

Exhibit A

**MASTER SECOND LIEN WATER  
SYSTEM REVENUE BOND  
DECLARATION**

**City of Portland, Oregon**

**Executed by the Debt Manager of the City of Portland, Oregon**

**As of the \_\_\_\_ day of \_\_\_\_, 2013**

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## MASTER SECOND LIEN WATER SYSTEM REVENUE BOND DECLARATION

THIS MASTER SECOND LIEN WATER SYSTEM REVENUE BOND DECLARATION is executed as of \_\_\_\_, 2013, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. [ordinance #] to establish the terms under which the City may issue obligations that are secured by a second lien on the Net Revenues of the City's Water System.

### Section 1. Recitals.

The City recites:

- 1.1. The City has previously issued revenue bonds that are secured by a first lien on the net revenues of the City's Water System under City Ordinance 174241, as amended, and revenue bonds that are secured by a second lien on the net revenues of the City's Water System under a master declaration that is dated as of September 21, 2006 (the "2006 Second Lien Declaration).
- 1.2. The City enacted Ordinance No. [ordinance #] on \_\_\_\_, 2013, authorizing the City to issue revenue bonds that are secured by the revenues of the Water System: to refund all second lien bonds that are currently outstanding under the 2006 Second Lien Declaration; to refund outstanding first lien bonds to obtain debt service savings, to provide up to \$161,500,000 of proceeds for water system projects; and, to provide additional amounts to fund reserves and pay costs related to the bonds (collectively, the "Project").
- 1.3. The City is issuing its 2013 Series A Bonds on the date of this Master Second Lien Water System Revenue Bond Declaration to finance the Project. The 2013 Series A Bonds are being issued pursuant to the First Supplemental Bond Declaration.
- 1.4. This Master Second Lien Water System Revenue Bond Declaration replaces the 2006 Second Lien Declaration and establishes the basic provisions that apply to the 2013 Series A Bonds and to obligations the City subsequently issues that are secured by a second lien on the Net Revenues of the Water System.

### Section 2. Definitions

Unless the context clearly requires otherwise, capitalized terms that are used in this Master Declaration and are defined in this Section 2 shall have the meanings defined for those terms in this Section 2, and capitalized terms that are used in this Master Declaration but are not defined in this Section 2 shall have the meanings defined for those terms in the First Lien Bond Ordinance.

"2013 Series A Bonds" means the City's Second Lien Water System Revenue Bonds, 2013 Series A issued pursuant to the First Supplemental Bond Declaration.

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

“Adjusted Stabilized Net Revenues” means the Net Revenues, adjusted for purposes of Section 6.1 as provided in Section 6.4.

“Agreement for Exchange of Interest Rates” means a swap, cap, floor, collar or similar transaction which includes a written contract between the City and a Reciprocal Payor under which the City is obligated to make one or more City Payments in exchange for the Reciprocal Payor's obligation to pay one or more Reciprocal Payments, and which provides that:

(a) the Reciprocal Payments are to be deposited directly into the Second Lien Bond Account; and,

(b) the City is not required to fulfill its obligations under the contract if: (i) the Reciprocal Payor fails to make any Reciprocal Payment; or (ii) the Reciprocal Payor fails to comply with its financial status covenants.

“Annual First Lien Bond Debt Service” means the “Annual Debt Service” determined under the First Lien Bond Ordinance, as that ordinance may be amended from time to time.

“Annual Second Lien Bond Debt Service” “means sum of: (1) the amounts of any transfers to the Second Lien Bond Reserve Account that are described in Section 3.1.D and Section 3.1.E; plus (2) the amount of principal and interest required to be paid in that Fiscal Year on all Outstanding Second Lien Bonds, calculated as follows:

(a) Interest which is to be paid from Second Lien Bond proceeds shall be subtracted;

(b) City Payments to be made in the Fiscal Year under a Parity Agreement for Exchange of Interest Rates shall increase Annual Second Lien Bond Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Agreement for Exchange of Interest Rates shall reduce Annual Second Lien Bond Debt Service;

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

(e) Variable Rate Obligations bear interest from the date of computation until maturity at their Estimated Average Interest Rate; and,

(f) Each Balloon Payment shall be assumed to be paid according to its Balloon Debt Service Requirement; and,

(g) Federal Interest Subsidies shall be subtracted from the interest due on Interest Subsidy Obligations that are Second Lien Obligations as provided in Sections 5.4 and 6.6.

“Audit” means the audit required by ORS 297.425.

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

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

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

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

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

“Bond Buyer 20 Bond Index” means the 20-Bond GO Index published by The Bond Buyer. However, if that index ceases to be available, “Bond Buyer 20 Bond Index” means an index reasonably selected by the City which is widely available to dealers in municipal securities, and which measures the interest rate of high quality, long-term, fixed rate municipal securities.

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

“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.

“Capital Charge Borrowing” means a borrowing that is secured by Capital Charges, such as a City local improvement district bond issue, for which the City has made an election, in accordance with Section 5.6, to treat the Capital Charge Proceeds as a Gross Revenue.

“Capital Charge Proceeds” means the net proceeds of Capital Charge Borrowings. For purposes of this definition, “net proceeds” means the proceeds of the Capital Charge Borrowings available to be deposited in the Water Enterprise Fund and used as Gross Revenues, after payment of costs of issuance, credit enhancement fees, accrued and capitalized interest, and similar costs, and funding of reserves.

“Capital Charge Revenues” means all Capital Charges except Committed Capital Charges.

“Capital Charges” means all systems development charges, assessments for local improvements and similar charges which have been imposed on persons or property to recover capital related costs of the Water System, and which are deposited in the Water Enterprise Fund.

“City Council” means the City Council of the City, or its successors.

“City Payment” means any scheduled payment required to be made by or on behalf of the City under an Agreement for Exchange of Interest Rates which is either fixed in amount or is determined according to a formula set forth in the Agreement for Exchange of Interest Rates.

“City” means the City of Portland, Multnomah, Washington and Clackamas Counties, Oregon, a municipal corporation of the State of Oregon.

“Closing” means the date on which a Series of Bonds is delivered in exchange for payment.

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

“Combined Annual Debt Service” means the sum of the Annual First Lien Debt Service plus the Annual Second Lien Bond Debt Service.

“Committed Capital Charges” means Capital Charges which are pledged or otherwise committed to pay Capital Charge Borrowings. For purposes of this definition, merely pledging Net Revenues to secure a borrowing or committing Net Revenues to pay a borrowing will not cause Capital Charges to become Committed Capital Charges.

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

“Construction Fund” means the Water Construction Fund in the Water Enterprise Fund, which the City has created to hold proceeds of bonds and other revenues related to capital improvements.

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

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

“Debt Manager” means the Debt Manager of the City, the City Treasurer, the Chief Financial Officer of the Bureau of Financial Services, the Chief Administrative Officer of the Office of Management and Finance, or the person designated by the Chief Administrative Officer of the Office of Management and Finance to act as Debt Manager under this Master Declaration.

