

5.4.10.2. A Reserve Credit Facility shall have no value when Rating Agency does not have a Reserve Credit Facility Rating in effect for the Reserve Credit Provider that is in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees.

5.4.11. Moneys in the First Reserve Subaccount may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds that are secured by the First Reserve Subaccount, and to acquire Reserve Credit Facilities.

5.4.12. Permitted Investments in the First Reserve Subaccount shall be valued on each First Reserve Subaccount Valuation Date in the following manner:

5.4.12.1. Demand deposits, deposits in the Oregon Short Term Fund and other investments which mature in two years or less after the First Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest;

5.4.12.2. Investments which mature more than two years after the First Reserve Subaccount Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) shall be valued at the average of their most recently published bid and asked prices;

5.4.12.3. Investments which mature more than two years after the First Reserve Subaccount Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the District in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

5.4.12.4. Certificates of deposit and bankers acceptances which mature more than two years after the First Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest; and

5.4.12.5. Any investment which is not specified above and which matures more than two years after the First Reserve Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the District.

5.4.12.6. Any investment which is not specified above and which matures more than two years after the First Reserve Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the District.

5.4.13. Withdrawals from the First Reserve Subaccount shall be made in the following order of priority:

5.4.13.1. **First**, from any cash on deposit in the First Reserve Subaccount; and

5.4.13.2. **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such First Reserve Subaccount; and,

5.4.13.3. **Third**, from amounts drawn on Reserve Credit Facilities in the First Reserve Subaccount.

5.4.14. All amounts on deposit in the First Reserve Subaccount (other than amounts attributable to Reserve Credit Facilities) may be applied to the final payment (whether at maturity or by prior redemption) of the last remaining Series of Bonds secured by the First Reserve Subaccount. Amounts so applied shall be credited against the amounts the District is required to transfer into the Revenue Bond Account under Section 4.1.2.

5.4.15. Amounts in the First Reserve Subaccount (other than amounts attributable to Reserve Credit Facilities) may be transferred into escrow to defease Bonds secured by the First Reserve Subaccount, but only if the balance remaining in the First Reserve Subaccount after the transfer is at least equal to the First Reserve Subaccount Reserve Requirement calculated based on the Bonds that are secured by the First Reserve Subaccount which remain Outstanding after the defeasance.

5.5. Subordinate Obligations Account. The District has previously executed State Revolving Fund Loan Agreements in an approximate amount of _____, which constitute Subordinate Obligations. So long as any Subordinate Obligations are outstanding, the District shall maintain the Subordinate Obligations Account. The Subordinate Obligations Account may be divided into subaccounts, and the District may establish priorities for funding the subaccounts in the Subordinate Obligations Account. Net Revenues shall be credited to the Subordinate Obligations Account only as permitted by Section 4.1.5. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.

5.6. Rate Stabilization Account. The Rate Stabilization Account is hereby created within the Sewer Enterprise Fund The Rate Stabilization Account shall be held and maintained by the District, and amounts credited to the Rate Stabilization Account shall be deposited in accounts and invested in securities which are not subject to the prior lien or claim of any person. Net Revenues may be credited to the Rate Stabilization Account at the option of the District as permitted by Section 4.1.6. Money credited to the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Amounts withdrawn from the Rate Stabilization Account increase Stabilized Net Revenues for the Fiscal Year in which they are withdrawn, and amounts credited to the Rate Stabilization Account reduce Stabilized Net Revenues for the Fiscal year in which they are credited. Credits to and withdrawals from the Rate Stabilization Account that occur within ninety days after the end of a Fiscal Year may be treated as occurring in the most recently ended Fiscal Year. Earnings on the Rate Stabilization Account shall be credited to the Sewer Enterprise Fund.

Section 6. Rate Covenant

6.1. General Covenant. The District covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the ownership and operation of the Sewer System which are sufficient to permit the District to pay all Operating Expenses and all lawful charges against the Net Revenues, to remain in compliance with its duties under this Master Declaration and any Supplemental Declaration, and to make all transfers required by this

Master Declaration to the Revenue Bond Account, the Revenue Bond Reserve Account, and the Subordinate Obligations Account.

6.2. Net Revenue Covenant. The District covenants for the benefit of the Owners of all Bonds that it shall impose fees, rates and charges in connection with the ownership and operation of the Sewer System which, when combined with other Gross Revenues, are adequate:

6.2.1. To produce Net Revenues in each fiscal Year at least equal to one hundred ten percent (110.00%) of Annual Debt Service due in that Fiscal Year; and

6.2.2. To produce Stabilized Net Revenues each Fiscal Year at least equal to one hundred twenty percent (120.00%) of Annual Debt Service due in that Fiscal Year.

6.3. Compliance Report. Not later than ninety days after the end of each Fiscal Year the District shall file a certified report with the authorized Officer which demonstrates whether the District has complied with Section 6.2.1 and Section 6.2.2 during that Fiscal Year. If the report demonstrates that the District has not complied with Section 6.2.1 or Section 6.2.2 during that Fiscal Year, it shall not constitute an Event of Default if:

6.3.1. within one hundred twenty days after the end of the Fiscal Year, the District engages the services of a Qualified Consultant; and,

6.3.2. within one hundred eighty days after the end of the Fiscal Year, the Qualified Consultant recommends a schedule of fees, rates and charges or other actions which the Qualified Consultant reasonably projects will permit the District to comply with Section 6.2.1 and Section 6.2.2 for the remainder of the current Fiscal Year the next Fiscal Year; and,

6.3.3. within two hundred seventy days after the end of the Fiscal Year the District implements the recommendations of the Qualified Consultant.