“Defeasance Obligations” means (i) direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury and principal-only and interest-only strips that are issued by the U.S. Treasury); or (ii) noncallable obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; or (iii) any of the noncallable obligations of the following agencies:

- (a) Senior, unsubordinated Federal Home Loan Mortgage Corp. (FHLMC) debt obligations;
- (b) Senior, unsubordinated Federal Home Loan Banks (FHL Banks) consolidated debt obligations;
- (c) Senior, unsubordinated Federal National Mortgage Association (FNMA) debt obligations;
- (d) Senior, unsubordinated Farm Credit System consolidated system wide bonds and notes;
- (e) Senior, unsubordinated Resolution Funding Corp. (REFCORP) debt obligations, including strips by the Federal Reserve Bank of New York; and,
- (f) Financing Corp (FICO) debt obligations.

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

“Estimated Average Interest Rate” means the interest rate that Variable Rate Obligations are assumed to bear. “Estimated Average Interest Rate” shall be calculated as provide in Sections 5.2 and 6.8.

“Estimated Debt Service Requirement” means the schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds a Balloon Payment that is prepared by the Debt Manager and that meets the requirements of Section 5.3.

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

“Federal Interest Subsidy” means an interest subsidy payment that the City is entitled to receive from the United States for Interest Subsidy Obligations.

“First Lien Bond Account” means the “Revenue Bond Account” in the Water Enterprise Fund that is established in the First Lien Bond Ordinance to pay First Lien Bonds.

“First Lien Bond Ordinance” means City Ordinance 174241, as it has been amended and may be amended from time to time in accordance with its terms and Section 9.4 of this Master Declaration. City Ordinance 174241 describes the terms under which the First Lien Bonds may be issued.

“First Lien Bond Reserve Account” means the “Revenue Bond Reserve Account” in the Water Enterprise Fund that is established in the First Lien Bond Ordinance to hold reserves for the First Lien Bonds.

“First Lien Bonds” refers to obligations that are defined as “Bonds” in the First Lien Bond Ordinance.

“First Supplemental Bond Declaration” means the First Supplemental Bond Declaration that is dated the same date as this Master Declaration, and that specifies the terms of the 2013 Series A Bonds.

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

“Gross Revenues” means all revenues, fees and charges, Capital Charge Revenues and Capital Charge Proceeds, and other revenues resulting from the operation of the Water System, including revenues from product sales and interest earnings on Gross Revenues in the Water Enterprise Fund. However, the term “Gross Revenues” shall 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 City;
- (b) Committed Capital Charges;
- (c) Any gifts, grants, donations or other moneys received by the City from any State or Federal Agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Second Lien Bonds;
- (d) The proceeds of any borrowing (other than Capital Charge Proceeds);
- (e) The proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);
- (f) The proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Water System;
- (g) The proceeds derived from the sales of assets pursuant to Section 9.9 of this Master Declaration;
- (h) Any ad valorem or other taxes imposed by the City (except charges or payments for Water System services which become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property);
- (i) Any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System; and
- (j) Federal Interest Subsidies.

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

“Interest Subsidy Obligations” means First Lien Bonds or Second Lien Bonds for which the City is eligible to receive Federal Interest Subsidies that are similar to the interest subsidies that were available for Build America Bonds.

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



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

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

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

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

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

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles, lease payments that are treated as Operating Expenses pursuant to Section 5.5 and the portion of City pension bond debt service that is allocable to the Water 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 City and payments for the settlement of litigation;
- (c) Depreciation and amortization of property values or losses, implicit subsidies in connection with other post employment benefits and any other non-cash expenses;
- (d) All amounts eligible to be treated for accounting purposes as payments for capital expenditures, and all amounts that were expected, at the time they were spent, to be treated for accounting purposes as payments for capital expenditures but were not so treated because of subsequent changes in circumstances (such as expenditures for a project that was being constructed to satisfy regulatory requirements of a state or a federal agency, but were not so treated because the city subsequently obtained a variance allowing the city to terminate the project);
- (e) Interest and other debt service payments, paying agent fees, broker-dealer fees and similar charges for the maintenance of borrowings;
- (f) The expenses of owning, operating or maintaining any Separate Utility System;
- (g) Expenditures made from any liability insurance proceeds;
- (h) Expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Water System;
- (i) Expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Water System;

- (j) Extraordinary non-recurring expenses of the Water System;
- (k) Expenditures allocable to any other funding source which does not constitute Gross Revenues of the Water System; or,
- (l) Franchise fees and similar charges imposed by the City on the Water System or its operations.

“ORS” means the Oregon Revised Statutes.

“Outstanding” refers to: (1) all First Lien Bonds except First Lien Bonds that have been defeased pursuant to the defeasance provisions in the First Lien Bond Documents and First Lien Bonds that have matured and not been presented for payment (provided sufficient funds to pay those First Lien Bonds have been transferred to the paying agent for those First Lien Bonds); and, (2) all Second Lien Bonds except Second Lien Bonds that have been defeased pursuant to Section 12 of this Master Declaration, and Second Lien Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Second Lien Bonds have been transferred to the Paying Agent).

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

“Parity Agreement for Exchange of Interest Rates” means an Agreement for Exchange of Interest Rates which qualifies as a Parity Second Lien Obligation in accordance with Section 6.6.

“Parity Second Lien Obligation” means any obligation issued after the 2013 Series A Bonds that is secured by a second lien on the Net Revenues and is issued in compliance with Section 6, including any Parity Agreement for Exchange of Interest Rates.

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

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

“Principal Payment Date” means any date on which any Second Lien 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 Second Lien Bonds which have been called for redemption.

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

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

“Rate Stabilization Account” means the Rate Stabilization Account described in Section 4.5 of this Master Declaration.

"Rating Agency" means Fitch Investors Service, Inc., Moody's Investors Service, Standard & Poor's Corporation, or any other nationally recognized financial rating agency which has rated Outstanding Second Lien Bonds or a Credit Facility at the request of the City.

"Reciprocal Payment" means scheduled payment to be made to, or for the benefit of, the City under an Agreement for Exchange of Interest Rates 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 Agreement for Exchange of Interest Rates.

"Reciprocal Payor" means a party to an Agreement for Exchange of Interest Rates (other than the City) that is obligated to make one or more Reciprocal Payments thereunder, and which is rated in one of the top three rating categories by at least one Rating Agency for its obligations under the Agreement for Exchange of Interest Rates.

"Record Date" means a date after which the Paying Agent is not required to take into account transfers of ownership of Second Lien Bonds that are not in BEO form. Unless otherwise provided in the proceedings for a Series of Second Lien Bonds, the Record Date shall be the fifteenth (15th) day of the month preceding the month in which an Interest Payment Date is due, whether or not a Business Day.

"Registrar" means the registrar and paying agent for the Second Lien Bonds, which is U.S. Bank Trust National Association on the date of this Master Declaration.

"Reserve Requirement" means a set of rules for funding a subaccount in the Second Lien Bond Reserve Account as those rules may be described in a Supplemental Declaration for Second Lien Bonds.

"Reserve Surety" means a surety or other agreement to provide funds to the City to pay Second Lien Bonds that are secured by a particular subaccount in the Second Lien Bond Reserve Account, if amounts in the Second Lien Bond Account are not sufficient to pay those Second Lien Bonds.

"Second Lien Bond Account" means the Second Lien Bond Account described in Section 4.2 of this Master Declaration.

"Second Lien Bond Reserve Account" means the Second Lien Bond Reserve Account in the Sinking Fund described in Section 4.3 of this Master Declaration.

"Second Lien Bonds" means the 2013 Series A Bonds and any Parity Second Lien Obligations.

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

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

“SIFMA Index” means the Securities Industry and Financial Markets Association <sup>TM</sup> Municipal Swap. Index available on the Municipal Market Monitor (TM3) provided by Thomson Reuters, or its successor. However, if that index ceases to be available, “SIFMA Index” means an index reasonably selected by the City which is widely available to dealers in municipal securities, and which measures the interest rate of municipal securities that bear interest at short term or variable rates.

“Sinking Fund” means the Water Bond Sinking Fund in the Water Enterprise Fund, which the City has created to provide for the repayment of bonded debt and the interest on bonded debt.

“Stabilized Net Revenues” means the Gross Revenues for a Fiscal Year, plus the withdrawals from the Rate Stabilization Account for that Fiscal Year, minus the Operating Expenses for that Fiscal Year and minus transfers to the Rate Stabilization Account for that Fiscal Year.

“State” means the State of Oregon.

“Subordinate Obligations Account” means the account of that name that is established in the Water Enterprise Fund by the First Lien Bond Ordinance to pay obligations that have a lien on Net Revenues that is subordinate to the lien of the First Lien Bonds.

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

“Valuation Date” means a date on which the City is obligated to value amounts credited to a subaccount in the Second Lien Bond Reserve Account. The Valuation Date for the First Subaccount is the First Subaccount Valuation Date.

“Variable Rate Obligations” means any Second Lien Bonds issued with a variable, adjustable, convertible, or other similar interest rate which changes prior to the final maturity date of the Second Lien Bonds, and any City Payments or Reciprocal Payments under a Parity Agreement for Exchange of Interest Rates for which the interest portion of the payment is based on a rate that changes during the term of the Agreement for Exchange of Interest Rates.

“Water Enterprise Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Second Lien Bonds. The Water Enterprise Fund currently includes the Water Operating Fund, the Construction Fund, and the Sinking Fund.

“Water System” means all utility property now or hereafter used by the City to supply water within or without the corporate limits of the City. However, the Water System does not include any Separate Utility System.

### **Section 3. Deposit, Pledge and Use of Gross Revenues**

- 3.1. All Gross Revenues shall be deposited to and maintained in the Water Enterprise Fund, and shall be used only as described in this Section as long as any Second Lien Bonds remain Outstanding. The City shall apply Gross Revenues in the Water Enterprise Fund

on or before the following dates for the following purposes in the following order of priority:

- A. The City may at any time pay Operating Expenses that are then due;
- B. On the dates specified in the documents for the First Lien Bonds, the City shall make all transfers required by those documents to pay debt service on First Lien Bonds, to fund required debt service reserves for First Lien Bonds, and to pay any rebates or penalties for First Lien Bonds that are required to be paid under the documents for the First Lien Bonds;
- C. Not later than each date on which the City is required to transfer Second Lien Bond payments to the Paying Agent or to Owners of Second Lien Bonds, the City shall transfer Net Revenues to the Second Lien Bond Account an amount sufficient (with amounts available in the Second Lien Bond Account) to pay in full all Second Lien Bond principal, interest and premium, if any, which is due to be paid on that Payment Date;
- D. On the first day of each month following each Valuation Date on which the balance in a subaccount of the Second Lien Bond Reserve Account is determined to be less than its Reserve Requirement, the City shall transfer Net Revenues to that subaccount in the amounts required by the provisions creating that subaccount;
- E. If the City reserves the right to fund the Reserve Requirement for a subaccount in the Second Lien Bond Reserve Account in installments, the City shall transfer Net Revenues in the amounts and on the schedule specified in proceedings authorizing the Second Lien Bonds that are secured by that subaccount;
- F. On the day on which any rebates or penalties for Second Lien Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the City shall apply Net Revenues to pay the amounts due to the United States;
- G. On the dates specified in any proceedings authorizing Junior Lien Obligations, the City shall transfer to the Junior Lien Obligations Account the Net Revenues required by those proceedings;
- H. One Business Day prior to any principal or interest payment date on City general obligation bonds issued pursuant to Section 11-103 of the City Charter, the City shall transfer to the Charter General Obligation Bond Account an amount sufficient to pay all principal, interest and premium, if any, due on those general obligation bonds on that payment date;
- I. After all transfers and payments having a higher priority under this Section have been made, the City shall apply Net Revenues to any franchise fees, utility license fees and similar charges imposed by the City on the Water System or its operations.

- J. While First Lien Bonds are Outstanding, not later than the last day of each Fiscal Year the City shall transfer Net Revenues to the Capital Renewal Account in the amounts described in Section 1.B.1.i of the First Lien Bond Ordinance.
- K. On any date, the City may transfer Net Revenues to the Rate Stabilization Account or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.
- 3.2. Whenever Federal Interest Subsidies for Second Lien Bonds are received by the City, the City shall (if then permitted by the First Lien Bond Ordinance) deposit such Federal Interest Subsidies in the Second Lien Bond Account to pay principal, interest, and premium, if any, on Second Lien Bonds. If the Second Lien Bond Account already contains amounts sufficient to pay the principal, interest, and premium, if any, that is due to be paid on the next Payment Date, the City shall nevertheless deposit those Federal Interest Subsidies in the Second Lien Bond Account, but shall release an equal amount of Net Revenues that were previously deposited in the Second Lien Bond Account, and apply the released Net Revenues as provided in Section 3.1.D through Section 3.1.K.
- 3.3. The City hereby pledges the Net Revenues to the payment of principal of, premium (if any) and interest on all Second Lien Bonds. Pursuant to ORS [287A.310], this pledge of the Net Revenues 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 City shall immediately be subject to the lien of such pledge without any physical delivery or further act. The lien of this pledge shall be subordinate to the lien on the revenues of the Water System that secures the First Lien Bonds, but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge.
- 3.4. The City hereby pledges the Federal Interest Subsidies for Second Lien Bonds to the payment of principal of, premium (if any) and interest on all Second Lien Bonds. Pursuant to ORS 287A.310, this pledge of the Federal Interest Subsidies for Second Lien Bonds shall be valid and binding from the time of the adoption of this Master Declaration. The Federal Interest Subsidies so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act. To the extent required by the First Lien Bond Ordinance, the lien of this pledge shall be subordinate to the lien on the Gross Revenues that secures the First Lien Bonds, but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge.
- 3.5. The City reserves the right to pledge the Net Revenues available for transfer to a subaccount in the Second Lien Bond Reserve Account to pay amounts due under any Reserve Surety for Second Lien Bonds that are secured by that subaccount.