6.4. Interest Subsidy Bonds. The amounts assumed to be paid on Interest Subsidy Bonds shall be calculated as follows:

6.4.1. When calculating Annual Debt Service for the rate covenant in Section 6.2, the District shall subtract from interest to be paid on Interest Subsidy Bonds the federal interest subsidies on Interest Subsidy Bonds that the District reasonably expects, at the beginning of the Fiscal Year, to receive during that Fiscal Year.

6.4.2. When calculating Annual Debt Service and Maximum Annual Debt Service for the tests for issuing Parity Obligations in Section 7, the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds the amount of federal interest subsidies that the District reasonably expects, at the time the Parity Obligations are issued, to receive.

6.4.3. When calculating the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on a Series of Interest Subsidy Bonds to determine the Tax Maximum for Interest Subsidy Bonds that are secured by the First Reserve Subaccount, the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds

the federal interest subsidies that the District reasonably expects, at the time the Series of Interest Subsidy Bonds is issued, to be paid to the District for the Series of Interest Subsidy Bonds. The District shall not be required to increase the amount the District is required to hold in a subaccount in the Revenue Bond Reserve Account if federal interest subsidies are not paid when or in the amounts expected. However, if the District reduces the amount it holds in a subaccount of the Revenue Bond Reserve Account because Bonds secured by that subaccount have been paid, the District must take into account its reasonable expectations at the time of reduction in determining the amount that the District must retain in the First Reserve Subaccount.

Section 7. Parity Obligations

7.1. Conditions for Issuance. The District may issue Parity Obligations to provide funds for any purpose relating to the Sewer System, but only if:

7.1.1. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing.

7.1.2. At the time of the issuance of the Parity Obligations there is no deficiency in the Revenue Bond Account and the District has made all credits to the replenish subaccounts in the Revenue Bond Reserve Account that are required to have been by that time made pursuant to Section 4.1.3.

7.1.3. The covenant to impose fees, rates and charges in Section 6.2 of this Master Declaration shall apply to the proposed Parity Obligations, and any Supplemental Declaration authorizing the issuance those Parity Obligations shall contain a recital of that covenant.

7.1.4. There shall have been filed with the District either:

7.1.4.1. a certificate of an Authorized Officer stating that Net Revenues (adjusted as provided in the second sentence of this Section 7.2) for the Base Period were not less than one hundred twenty percent (120.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,

7.1.4.2. a certificate or opinion of a Qualified Consultant stating:

7.1.4.2.1. the amount of the Adjusted Net Revenues computed as provided in Section 7.3 below; and,

7.1.4.2.2. that the amount shown in Section 7.1.4.2.1 is not less than the sum of one hundred twenty percent (120.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the Proposed Parity Obligations treated as Outstanding.

7.2. Adjustment of Historical Revenues. Net Revenues may be adjusted for purposes of Section 7.1.4.1 by adding any Net Revenues the Authorized Officer calculates the District would have had during the Base Period because of increases in Sewer System rates, fees and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made

for these increases unless they have been approved by the Board prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations.

7.3. Adjustment of Projected Revenues. Adjusted Net Revenues for purposes of Section 7.1.4.2 shall be computed by adjusting the Net Revenues for the Base Period as provided in this Section 7.3:

7.3.1. The District shall provide the Qualified Consultant with the following information:

7.3.1.1. The Base Period and the Net Revenues for the Base Period;

7.3.1.2. Information regarding any Sewer System utility properties that are being acquired with Parity Obligations and have an earnings record;

7.3.1.3. Any changes in rates and charges which have been adopted by the District since the beginning of the Base Period and the dates on which they are scheduled to take effect;

7.3.1.4. Any changes in customers since the beginning of the Base Period; and,

7.3.1.5. A description of any extensions or additions to the Sewer System that were in the process of construction at the beginning of the Base Period or commenced construction after the beginning of the Base Period, the expected date of completion of those extensions or additions, the estimated operating and capital costs of those extensions or additions, and any other changes to the Gross Revenues or Operating Expenses that the District reasonably expects to result from the completion and operation of those extensions or additions.

7.3.2. Using the information provided by the District pursuant to Section 7.3.1 and any additional information the Qualified Consultant determines is necessary, the Qualified Consultant may adjust the Net Revenues for the Base Period:

7.3.2.1. To reflect any changes that the Qualified Consultant projects will result from the acquisition of Sewer System utility properties that are being financed with the Parity Bonds and that have an earnings record;

7.3.2.2. To reflect any changes in rates and charges which have been adopted by the District and which have taken effect or are scheduled to take effect during the twelve months after the date of the Qualified Consultant's certificate, or which increase rates and charges for inflation at a level which the Qualified Consultant determines is reasonable;

7.3.2.3. To reflect any changes in customers of the Water System that occurred after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate; and

7.3.2.4. To reflect any changes to Gross Revenues or Operating Expenses not included in the preceding paragraphs that are projected to result from the completion and operation of additions and extensions to the Sewer System that were under construction at the

beginning of the Base Period, or commenced construction after the beginning of the Base Period.

7.4. Refunding Exception. The District may issue Parity Obligations to refund Outstanding Bonds without complying with Sections 7.1.1, 7.1.2, 7.1.3 and 7.1.4 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

7.5. Derivative Products as Parity Obligations. A Derivative Product may be a Parity Derivative Product and a Parity Obligation if the obligation to make District Payments under the Derivative Product qualifies as a Parity Obligation under Section 7.1, after the Reciprocal Payments under the Derivative Product are applied to reduce Annual Debt Service. Any Parity Derivative Product shall clearly state that it is a Parity Derivative Product and has qualified as a Parity Obligation under Section 7 of this Master Declaration. The District shall credit any Reciprocal Payments from a Parity Derivative Product directly to the Revenue Bond Account.

7.6. Lien of Parity Obligations. Each Series of Parity Obligations issued in accordance with this Master Declaration shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Bonds.