#### Section 4. Second Lien Bond Funds and Accounts

- 4.1. **Required Accounts.** So long as Second Lien Bonds are Outstanding, the City shall maintain the Second Lien Bond Account, the Second Lien Bond Reserve Account, the Junior Lien Obligations Account, and the Rate Stabilization Account as discrete accounts in the Subordinate Obligations Account of the Water Enterprise Fund. Unless the City restructures the funds and accounts in the Water Enterprise Fund, the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Junior Lien Obligations Account shall be maintained in the Sinking Fund and the Rate Stabilization Account shall be maintained in the Water Operating Fund.
- 4.2. **Second Lien Bond Account.** The Second Lien Bond Account shall be held by the City. Until all Second Lien Bonds are paid or defeased, amounts in the Second Lien Bond Account shall be used only to pay or defease Second Lien Bonds.
  - A. After the transfer described in Section 3.1.C, if the balance in the Second Lien Bond Account is less than the amount of Second Lien Bond principal, premium and interest that is due on that Payment Date, the City shall credit to the Second Lien Bond Account an amount equal to the deficiency from Net Revenues in the Junior Lien Obligations Account.
  - B. If, after the credit described in Section 4.2(A), the amounts available to pay Second Lien Bond Account is not sufficient to pay all amounts due on the Second Lien Bond Payment Date, the City shall allocate the available amounts:
    - (i) First, to pay Second Lien Bond interest, and *pro rata* based on the amount of interest due on each Second Lien Bond if the available amount is not sufficient to pay all Second Lien Bond interest that is due on that Payment Date; and,
    - (ii) Second, to pay Second Lien Bond principal and premium that is due on that Payment Date, and *pro rata* based on the amount of principal and premium due on each Second Lien Bond if the available amount is not sufficient to pay all Second Lien Bond principal and premium that is due on that Payment Date.
  - C. If, after the allocation described in Section 4.2.B, there is not enough to pay all principal, interest and premium that is due on that Payment Date on Second Lien Bonds that are secured by subaccounts in the Second Lien Bond Reserve Account, the City shall apply any amounts available in those subaccounts, but only to pay the principal, interest and premium on the Second Lien Bonds that are secured by those subaccounts.
  - D. The City shall transfer sufficient amounts from the Second Lien Bond Account to the Registrar in time to permit the Registrar to pay Second Lien Bond principal, interest and premium (if any) when due.
  - E. Amounts in the Second Lien Bond Account shall be invested only in Permitted Investments.

4.3. **Second Lien Bond Reserve Account.**

- A. The Second Lien Bond Reserve Account shall be held by the City. The City may create one or more subaccounts in the Second Lien Bond Reserve Account to secure Series of Second Lien Bonds, and may covenant to make deposits into any subaccounts it creates; however, the City is not obligated to create any subaccounts in the Second Lien Bond Reserve Account, and is not obligated to secure any Series of Second Lien Bonds with a subaccount in the Second Lien Bond Reserve Account.
- B. If the City creates a subaccount in the Second Lien Bond Reserve Account, the City shall, when it issues the first Series of Second Lien Bonds that is secured by that subaccount: (a) determine whether the subaccount will secure one or more Series of Second Lien Bonds; (b) establish the Reserve Requirement for that subaccount; (c) pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount; (d) determine if the Reserve Requirement for that subaccount may be funded with Reserve Sureties and the requirements for those Reserve Sureties; (e) determine the valuation and replenishment provisions that apply to that subaccount.
- C. The City shall not create any subaccounts in the Second Lien Bond Reserve Account for any purpose except securing Second Lien Bonds in accordance with this Master Declaration.

- 4.4. **Junior Lien Obligations Account.** If the City issues Junior Lien Obligations, the City shall create and maintain the Junior Lien Obligations Account as long as the Junior Lien Obligations are outstanding. The Junior Lien Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Junior Lien Obligations Subaccount. Net Revenues shall be deposited into the Junior Lien Obligations Account only as permitted by Section 3.1.G. Earnings on the Junior Lien Obligations Account shall be credited as provided in the proceedings authorizing the Junior Lien Obligations.

- 4.5. **Rate Stabilization Account.** The City shall establish and maintain the Rate Stabilization Account as long as Second Lien Bonds are Outstanding. Net Revenues may be transferred to the Rate Stabilization Account at the option of the City as permitted by Section 3.1.K. Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Deposits to the Rate Stabilization Account for a Fiscal Year shall decrease Stabilized Net Revenues for that Fiscal Year and withdrawals from the Rate Stabilization Account shall increase Stabilized Net Revenues for that Fiscal Year. The City may adjust deposits to and withdrawals from the Rate Stabilization Account for a Fiscal Year at any time prior to the date on which the audit for that Fiscal Year is finalized. Earnings on the Rate Stabilization Account shall be credited to the Water Operating Fund.

**Section 5. Rate Covenant; Operating Leases; Treatment of Capital Charges.**

5.1. **Rate Covenants.**



- A. The City covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Water System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by this Master Declaration to the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Junior Lien Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Water System or its operations.
  - B. The City covenants for the benefit of the Owners of all Second Lien Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Stabilized Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.
  - C. The City covenants for the benefit of the Owners of all Second Lien Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Combined Annual Debt Service due in that Fiscal Year.
  - D. The City shall determine whether it complied with Sections 5.1.B and 5.1.C for each Fiscal Year not later than ninety (90) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time. Compliance with Sections 5.1.B and 5.1.C shall be determined based on that financial information. A failure to comply with Sections 5.1.B and 5.1.C shall not constitute an Event of Default if:
    - (i) within 120 days after the beginning of the subsequent Fiscal Year, the City engages the services of a Qualified Consultant;
    - (ii) within 150 days after the beginning of the subsequent Fiscal Year the Qualified Consultant recommends changes to the rates and charges for the Water System, or other actions in connection with the Water System, that the Qualified Consultant reasonably projects will allow the City to comply with Sections 5.1.B and 5.1.C for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations of Operating Expenses for the partial year calculated on an annualized basis); and,
    - (iii) within 180 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of the Qualified Consultant.
- 5.2. **Treatment of Variable Rate Obligations.** For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, the Estimated Average Interest Rate for Variable Rate Obligations shall be the average SIFMA Index for the 52 week period that ends on or immediately before April 1 of the Fiscal Year that precedes the Fiscal Year in which that Estimated Average Interest Rate is used, expressed

as an annualized interest rate, plus fifty basis points (0.50%). For example: The City will determine the Estimated Average Interest Rate as of April 1, 2013, and that Estimated Average Rate shall be used to set the rates that are collected in the Fiscal Year 2013-2014 (the Fiscal Year that begins July 1, 2013) for all Variable Rate Obligations that are Outstanding during that Fiscal Year. At the beginning of Fiscal Year 2014-2015, the City will determine whether it complied with the rate covenants in Fiscal Year 2013-2014. The City will be deemed to have complied with the rate covenants in Fiscal Year 2013-2014 if the City collected Net Revenues that meet or exceed the requirements of Sections 5.1.B and 5.1.C, using the Estimated Average Interest Rate calculated as of April 1, 2013.

**5.3. Treatment of Balloon Indebtedness.**

- A. For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, for each Balloon Payment that is Outstanding on May 1 of any Fiscal Year the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds that Balloon Payment in accordance with Section 5.3.B. The Debt Manager shall prepare that schedule as of that first day of May, and that schedule shall be used to determine compliance with the rate covenants in Sections 5.1.B and 5.1.C for the following Fiscal Year.
- B. Each hypothetical Series of refunding Second Lien Bonds shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Debt Manager; however, the Debt Manager shall not select a term that exceeds the lesser of twenty-five (25) years from the date the Balloon Payment is originally scheduled to be paid or the City's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Balloon Payment. The annual installments shall be assumed to be due on the anniversaries of the date the Balloon Payment is originally scheduled to be paid, with the first installment due on the first anniversary of the date the Balloon Payment is scheduled to be paid. The hypothetical Series of refunding Second Lien Bonds shall be assumed to bear interest at the Debt Manager's estimate of the average rate that a Series of Second Lien Bonds would bear if it is amortized as provided in this Section 5.3.B and is sold at the time the applicable schedule is prepared.

- 5.4. Treatment of Interest Subsidy Obligations.** When calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, the City shall subtract from interest to be paid on Interest Subsidy Obligations the Federal Interest Subsidies on the Interest Subsidy Obligations that the City reasonably expects, at the beginning of the Fiscal Year, to receive during that Fiscal Year.

- 5.5. Treatment of Certain Leases When Calculating Operating Expenses.** The City may enter into operating leases and capital leases for assets relating to the Water System. Payments due under operating leases shall be treated as Operating Expenses. The City may elect to treat payments due under capital leases as Operating Expenses only if the capital leases have a term of ten years or less, and the total amount of lease payments

under capital leases which are treated as Operating Expenses in a fiscal year does not exceed ten percent of the Operating Expenses for the prior Fiscal Year. For purposes of the preceding sentence "ten percent of the Operating Expenses for the prior Fiscal Year" shall be calculated by excluding from Operating Expenses all capital lease payments that were treated as Operating Expenses in that prior Fiscal Year.

#### **5.6. Treatment of Capital Charges When Calculating Gross Revenues.**

- A. The City may elect to treat Capital Charges in two ways: the Capital Charges may be treated as Gross Revenues; or, the City may exclude the Capital Charges from Gross Revenues, borrow money and issue obligations which are secured by those charges, and treat the net proceeds of the borrowing as Gross Revenues. Capital Charges which are treated as Gross Revenues are defined as "Capital Charge Revenues;" Capital Charges which are committed to pay obligations, the proceeds of which are treated as a Gross Revenue, are defined as "Committed Capital Charges;" the net proceeds of those obligations which are treated as Gross Revenues are defined as "Capital Charge Proceeds;" and the obligations which produce Capital Charge Proceeds are defined as "Capital Charge Borrowings." Capital Charge Revenues and the net proceeds of Capital Charge Borrowings shall be deposited in the Water Enterprise Fund.
- B. An election to treat an issue of obligations as a Capital Charge Borrowing may be made in the proceedings authorizing issuance of the Capital Charge Borrowing; if it is not so made, it will be deemed made by the manner in which the proceeds of the obligations are treated when determining compliance with Sections 5.1.B and 5.1.C for the first Fiscal Year after the Capital Charge Borrowings are issued. This election may be changed only if the City demonstrates that the change would not have caused the City to fail to meet the requirements of Sections 5.1.B and 5.1.C, in any fiscal year prior to the fiscal year in which the change is made, if the change had been made on the date the obligations were issued.

#### **Section 6. Parity Second Lien Obligations**

- 6.1. **Basic Test.** The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Water System, but only if:
  - A. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing;
  - B. At the time of the issuance of the Parity Second Lien Obligations the City has made all transfers described in Sections 3.1.B, 3.1.C, 3.1.D, 3.1.E and 3.1.F that are required to have been made by that time;
  - C. There shall have been filed with the City either:
    - (i) a certificate of the Debt Manager:

- (a) stating that the Net Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred percent (100.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; and
  - (b) stating that the Stabilized Net Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred ten percent (110.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or
- (ii) a certificate or opinion of a Qualified Consultant:
- (a) stating the amount of the Adjusted Net Revenues computed as provided in Section 6.3 below and the Adjusted Stabilized Net Revenues computed as provided in 6.4 below for each of the four Fiscal Years after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the four Fiscal Years after the proposed Parity Second Lien Obligations are issued;
  - (b) concluding that the respective amounts of Adjusted Net Revenues in each of the Fiscal Years described in Section 6.1.C(ii)(a) are at least equal to one hundred percent (100.00%) of the Combined Annual Debt Service for each of those respective Fiscal Years on all Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding;
  - (c) concluding that the respective amounts of Adjusted Stabilized Net Revenues in each of the Fiscal Years described in Section 6.1.C(ii)(a) are at least equal to one hundred ten percent (110.00%) of the Combined Annual Debt Service for each of those respective Fiscal Years on all Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding;
  - (d) stating the projected amount of the Adjusted Net Revenues computed as provided in Section 6.3 below and the Adjusted Stabilized Net Revenues computed as provided in 6.4 below for the fifth Fiscal Year after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, the fifth Fiscal Year after the Parity Second Lien Obligations are issued;

- (e) concluding that this amount of Adjusted Net Revenues described in Section 6.1.C(ii)(d) is at least equal to one hundred percent (100.00%) of the Maximum Combined Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding; and,
  - (f) concluding that this amount of Adjusted Stabilized Net Revenues described in Section 6.1.C(ii)(d) is at least equal to one hundred ten percent (110.00%) of the Maximum Combined Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding.
- 6.2. **Adjustments for Historical Test.** Net Revenues and Stabilized Net Revenues may be adjusted by the City for purposes of Section 6.1.C(i) by adding any Net Revenues the Debt Manager calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges which have been adopted by the City on or before the date the Parity Second Lien Obligations are issued.
- 6.3. **Adjusted Net Revenues.** The Qualified Consultant may determine the Adjusted Net Revenues for purposes of Section 6.1.C(ii) by adjusting the Net Revenues for the Base Period in any of the following ways:
  - A. If the Second Lien Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may adjust the Net Revenues to reflect the Qualified Consultant's estimate of the effect on the Net Revenues for the Base Period if the Water System utility properties that are being acquired had been part of the Water System during the Base Period. The estimate shall be based on the operating experience and records of the City and any available financial and records relating to the Water System utility properties which will be acquired;
  - B. The Qualified Consultant may adjust the Net Revenues to reflect any changes in rates and charges which the Qualified Consultant determines are reasonable;
  - C. The Qualified Consultant may adjust the Net Revenues to reflect any customers added to the Water System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate; and
  - D. If extensions of or additions to the Water System are in the process of construction on the date of the Qualified Consultant's certificate, or if the proceeds of the Second Lien Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, the Qualified Consultant may adjust the Net Revenues to reflect any additional Net Revenues not included in the preceding paragraphs that will be derived from such additions and extensions (after deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions).

6.4. **Adjusted Stabilized Net Revenues.** The Qualified Consultant may determine the Adjusted Stabilized Net Revenues for purposes of Section 6.1.C(ii) by adjusting the Net Revenues for the Base Period in the following ways:

- A. The Qualified Consultant may adjust the Net Revenues for the Base Period in any of the ways described in Section 6.3.
- B. The Qualified Consultant may adjust the Net Revenues for the Base Period to eliminate the effect of any transfers to the Rate Stabilization Account that were made during the Base Period.
- C. The Qualified Consultant may adjust the Net Revenues to reflect any withdrawals from the Rate Stabilization Account that the Qualified Consultant estimates it would be reasonable for the City to make during any of the Fiscal Years described in Section 6.1.C(ii).