Section 8. Subordinate Obligations

The District has previously entered into State Revolving Fund loan agreements; any portion of those loan agreements that remain outstanding after the 2016 Bonds are issued will be subordinated to the Bonds and shall constitute Subordinate Obligations. The District may issue Subordinate Obligations in the future only if:

8.1. Payment Limited. The Subordinate Obligations are payable solely from amounts permitted to be credited to the Subordinate Obligations Account pursuant to Section 4.1.6; and,

8.2. Statement of Limitation. The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate and inferior to the lien on, and pledge of, the Net Revenues for the Bonds.

Section 9. Separate Utility System

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

Section 10. General Covenants

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

10.1. Payment of Bonds. That it will promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.

10.2. Books and Records; Accounting for Revenues. That it will maintain complete books and records relating to the operation of the Sewer System and all District funds and accounts in accordance with generally accepted accounting principles applicable to municipal enterprises such as the District, 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. Gross Revenues, Operating Expenses, Net Revenues and all similar terms shall be measured and accounted for in accordance with generally accepted accounting principles applicable to municipal enterprises such as the District, and not on a cash basis.

10.3. No Superior Obligations. That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues.

10.4. Prompt Deposit and Credit. That it will promptly deposit and credit to all funds and accounts all sums required to be so deposited and credited.

10.5. Operation of System. That it will operate the Sewer System in a sound, efficient and economic manner, that it will not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except for fire suppression and in case of emergencies.

10.6. Insurance. That it will at all times maintain with responsible insurers all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

10.6.1. The net proceeds of insurance against accident to or destruction of the Sewer System shall be used first to repair or rebuild the damaged or destroyed Sewer System, and to the extent excess insurance proceeds remain, shall be applied to the payment or redemption of the Bonds on a pro rata basis.

10.6.2. Insurance described in Section 10.6 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the District, or in the form of self-insurance by the District. The District shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance.

10.7. Alienation of System Property. The District will not, nor will it permit others to, sell, mortgage, lease, transfer, assign, convey or otherwise dispose of or encumber all or any portion of the Sewer System except:

10.7.1. The District may dispose of all or substantially all of the Sewer System, only if the District pays all Bonds or defeases them pursuant to Section 14.

10.7.2. Except as provided in Section 10.7.3, the District will not dispose of any part of the Sewer System in excess of 5% of the aggregate market value of the Sewer System then in service unless prior to such disposition either:

10.7.2.1. there has been filed with the District a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the District to comply with the rate covenants contained in Section 6.1 of this Master Declaration; or

10.7.2.2. provision is made for the payment, redemption or defeasance of a principal amount of Bonds equal to the greater of the following amounts:

10.7.2.2.1. An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Revenue Bond Debt Service Fund and the Revenue Bond Reserve Account allocable to such Bonds) that the Gross Revenues attributable to the part of the Sewer System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or

10.7.2.2.2. An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Sewer System sold or disposed of bears to the aggregate book value of the Sewer System immediately prior to such sale or disposition.

10.7.3. The District may dispose of any portion of the Sewer System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Sewer System.

10.7.4. If the ownership of all or part of the Sewer System is transferred from the District through the operation of law, the District shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the Board reasonably determines that such reconstruction or replacement is not in the best interest of the District and the Bondowners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Bonds.

Section 11. Events of Default and Remedies

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

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

11.2.1. If the District shall fail to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender in the case of Variable Rate Obligations, by proceedings for mandatory or optional redemption or otherwise;

11.2.2. Except as provided in Sections 6.3 and 11.3, if the District shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Declaration, if such default continues for ninety (90) days after the District receives a written notice, specifying the Event of Default and demanding the cure of such default, from the Bondowners Committee or from the Owners of not less than twenty percent (20%) in aggregate principal amount of the Bonds Outstanding;

11.2.3. If the District shall sell, mortgage, lease, transfer, assign, convey or otherwise dispose of or encumber any properties constituting the Sewer System in violation of Section 10.7;

11.2.4. If an order, judgment or decree shall be entered by any court of competent jurisdiction:

11.2.4.1. appointing a receiver, trustee or liquidator for the District or the whole or any part of the Sewer System;

11.2.4.2. approving a petition seeking a declaration of bankruptcy, or the arrangement or reorganization of the District under any applicable law of the United States or the State; or

11.2.4.3. assuming custody or control of the District or of the whole or any part of the Sewer System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or

11.2.5. If the District shall:

11.2.5.1. admit in writing its inability to pay its debts generally as they become due;

11.2.5.2. file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;

11.2.5.3. make an assignment for the benefit of its creditors;

11.2.5.4. consent to the appointment of a receiver of the whole or any part of the Sewer System; or

11.2.5.5. consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the District or of the whole or any part of the Sewer System.

11.3. Exception. It shall not constitute an Event of Default under Section 11.2.2 if the default cannot practicably be remedied within ninety days after the District receives notice of the default, so long as the District promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is fully and actually remedied.

11.4. Remedies. If an Event of Default occurs, any Bondowner may exercise any remedy available at law or in equity. However, the Bonds shall not be subject to acceleration.

11.5. Appointment of Trustee. During the continuance of an Event of Default described in Section 11.2, the owners of twenty percent (20%) in aggregate principal amount of the Bonds then outstanding may call a Bondowners meeting for the purpose of electing a Bondowners Committee.

11.5.1. Such meeting shall be called and the proceedings thereof shall be conducted in the manner provided in Section 12 hereof.

11.5.2. At such meeting the Bondowners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Bondowners, to the Bondowners Committee which shall act as trustee for all Bondowners, and the Bondowners Committee as such trustee may have and exercise all the rights and powers provided for in this Master Declaration to be exercised by the Bondowners Committee. The Bondowners present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondowners Committee at such Bondowners meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondowners Committee of the powers conferred upon it herein, and may provide for the termination of the existence of the Bondowners Committee. The members of the Bondowners Committee elected by the Bondowners in the manner herein provided, and their successors, as a committee are hereby declared to be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as trustee, all the rights and powers hereinafter conferred on the Bondowners Committee.

11.6. Books of District Open to Inspection.

11.6.1. The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Sewer System shall at all reasonable times be subject to the inspection and use of the Bondowners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.

11.6.2. The District covenants that if the Event of Default shall happen and shall not have been remedied, the District will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under the Master Declaration.

11.7. Payment of Funds to Bondowners Committee. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District upon demand of the

Bondowners Committee, shall, if it is then lawful to do so, pay over to the Bondowners Committee:

11.7.1. forthwith, all moneys, securities and funds then held by the District and pledged under the Master Declaration, and

11.7.2. as promptly as practicable after receipt thereof, all Gross Revenues.

11.8. Possession by Bondowners Committee of Properties of Sewer System; Receivership.

At any time after the occurrence of an Event of Default and prior to the curing of such Event of Default the Bondowners Committee, as a matter of right against the District, shall, to the extent permitted by law, be entitled to take possession and control of the business and properties of the Sewer System. Upon taking such possession, the Bondowners Committee shall operate and maintain the Sewer System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for the Sewer System, collect the Gross Revenues, and perform all of the agreements and covenants contained in all contracts which the District is at the time obligated to perform. At any such time and if permitted by law the Bondowners Committee shall be entitled to the appointment of a receiver of the business and property of the Sewer System, of the moneys, securities and funds of the District pledged under the Master Declaration, and of the Gross Revenues, and of the income therefrom, with all such powers as the court or courts making such appointment shall confer, including the power to perform and enforce all contracts, to the same extent that the District shall then be entitled and obligated to do. Notwithstanding the appointment of any receiver, the Bondowners Committee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Gross Revenues deposited, credited or pledged with or to it under the Master Declaration or agreed or provided to be delivered to or deposited, credited or pledged with or to it under the Master Declaration.

11.9. Application of Funds by Bondowners Committee.

11.9.1. During the continuance of an Event of Default, the Gross Revenues received by the Bondowners Committee, whether pursuant to the provisions of the preceding paragraph, or as the result of taking possession of the business and properties of the Sewer System, shall be applied by the Bondowners Committee, first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bondowners Committee (including the cost of securing the services of any engineer or firm of engineers selected for the purpose of rendering advice with respect to the operation, maintenance, repair and replacement of the Sewer System necessary to prevent any loss of Gross Revenues, and with respect to the sufficiency of the rates and charges for services and products sold, furnished or supplied by the Sewer System), second, to the payment of the Operating Expenses, and third to the payment of the principal of, premium, if any, and interest on the Bonds.

11.9.2. In the event that at any time the funds held by the Bondowners Committee and the Paying Agents for the Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and all Gross Revenues and other moneys received or collected for

the benefit or for the account of owners of the Bonds by the Bondowners Committee shall be applied as follows:

11.9.2.1. **First**, to the payment to the persons entitled thereto of all installments of interest then due on Bonds in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

11.9.2.2. **Second**, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

11.10. Relinquishment of Possession and Funds Upon Remedy of Default. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Bondowners Committee and the owners of Bonds, their respective agents and attorneys, and all other sums payable by the District under the Master Declaration including the principal of, premium, if any, and accrued unpaid interest on all Bonds which shall then be payable, shall either be paid by or for the account of the District, or provision satisfactory to the Bondowners Committee shall be made for such payment, and all defaults under the Master Declaration or the Bonds shall be made good or secured to the satisfaction of the Bondowners Committee or provision deemed by the Bondowners Committee to be adequate shall be made therefor, the Bondowners Committee shall relinquish possession and control of the Sewer System and pay over to the District all moneys, securities, funds and Gross Revenues then remaining unexpended in the hands of the Bondowners Committee and thereupon all Gross Revenues shall thereafter be applied as provided in Section 9 of this Master Declaration. No such payment over to the District by the Bondowners Committee or resumption of the application of Gross Revenues as provided in Section 11 of this Master Declaration shall extend to or affect any subsequent default under the Master Declaration or impair any right consequent thereon.

11.11. Suits at Law or in Equity.

11.11.1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Bondowners Committee by its agents and attorneys, shall be entitled and empowered to proceed forthwith to take such necessary steps and institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce the rights of the owners of the Bonds under the Master Declaration, for the specific performance of any covenant herein contained or in aid of the execution of any power herein granted, or for an accounting against the District as trustee of an express trust, or in the enforcement of any other legal or equitable right as the

Bondowners Committee, being advised by counsel, shall deem most effectual to enforce any of the rights of the owners of the Bonds.

11.11.2. Any action, suit or other proceedings instituted by the Bondowners Committee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Bonds or the provisions of this Master Declaration may be enforced by the Bondowners Committee without the possession of any of said Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the respective owners of said Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners Committee the true and lawful trustee of the respective owners of said Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of said Bonds; to execute any paper or documents for the receipt of such moneys, and to do all acts with respect thereto that the Bondowner himself might have done in person, provided however, that nothing herein contained shall be deemed to authorize or empower the Bondowners Committee to consent to, accept or adopt, on behalf of any owner of Bonds, any plan of reorganization or adjustment affecting the said Bonds of the District or any right of any owner thereof; or to authorize or empower the Bondowners Committee to vote the claims of the owners hereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the District shall be a party; and provided further, however, that any Bondowner or Bondowners may by mutual agreement transfer title to the Bonds held by him or them to the Bondowners Committee, or may by agreement with other Bondowners create or organize a separate trustee or Bondowners Committee and may confer upon the Bondowners Committee or such separate trustee or Bondowners Committee, such powers and duties as such agreement or agreements shall provide, and the provisions of this Master Declaration shall not be construed as a limitation on the powers and duties which consenting Bondowners may by agreement confer on the Bondowners Committee or such separate trustee or Bondowners Committee. The Bondowners Committee shall have full power of substitution and delegation in respect to any of the powers hereby granted.