6.5. **Exceptions.**

- A. The City may issue Parity Second Lien Obligations to refund Outstanding First Lien Bonds without complying with Section 6.1 if Annual Second Lien Debt Service on the refunding Parity Second Lien Obligations does not exceed the Annual First Lien Debt Service on the refunded First Lien Bonds by more than \$5,000 in any Fiscal Year, calculated for the remainder of the Fiscal Year in which the refunding Parity Second Lien Obligations are issued and in all subsequent Fiscal Years in which the refunding Parity Second Lien Obligations are scheduled to be Outstanding.
- B. The City may issue Parity Second Lien Obligations to refund Outstanding Second Lien Bonds without complying with Section 6.1 if the Annual Second Lien Debt Service on the refunding Parity Second Lien Obligations does not exceed Annual Second Lien Debt Service on the refunded Second Lien Bonds by more than \$5,000 in any Fiscal Year, calculated for the remainder of the Fiscal Year in which the refunding Parity Second Lien Obligations are issued and in all subsequent Fiscal Years in which the refunding Parity Second Lien Obligations are scheduled to be Outstanding.
- C. The City may issue Parity Second Lien Obligations to refund Balloon Payments and Variable Rate Obligations without complying with Section 6.1.

6.6. **Treatment of Federal Interest Subsidies.** When calculating Combined Annual Debt Service for the tests for issuing Parity Second Lien Obligations in this Section 6, the City shall subtract from the scheduled payments of interest on Interest Subsidy Obligations the amount of Federal Interest Subsidies that the City reasonably expects, at the time the Parity Second Lien Obligations are issued, to receive.

6.7. **Treatment of Balloon Payments.** Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Second Lien Obligations is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds each Outstanding Balloon Payment in accordance with this

Section 5.3.B. The Debt Manager shall prepare that schedule as of the date the Parity Second Lien Obligations are sold, and that schedule shall be used to determine compliance with the tests for Parity Second Lien Obligations in this Section 6.

- 6.8. **Treatment of Variable Rate Obligations.** For purposes of calculating Annual Second Lien Bond Debt Service and Combined Annual Debt Service for the tests for issuing Parity Second Lien Obligations in this Section 6:
- A. Unless Section 6.8.B applies, the Estimated Average Interest Rate for any Series of Variable Rate Obligations means the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Second Lien Obligations are sold, expressed as an annualized interest rate; or,
  - B. For any Series of Variable Rate Bonds that have been outstanding for at least 52 weeks at the end of the period described in Section 6.8.A, if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 6.8.A, the Estimated Average Interest Rate for that Series means the average of the actual rates on that Series during that 52 week period, expressed as an annualized interest rate.
- 6.9. **Agreements for Exchange of Interest Rates.** An Agreement for Exchange of Interest Rates may be a Parity Agreement for Exchange of Interest Rates and a Parity Second Lien Obligation if the obligation to make City Payments under the Agreement for Exchange of Interest Rates qualifies as a Parity Second Lien Obligation under Section 6.1, after the Reciprocal Payments under the Agreement for Exchange of Interest Rates are applied to reduce Combined Annual Debt Service. Any Parity Agreement for Exchange of Interest Rates shall clearly state that it is a Parity Agreement for Exchange of Interest Rates and has qualified as a Parity Second Lien Obligation under Section 6.1 of this Master Declaration. In addition, the City may replace a Parity Agreement for Exchange of Interest Rates with another Parity Agreement for Exchange of Interest Rates without qualifying the replacement Agreement for Exchange of Interest Rates under Section 6.1 if the replacement does not increase the Combined Annual Debt Service in any Fiscal Year by more than \$5,000.
- 6.10. **Lien on Net Revenues.** All Parity Second Lien Obligations issued in accordance with this Section shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Second Lien Bonds.

## **Section 7. Junior Lien Obligations**

The City may issue Junior Lien Obligations only if:

- 7.1. The Junior Lien Obligations are payable solely from amounts permitted to be deposited in the Junior Lien Obligations Account pursuant to Section 3.1.G;

- 7.2. The Junior Lien Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the Second Lien Bonds.

### **Section 8. Separate Utility System**

The City may declare property which the City owns and is part of the Water System (but has a value of less than five percent of the Water System at the time of the declaration), and property which the City has not yet acquired but would otherwise become part of the Water System, to be part of a Separate Utility System. The City may pay costs of acquiring, operating and maintaining Separate Utility Systems from Net Revenues, but only if, at the time of payment, the City has made all transfers described in Sections 3.1.B, 3.1.C, 3.1.D, 3.1.E and 3.1.F that are required to have been made by that time. The City may issue obligations which are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the City may issue Junior Lien Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Junior Lien Obligations.

### **Section 9. General Covenants**

The City hereby covenants and agrees with the Owners of all Outstanding Second Lien Bonds as follows:

- 9.1. The City shall promptly cause the principal, premium, if any, and interest on the Second Lien Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.
- 9.2. The City shall maintain complete books and records relating to the operation of the Water System and all City funds and accounts in accordance with generally accepted accounting principles, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of Second Lien Bond Owners.
- 9.3. The City shall not issue obligations which have a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for First Lien Bonds and obligations to pay Operating Expenses.
- 9.4. The City shall not amend the First Lien Bond Ordinance unless the City finds that the amendments will not materially and adversely affect the rights of the Owners of Second Lien Bonds. This covenant shall not be construed to limit the City's right to issue First Lien Bonds pursuant to the provisions of the First Lien Bond Ordinance or to prevent the City from incorporating the amendments described in Section 6 of the City's Bond Declaration for the City's First Lien Water System Revenue Bond, 2012 Series A that is dated as of August 2, 2012.
- 9.5. The City shall promptly deposit the Gross Revenues and other amounts described in this Master Declaration into the funds and accounts specified in this Master Declaration.



- 9.6. That it shall cause the Water System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Water System, and shall cause the Water System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals so that at all times the operation of the Water System shall be properly and advantageously conducted.
- 9.7. The City shall not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and that it will not provide free Water System products or services except for fire suppression, in case of emergencies.
- 9.8. The City shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.
  - A. The net proceeds of insurance against accident to or destruction of the Water System shall be used to repair or rebuild the damaged or destroyed Water System, and to the extent not so applied, will be applied to the payment or redemption of the First Lien Bonds, and to the extent available after such payment, to the payment or redemption of the Second Lien Bonds pro rata;
  - B. Insurance described in Section 9.8 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance;
- 9.9. The City shall not, nor shall it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:
  - A. The City may dispose of all or substantially all of the Water System, only if the City pays all Second Lien Bonds or defeases them pursuant to Section 12.
  - B. Except as provided in Section 9.9.C, the City will not dispose of any part of the Water System in excess of ten percent (10.0%) of the value of the Water System in service unless prior to such disposition either:
    - (i) There has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Section 5.1 of this Master Declaration; or
    - (ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Second Lien Bonds equal to the greater of the following amounts:

- (a) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding (defined as the total principal amount of Second Lien Bonds then Outstanding less the amount of cash and investments in the Sinking Fund) that the Gross Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or
  - (b) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.
- C. The City may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Water System.
- 9.10. If the ownership of property that is part of the Water System and that has a value of more than ten percent of the value of the Water System is transferred from the City through the operation of law, then unless the City finds that the transfer will not impair the ability of the City to comply with the rate covenants contained in Section 5.1 of this Master Declaration, the City shall either reconstruct or replace such transferred portion using any proceeds of the transfer or apply the proceeds of the transfer to redeem or defease First Lien Bonds or Second Lien Bonds.