11.12. Direction of Actions of Bondowners Committee. The owners of not less than a majority in aggregate principal amount of the Bonds that are the subject of a Bondowners Committee at the time Outstanding, may direct the time, method and place of conducting any proceeding for any remedy available to the Bondowners Committee, or exercising any trust or power conferred upon the Bondowners Committee, provided that the Bondowners Committee shall be provided with reasonable security and indemnity and shall have the right to decline to follow any such direction only (i) if the Bondowners Committee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken; or (ii) if the Bondowners Committee in good faith shall determine that the action or proceeding so directed would involve the Bondowners Committee in personal liability or that the action or proceeding so directed would be unjustly prejudicial to the owners of Bonds not parties to such direction.

11.13. Suits by Individual Bondowners. No owner of any one or more of the Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of any provision of the Master Declaration or the execution of any trust under the Master Declaration or for any remedy under the Master Declaration, unless an Event of Default shall have happened

and be continuing, and unless no Bondowners Committee has been created as herein provided, but unless no Bondowners Committee has been created as herein provided, but any remedy herein authorized to be exercised by the Bondowners Committee, except the right to take possession of the Gross Revenues and properties of the Sewer System, but including the right to the appointment of a receiver of the business and properties of the Sewer System, may be exercised individually by any Bondowner, in his own name and on his own behalf or for the benefit of all Bondowners, in the event no Bondowners Committee has been created, or with the consent of the Bondowners Committee, if such Bondowners Committee has been created; provided, however, that nothing contained in the Master Declaration or in the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of, premium, if any, and interest on the Bonds to the respective owners thereof, or affect or impair the rights of action, which are also absolute and unconditional, of any owner to enforce the payment of this Bonds, or to reduce to judgment his claim against the District for the payment of the principal of and interest on his Bonds, without reference to, or the consent of, the Bondowners Committee or any other owner of Bonds.

11.14. Waivers of Default.

11.14.1. No delay or omission of the Bondowners Committee or of any owner of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Article to the Bondowners Committee or to the owners of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bondowners Committee or by such owners.

11.14.2. The Bondowners Committee or the owners of not less than fifty percent (50%) in principal amount of the Bonds that are the subject of the Bondowners Committee and are at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Bonds that are the subject of the Bondowners Committee waive any past default under the Master Declaration with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

11.15. Remedies Granted in Master Declaration Not Exclusive. No remedy by the terms of the Master Declaration conferred upon or reserved to the Bondowners Committee or the owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Declaration or existing at law or in equity or by statute on or after the date of adoption of the Master Declaration.

Section 12. Bondowners Meetings

12.1. Call of Bondowners Meetings. The District, the Bondowners Committee or the owners of not less than twenty percent (20%) in aggregate principal amount of the Bonds then Outstanding may at any time call a meeting of the owners of the Bonds. Every such meeting

shall be held at such place in the City of New York, State of New York, or in the City of Portland, State of Oregon, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be transacted, shall be mailed to the Bondowners by the District, the Bondowners Committee or the Bondowners calling such meeting not less than thirty (30) nor more than sixty (60) days before such meeting, and shall be published at least once a week for four (4) successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) nor more than sixty (60) days preceding the meeting; provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. The expenses of publication of such notice shall be paid or reimbursed by the District. The list of Bondholders' names & addresses maintained by the Registrar may only be released by the District. Any meeting of Bondowners shall, however, be valid without notice if the owners of all Bonds then Outstanding are present in person or by proxy or if notice is waived before or within thirty (30) days after the meeting by those not so present.

12.2. Notice to Bondowners. Except as otherwise provided in this Master Declaration, any provision in this Master Declaration for the mailing of a notice or other paper to Bondowners shall be fully complied with if it is mailed by first class mail, postage prepaid, to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the Revenue Bond Register; and any provision in this Master Declaration contained for publication of a notice or other matter shall require the publication thereof in "*The Daily Bond Buyer*" in the City of New York, State of New York (or in lieu of publication in "*The Daily Bond Buyer*," in a daily newspaper printed in the English language and customarily published on each business day of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the City of Portland, State of Oregon.

12.3. Proxies; Proof of Ownership of Bonds.

12.3.1. Attendance and voting by Bondowners at such meetings may be in person or by proxy. Owners of Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power and substitution, as their proxy to vote at any meeting for them. Officers or nominees of the District may be present or represented at such meeting and take part therein but shall not be entitled to vote thereat, except as such officers or nominees are Bondowners or proxies for Bondowners.

12.3.2. Any registered owner of Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Bonds registered in his name without producing such Bonds, and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspectors of Votes and filed with the Secretary of the meeting.

12.3.3. The vote at any such meeting of the owner of any Bond entitled to vote thereat shall be binding upon such owner and upon every such subsequent owner of such Bond (whether or not such subsequent owner has notice thereof).

12.4. Execution of Instruments by Bondowners.

12.4.1. Any request, direction, consent or other instrument in writing required or permitted by this Master Declaration to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bondowners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this Master Declaration if made by either

12.4.1.1. an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or

12.4.1.2. an affidavit of a witness to such execution sworn to before such a notary public or other officer.

12.4.2. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

12.4.3. The foregoing shall not be construed as limiting the District to such proof, it being intended that the District may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the owner of any Bond shall bind every future owner of the same Bond in respect of anything done by the District in pursuance of such request, direction or consent.

12.4.4. The right of a proxy for a Bondowner to act may be proved (subject to the District's right to require additional proof) by a written proxy executed by such Bondowner as aforesaid.

12.5. Appointment of Officers at Bondowners Meetings. Persons named by the District or elected by the owners of a majority in principal amount of the Outstanding Bonds represented at the meeting in person or by proxy in the event the District is not represented at such meeting, shall act as temporary Chairman and temporary Secretary of any meeting of Bondowners. A permanent Chairman and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent chairman of the meeting shall appoint two (2) Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairman and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting and with the District their verified report of all such votes cast at the meeting.

12.6. Quorum at Bondowners Meetings. The owners of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in person or by proxy to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting; provided, however, that, if such meeting is adjourned by less than a quorum for more than ten (10) days, notice thereof shall be published by the District at least five (5) days prior to the adjourned date of the meeting.

12.7. Vote Required to Amend Master Declaration. Any amendment to the provisions of the Master Declaration, in any particular except the percentage of Bondowners the approval of which is required to approve such amendment, may be made by a Supplemental Declaration of the District and an order duly adopted by the affirmative vote at a meeting of Bondowners duly convened and held, or with written consent as hereinafter provided in this Section 12.7, of the owners of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding when such meeting is held or such consent is given; provided, however, that no such amendment shall:

12.7.1. extend the date of payment of the principal of any Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date;

12.7.2. give to any Bond or Bonds any preference over any other Bond or Bonds secured equally and ratably therewith;

12.7.3. reduce the aforesaid percentage of Bonds, the owners of which are required to consent to any such order amending the provisions of this Master Declaration; or

12.7.4. authorize the creation of any pledge superior to or, except as provided in Section 7 for the issuance of Parity Obligations, on a parity with the pledge of Net Revenues afforded by this Master Declaration for Bonds, without the consent of the owner of each such Bond affected thereby.

12.8. Obtaining Approval of Amendments at Bondowners Meeting. The District may at any time adopt an order amending the provisions of the Master Declaration to the extent that such amendment is permitted by the provisions of Section 13 hereof, to take effect when and as provided in this Section 12. At any time thereafter such order may be submitted by the District for approval to a meeting of the Bondowners duly convened and held in accordance with the provisions of the Master Declaration. A record in duplicate of the proceedings of each meeting of the Bondowners shall be prepared by the permanent secretary of the meeting and shall have attached thereto the original reports of the inspectors of votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of the Master Declaration. Such a record shall be signed and verified by the affidavits of the permanent chairman and the permanent secretary of the meeting, and one duplicate thereof shall be delivered to the District. Any record so signed and verified shall be proof of the matters therein stated. If the order of the District making such amendment shall be approved by an order duly adopted at such meeting of Bondowners by the affirmative vote of the owners of the required percentages of Bonds, a notice stating that an order approving such amendment has been so adopted shall be mailed by the District to each Bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such order) and shall be published at least once in the manner provided for publication of notices of redemption of Bonds. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the District. Such order of the District making such amendment shall be deemed conclusively to be binding upon the District, the Paying Agent, and

the Owners of all Bonds at the expiration of thirty (30) days after the publication of the notice provided for in this Section 12, except in the event of a final decree of court of competent jurisdiction setting aside such order or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the District and any Paying Agent during such thirty (30) day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such order as they may deem expedient. Nothing in the Master Declaration contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Bondowners or of any right conferred hereunder to make such a call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Paying Agent or the Bondowners under any of the provisions of the Master Declaration.

Section 13. Amendment of Master Declaration

13.1. Amendment of Master Declaration Without Bondowner Consent. Except during any period during which a Bondowners Committee has been duly constituted and is functioning pursuant to Section 11.5 of this Master Declaration, this Master Declaration may be amended by Supplemental Declaration without the consent of any Bondowners for any one or more of the following purposes:

- 13.1.1. To cure any ambiguity or formal defect or omission in this Master Declaration;
- 13.1.2. To add to the covenants and agreements of the District in this Master Declaration, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
- 13.1.3. To authorize issuance of Bonds or Subordinate Obligations;
- 13.1.4. To authorize Parity Derivative Products, and specify the rights and duties of the parties to a Parity Derivative Product;
- 13.1.5. To modify, amend or supplement this Master Declaration or any Supplemental Declaration to qualify this Master Declaration under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;
- 13.1.6. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
- 13.1.7. To make any change which, in the reasonable judgment of the District, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;
- 13.1.8. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:

13.1.8.1. would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

13.1.8.2. changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or

13.1.8.3. materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility.

13.1.8.4. To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Bonds cease to be Outstanding.

13.2. Amendment With Bondowner Consent. Except during any period during which a Bondowners Committee has been duly constituted and is functioning pursuant to Section 11.5 of this Master Declaration, this Master Declaration may be amended for any other purpose only upon consent of Bondowners of not less than fifty-one percent 51% in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Bondowners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

13.2.1. 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

13.2.2. Reduces the percent of Bondowners required to approve amendatory Master Declarations.

13.3. Initial Purchaser As Owner. For purposes of any consents of Owners required by this Master Declaration or any Supplemental Declaration, including but not limited to Section 13.2, but subject to Section 13.4, the initial purchaser of a series of Bonds may be treated as the Owner of that Series at the time that series of Bonds is delivered in exchange for payment.

13.4. Issuer of Credit Facility As Owner. Except as otherwise expressly provided in a Supplemental Declaration, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bondowner of the Bonds secured by such Credit Facility:

13.4.1. at all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of this Master Declaration or the initiation by Bondowners of any action which under this Master Declaration requires the written approval or consent of or can be initiated by the Bondowners of at least a majority in principal amount of the affected Bonds at the time Outstanding; and following an Event of Default for all other purposes.