#### **Section 10. Events of Default and Remedies**

- 10.1. Continuous Operation Essential. The City Council of the City hereby finds and determines that the continuous operation of the Water System and the collection, deposit and disbursement of the Net Revenues in the manner provided in this Master Declaration and in any Supplemental Declaration are essential to the payment and security of the Second Lien Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Master Declaration or any such Supplemental Declaration will endanger the necessary continuous operation of the Water System and the application of the Net Revenues to the operation of the Water System and the payment of the Second Lien Bonds.
- 10.2. Events of Default. The following shall constitute "Events of Default":
  - A. If the City shall fail to pay any Second Lien Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
  - B. Except as provided in Section 5.1.D and 10.2.F, if the City 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 thirty (30) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from a

- Credit Provider, a committee of Second Lien Bond Owners or from the Owners of not less than 20% in aggregate principal amount of the Second Lien Bonds Outstanding;
- C. If the City shall sell, transfer, assign or convey properties constituting the Water System in violation of Section 9.9.A;
  - D. If an order, judgment or decree shall be entered by any court of competent jurisdiction:
    - (i) Appointing a receiver, trustee or liquidator for the City or the whole or any part of the Water System;
    - (ii) Approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or
    - (iii) Assuming custody or control of the City or of the whole or any part of the Water System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
  - E. If the City shall:
    - (i) Admit in writing its inability to pay its debts generally as they become due;
    - (ii) File a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
    - (iii) Consent to the appointment of a receiver of the whole or any part of the Water System; or
    - (iv) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Water System.
  - F. Exception. It shall not constitute an Event of Default under 10.2.B if the default cannot practicably be remedied within thirty (30) days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied.
  - G. Remedies. If an Event of Default occurs, any Second Lien Bond Owner may exercise any remedy available at law or in equity. However, the Second Lien Bonds shall not be subject to acceleration.
  - H. Books of City Open to Inspection.

- (i) The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the Water System shall at all reasonable times be subject to the inspection and use of the Second Lien Bond Owners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Second Lien Bonds and their respective agents and attorneys.
- (ii) The City covenants that if the Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under this Master Declaration.

I. Waivers of Event of Default.

- (i) No delay or omission of any Second Lien Bond Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 10 to the Second Lien Bond Owners may be exercised from time to time and as often as may be deemed expedient by the Second Lien Bond Owners.
- (ii) The owners of not less than fifty percent (50%) in principal amount of the affected Second Lien Bonds that are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Second Lien Bonds, waive any past default under this Master Declaration with respect to such Second Lien Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Second Lien Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

J. Remedies Granted in Master Declaration Not Exclusive.

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

**Section 11. Amendment of Master Declaration**

11.1. This Master Declaration may be amended by Supplemental Declaration without the consent of any Second Lien Bond Owners for any one or more of the following purposes:

- A. To cure any ambiguity or formal defect or omission in this Master Declaration;

- B. To add to the covenants and agreements of the City in this Master Declaration, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
- C. To authorize issuance of Second Lien Bonds or Junior Lien Obligations;
- D. To authorize Parity Agreement for Exchange of Interest Rates, and specify the rights and duties of the parties to a Parity Agreement for Exchange of Interest Rates;
- E. 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 Second Lien Bonds for sale under the securities laws of any of the states of the United States of America;
- F. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
- G. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Second Lien Bonds;
- H. So long as a Credit Facility (other than a Reserve Surety) is in full force and effect with respect to the Second Lien Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
  - (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Second Lien Bonds by the Rating Agencies;
  - (ii) Changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Second Lien Bonds or diminishes the security afforded by such Credit Facility;
  - (iii) Materially and adversely affects the rights and security afforded to the Owners of any Outstanding Second Lien Bonds not secured by such Credit Facility; or
- I. To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification shall take effect only after all affected and then Outstanding Second Lien Bonds cease to be Outstanding.
- 11.2. This Master Declaration may be amended for any other purpose only upon consent of Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Second Lien Bonds outstanding; provided, however, that no amendment shall be valid without the consent of the Owners of 100 percent (100%) of the affected Second Lien Bonds outstanding if the amendment:

- A. Extends the maturity of any Second Lien Bond, reduces the rate of interest upon any Second Lien Bond, extends the time of payment of interest on any Second Lien Bond, reduces the amount of principal payable on any Second Lien Bond, or reduces any premium payable on any Second Lien Bond; or
  - B. Reduces the percent of Second Lien Bond Owners required to approve Supplemental Declarations.
- 11.3. For purposes of Section 11.2, and subject to Section 11.4, the initial purchaser of a series of Second Lien Bonds may be treated as the Owner of that Series at the time that series of Second Lien Bonds is delivered in exchange for payment.
- 11.4. Except as otherwise expressly provided below in this Section 11.4 or in a Supplemental Declaration, as long as a Credit Facility (other than a Reserve Surety) securing all or a portion of any Outstanding Second Lien Bonds is in effect, the issuer of the Credit Facility may act on behalf of the Owners of all Second Lien Bonds that are secured by the Credit Facility for the purposes of consenting to any action taken by the City under this Master Declaration and for all other purposes except payment of Second Lien Bond principal, interest and premium, if any.
- A. The Credit Provider for a Credit Facility shall not be deemed to be the Owner of a Second Lien Bond for purposes of executing and delivering with respect to any such Supplemental Declaration or of any amendment, change or modification of this Master Declaration that:
    - (i) 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 Second Lien Bonds or diminishes the security afforded by such Credit Facility; or
    - (ii) Reduces the percentage or otherwise affects the classes of affected Second Lien Bonds, the consent of the Second Lien Bond Owners of which is required to effect any such modification or amendment.
  - B. The Credit Provider for a Credit Facility that secures Second Lien Bonds shall not be entitled to exercise any rights under Section 11.4 during any period when:
    - (i) The Credit Facility to which the Credit Provider is a party is not in full force and effect;
    - (ii) The Credit Provider has filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;
    - (iii) The Credit Provider has for any reason have failed or refused to honor a proper demand for payment under the Credit Facility;

- (iv) An order or decree has been entered with the consent or acquiescence of the Credit Provider, appointing a receiver or receivers for the assets of the Credit Provider; or
  - (v) An order or decree has been entered without the consent or acquiescence of the Credit Provider, appointing a receiver or receivers for the assets of the Credit Provider, and the order or decree has not been vacated or discharged or stayed within ninety (90) days after its entry.
- C. For purposes of determining the percentage of Second Lien Bond Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Declaration, the Owners of Second Lien Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Second Lien Bonds in an aggregate principal amount equal to the accreted value of such Second Lien Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

## **Section 12. Defeasance**

The provisions of this Section 12 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different defeasance provisions for that Series.

- 12.1. The City may defease and deem all or any portion of the Outstanding Second Lien Bonds to be paid by irrevocably depositing in irrevocable escrow with an independent trustee or escrow agent (1) cash or (2) non-callable Defeasance Obligations in amounts calculated to be sufficient, without reinvestment, to pay the defeased Second Lien Bonds.
- 12.2. If Second Lien Bonds are defeased under this Section, all obligations of the City with respect to those defeased Second Lien Bonds shall cease and terminate, except for the obligation of the City, the escrow agent and the Registrar to pay the defeased Second Lien Bonds from the amounts deposited in escrow, and the obligation of the Registrar to continue to transfer Second Lien Bonds as provided in this Master Declaration.

## **Section 13. BEO System.**

13.1. The provisions of this Section 13 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.

13.2. The Bonds shall be initially issued as a BEO security issue with no Second Lien Bonds being made available to the Owners upon the execution and delivery of the letter of representations among the Paying Agent, DTC and the City. 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 Second Lien Bonds shall be initially issued in the form of separate single fully registered typewritten Second Lien Bonds for each maturity of the Second Lien Bonds (the "Global Bonds") in substantially the form attached hereto as Exhibit A with such changes as the City Official may approve. Each Global Bond shall

be registered in the name of CEDE & CO. as nominee (the "Nominee") of DTC (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the "Depository") as the "Registered Owner", and such Global Bonds shall be lodged with the Depository until early redemption or maturity of the Second Lien Bond issue. The Paying Agent shall remit payment for the maturing principal and interest on the Second Lien Bonds to the Owner for distribution by the Nominee for the benefit of the owners (the "Beneficial Owner") by recorded entry on the books of the Depository participants and correspondents. While the Second Lien Bonds are in BEO form, the Second Lien Bonds will be available in denominations of \$5,000 or any integral multiple thereof within a maturity.

- 13.3. In the event the Depository determines not to continue to act as securities depository for the Second Lien Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the BEO system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Second Lien 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 Second Lien Bond register and thereafter in the name or names of the Owners of the Second Lien Bonds transferring or exchanging Second Lien Bonds.
- 13.4. While the Second Lien Bonds are in BEO form, the City 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:
  - A. The accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the Second Lien Bonds;
  - B. 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 Second Lien Bonds, including any notice of prepayment;
  - C. The selection by the Depository of the beneficial interest in Second Lien Bonds to be redeemed prior to maturity; or
  - D. The payment to any participant, correspondent, or any other person other than the owner of the Second Lien Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal of or interest on the Second Lien Bonds.
- 13.5. Notwithstanding the BEO system, the City may treat and consider the Owner in whose name each Second Lien Bond is registered in the registration books maintained by the Paying Agent as the Owner and absolute owner of such Second Lien Bond for the purpose of payment of principal and interest with respect to such Second Lien Bond, or for the purpose of giving notices of redemption and other matters with respect to such Second Lien Bond, or for the purpose of registering transfers with respect to such Second Lien Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid



all principal and interest on the Second Lien 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 City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

- 13.6. Upon delivery by the Depository to the City 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 City shall promptly deliver a copy thereof to the Paying Agent. The Depository shall tender the Second Lien Bonds it holds to the Paying Agent for re-registration.

#### **Section 14. Redemption of Second Lien Bonds.**

- 14.1. The provisions of this Section 14 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.
- 14.2. The City reserves the right to purchase Second Lien Bonds in the open market.
- 14.3. If Second Lien Bonds are subject to mandatory redemption the Paying Agent shall, without further action by the City, select the particular Second Lien Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Second Lien Bonds, and give notice of their redemption in accordance with this Section 14.
- 14.4. If certain maturities of Second Lien Bonds are subject to both optional and mandatory redemption, the City may elect to apply against the mandatory redemption requirement any of those Second Lien Bonds which it has previously optionally redeemed. In addition, if the City purchases Second Lien Bonds which are subject to mandatory redemption, the City may elect to apply against the mandatory redemption requirement any such Second Lien Bonds which it has previously purchased. If the City 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.
- 14.5. So long as the BEO System remains in effect with respect to the Second Lien 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 Second Lien Bonds.
- 14.6. During any period in which the BEO System is not in effect with respect to the Second Lien Bonds, unless waived by any Owner of the Second Lien Bonds to be redeemed, official notice of any redemption of Second Lien Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 20 days and not more than 60 days prior to the date

fixed for redemption to the Owner of the Second Lien Bonds to be redeemed, at the address shown on the Second Lien 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:

- A. The redemption date;
  - B. The redemption price;
  - C. If less than all Outstanding Second Lien Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Second Lien Bonds to be redeemed;
  - D. That on the redemption date the redemption price will become due and payable upon each such Second Lien Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and
  - E. The place where such Second Lien Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.
- 14.7. The City 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 Second Lien Bonds or portions of Second Lien Bonds which are to be redeemed on that date.
- 14.8. Official notice of redemption having been given as aforesaid, the Second Lien Bonds or portions of Second Lien 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 City shall default in the payment of the redemption price or unless the notice was conditional as described in Section 15.9) such Second Lien Bonds or portions of Second Lien Bonds shall cease to bear interest. Upon surrender of such Second Lien Bonds for redemption in accordance with said notice, such Second Lien 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 Second Lien Bond, there shall be prepared for the registered owner a new Second Lien Bond of the same maturity in the amount of the unpaid principal. All Second Lien Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be reissued. Notwithstanding that any Second Lien Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Second Lien Bonds. From and after such notice having been given and such deposit having been made, the Second Lien Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the City shall be under no further liability in respect thereof.
- 14.9. Any notice of optional redemption given for the Second Lien Bonds pursuant to this Section 14 may state that the optional redemption is conditional upon receipt by the

Paying Agent of moneys sufficient to pay the redemption price of such Second Lien 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 Second Lien Bonds as promptly as practicable.

**Section 15. Authentication, Registration and Transfer.**

- 15.1. No Second Lien 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 Second Lien Bonds to be delivered at Closing, and shall additionally authenticate all Second Lien Bonds properly surrendered for exchange or transfer pursuant to this Master Declaration.
- 15.2. All Second Lien Bonds shall be in registered form. \_\_\_\_\_ is hereby appointed to serve as Paying Agent for the Second Lien Bonds. A successor Paying Agent may be appointed for the Second Lien Bonds by ordinance or resolution of the City. The Paying Agent shall provide notice to Owners of any change in the Paying Agent not later than the Second Lien Bond payment date following the change in Paying Agent.
- 15.3. The ownership of all Second Lien Bonds shall be entered in the Second Lien Bond register maintained by the Paying Agent and the City and Paying Agent may treat the person listed as owner in the Second Lien Bond register as the owner of the Second Lien Bond for all purposes.
- 15.4. While Second Lien Bonds are in BEO form the Paying Agent shall transfer Second Lien Bond payments to their Owner as required by the BEO system.
- 15.5. The provisions of this 15.5 apply only if the Second Lien Bonds cease to be a BEO issue, or unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.
  - A. 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 Second Lien Bond register as of the applicable Record Date. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
  - B. Second Lien Bonds may be exchanged for an equal principal amount of