13.4.2. Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Bondowner secured thereby with respect to any such Supplemental Declaration or of any amendment, change or modification of this Master Declaration which:

13.4.2.1. would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

13.4.2.2. changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or

13.4.2.3. reduces the percentage or otherwise affects the classes of affected Bonds, the consent of the Bondowners of which is required to effect any such modification or amendment.

13.4.3. In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Bonds shall be entitled to exercise any rights under this Section during any period where:

13.4.3.1. the Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect;

13.4.3.2. such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;

13.4.3.3. such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or

13.4.3.4. an order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.

13.4.4. For purposes of determining the percentage of Bondowners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Declaration, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

Section 14. Defeasance

The District may defease and deem all or any portion of the Outstanding Bonds to be paid by:

14.1. Irrevocable Deposit of Direct Obligations. Irrevocably depositing cash or noncallable, nonprepayable Direct Obligations in escrow with an independent escrow agent which are

calculated to be sufficient, without reinvestment, for the payment of Bonds which are to be defeased; and,

14.2. Opinion of Qualified Consultant. Filing with the escrow agent an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Direct Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,

14.3. Opinion of Bond Counsel. Filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Bonds to be includable in gross income under the Code.

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

Section 15. BEO System

15.1. Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the BEO System pursuant to the provisions of this Section 15.

15.2. The Bonds shall be initially issued as a BEO security issue with no Bonds being made available to the Owners upon the execution and delivery of the letter of representations among the Paying Agent, DTC and the District. Ownership of the Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on the DTC BEO system. The Bonds shall be initially issued in the form of separate single fully registered typewritten Bonds for each maturity of the Bonds (the “Global Bonds”) in substantially the form attached hereto as Exhibit A with such changes as the Authorized Officer may approve. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the “Nominee”) of DTC (DTC and any other qualified securities depository designated by the District as a successor to DTC, collectively the “Depository”) as the “Registered Owner”, and such Global Bonds shall be lodged with the Depository until early redemption or maturity of the Bond issue. The Paying Agent shall remit payment for the maturing principal and interest on the Bonds to the Owner for distribution by the Nominee for the benefit of the owners (the “Beneficial Owner” or “Record Owner”) by recorded entry on the books of the Depository participants and correspondents. While the Bonds are in BEO form, the Bonds will be available in denominations of \$5,000 or any integral multiple thereof within a maturity.

15.3. In the event the Depository determines not to continue to act as securities depository for the Bonds, or the District determines that the Depository shall no longer so act, then the District will discontinue the BEO system with the Depository. If the District fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Bonds shall no longer be a BEO issue but shall be registered in the registration books maintained by the Paying Agent in the name of the Owner as appearing on the Bond register and thereafter in the name or names of the Owners of the Bonds transferring or exchanging Bonds.

15.4. While the Bonds are in BEO form, the District and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Registered Owner on behalf of which such participants or correspondents act as agent for the Owner with respect to:

15.4.1. The accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the Bonds;

15.4.2. The delivery to any participant or correspondent or any other person, other than an Owner as shown in the registration books maintained by the Paying Agent, of any notice with respect to the Bonds, including any notice of prepayment;

15.4.3. The selection by the Depository of the beneficial interest in Bonds to be redeemed prior to maturity; or

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

15.5. Notwithstanding the BEO system, the District may treat and consider the Owner in whose name each Bond is registered in the registration books maintained by the Paying Agent as the Owner and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such Bond, or for all other purposes whatsoever. The District shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the Registered Owner, as shown in the registration books maintained by the 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 District's obligation with respect to payment thereof to the extent of the sum or sums so paid.

15.6. Upon delivery by the Depository to the District and to the Owner of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in this Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the District shall promptly deliver a copy thereof to the Paying Agent. The Depository shall tender the Bonds it holds to the Paying Agent for re-registration.

Section 16. Redemption of Bonds

16.1. Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the redemption terms of this Section 16.

16.2. The District reserves the right to purchase Bonds in the open market.

16.3. If Bonds are subject to mandatory redemption the Paying Agent shall, without further action by the District, select the particular Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Bonds, and give notice of their redemption in accordance with this Section 16.

16.4. If certain maturities of Bonds are subject to both optional and mandatory redemption, the District may elect to apply any of those Bonds which it has previously optionally redeemed. In addition, if the District purchases Bonds which are subject to mandatory redemption, the District may elect to apply against the mandatory redemption requirement any such Bonds which it has previously purchased. If the District makes such an election, it shall notify the Paying Agent not less than sixty days prior to the mandatory redemption date to which the election applies.

16.5. So long as the BEO-System remains in effect with respect to the Bonds, and unless DTC consents to a shorter period, the Paying Agent shall provide not less than 20 days nor more than 60 days' notice of redemption, and shall provide such information in connection therewith as required by the letter of representations submitted to DTC in connection with the issuance of the Bonds.

16.6. During any period in which the BEO System is not in effect with respect to the Bonds, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Paying Agent on behalf of the District by mailing a copy of an official redemption notice by first class mail postage prepaid at least 3days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bonds to be redeemed, at the address shown on the Revenue Bond Register or at such other address as is furnished in writing by such owner to the Paying Agent. All such official notices of redemption shall be dated and shall state:

16.6.1. The redemption date;

16.6.2. The redemption price;

16.6.3. If less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;

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

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

16.7. The District shall deposit with the Paying Agent, on or before the redemption date, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

16.8. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price or unless the notice was conditional as described in Section 15.9) 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 Paying Agent at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial

redemption of any Bond, there shall be prepared for the registered owner a new Bond of the same maturity in the amount of the unpaid principal. All Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be reissued. Notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Bonds. From and after such notice having been given and such deposit having been made, the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the District shall be under no further liability in respect thereof.

16.9. Any notice of optional redemption given for the Bonds pursuant to this Section 16 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected owners of the Bonds as promptly as practicable.

Section 17. Authentication, Registration and Transfer

17.1. The provisions of this Section 17 apply only if the Bonds cease to be a BEO issue, and unless otherwise specified in a Supplemental Declaration.

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

17.3. All Bonds shall be in registered form. [_____] is hereby appointed to serve as Paying Agent for the Bonds. A successor Paying Agent may be appointed for the Bonds by ordinance or resolution of the District. The Paying Agent shall provide notice to Owners of any change in the Paying Agent not later than the Bond payment date following the change in Paying Agent.

17.4. The ownership of all Bonds shall be entered in the Bond register maintained by the Paying Agent and the District and Paying Agent may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.

17.5. The Paying Agent shall mail each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Owner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the District nor the Paying Agent shall have any further liability to any party for such payment.

17.6. Bonds may be exchanged for an equal principal amount of Bonds of the same Series and maturity which are in different authorized denominations, and Bonds may be transferred to other owners if the Owner submits the following to the Paying Agent:

17.6.1. Written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and

17.6.2. The Bonds to be exchanged or transferred.

17.7. The Paying Agent 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.

17.8. The Paying Agent 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.

17.9. For purposes of this Section, Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 17.6.

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

Section 18. The Series 2016 Bonds

18.1. Pursuant to the authority of Order ____ and this Master Declaration, the District has issued its [Sewer System Revenue Bonds, Series 2016], in the aggregate principal amount of \$_____. The Series 2016 Bonds shall be Bonds as defined in this Master Declaration. The Series 2016 Bonds shall bear interest payable on _____ and _____ of each year at the following rates, commencing _____, 2016, and shall mature in the following years in the following principal amounts:

| <u>Due</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|------------|-------------------------|----------------------|--------------|
| | | | |

* Subject to mandatory sinking fund redemption as described in the next subsection.

18.2. The Series 2016 Bonds maturing on _____, are subject to mandatory sinking fund redemption at a price of 100 percent of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest to the date of redemption on June 1 in years and amounts as follows:

| Date | Mandatory Sinking Fund Redemption |
|-------|--------------------------------------|
| _____ | _____ |

* Final maturity.

A Series 2016 Term Bond subject to optional redemption and redeemed in part will have the principal amount within the respective mandatory redemption dates selected by the District.

18.3. The Series 2016 Bonds maturing on or after _____ may be redeemed at the option of the District on or after _____, at par plus accrued interest to the date of redemption.

18.4. The Series 2016 Bonds shall be special obligations of the District, and shall be payable solely from the Net Revenues and amounts required to be deposited in the Revenue Bond Account and Revenue Bond Reserve Account as required and as provided by this Master Declaration. The Series 2016 Bonds are not general obligations of the District and are payable solely from the amounts described in the previous sentence.

18.5. The Series 2016 Bonds shall be in substantially the form attached as Appendix A and shall be signed with the facsimile or manual signature of an Authorized Officer.

18.5.1. [The Series 2016 Bond proceeds received by the District shall be applied as follows:

18.5.1.1. \$_____ to the First Reserve Subaccount or to acquire a Reserve Credit Facility for the First Reserve Subaccount to meet the First Reserve Subaccount Reserve Requirement;

18.5.1.2. \$_____ to refund borrowings issued under the District's Master Sewer Revenue Bond Order dated September 15, 1994 and [describe DEQ loans that are refunded]; and

18.5.1.3. The balance of the proceeds to pay costs incurred in connection with the issuance of the Series 2016 Bonds.]

Section 19. Tax-Exempt Status

19.1. General Covenant. The District covenants for the benefit of the Owners of the Series 2016 Bonds to comply with all provisions of the Code which are required for interest on the Series 2016 Bonds to be excluded from gross income for federal taxation purposes. In

determining what actions are required to comply, the District may rely on an opinion of Bond Counsel. The District makes the following specific covenants with respect to the Code:

19.1.1. The District will not take any action or omit any action if it would cause the Series 2016 Bonds to become “arbitrage Bonds” under Section 148 of the Code.

19.1.2. The District shall operate the facilities financed with the Series 2016 Bonds so that the Series 2016 Bonds do not become private activity Bonds within the meaning of Section 141 of the Code.

19.1.3. The District shall pay, when due, all rebates and penalties with respect to the Series 2016 Bonds which are required by Section 148(f) of the Code.

19.2. Covenants as Contracts. The covenants contained in Section 19 and any covenants in the closing documents for the Series 2016 Bonds shall constitute contracts with the owners of the Series 2016 Bonds, and shall be enforceable by them.

EXECUTED ON BEHALF OF THE DISTRICT BY ITS AUTHORIZED OFFICER AS OF THE ____ DAY OF ____, 2016.

**CLACKAMAS COUNTY SERVICE
DISTRICT NO. 1**

By: _____
AUTHORIZED OFFICER

by surrendering it, together with a written instrument of exchange or 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, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Master Declaration. The District 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 Master Declaration.

Unless this certificate is presented by an authorized representative of DTC to the District or the Registrar for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

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

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and Statutes of the State of Oregon to exist, to have happened and to have been performed precedent to and in the issuance of this Bond to exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the District, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Clackamas County Service District No. 1, Oregon, has caused this Bond to be executed with the facsimile signatures of the District Official, all as of the date indicated above.

Clackamas County Service District No. 1, Oregon

Authorized Officer

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

CERTIFICATE OF AUTHENTICATION

This Bond is one of the \$[principal amount] aggregate principal amount of Clackamas County Service District No. 1 [Sewer Revenue and Refunding Bonds], Series 2016, and is authorized to be issued under the terms of the Master Declaration described herein.

Date of authentication: [closing date], 2016.

[Paying Agent and Registrar], 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.

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

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

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

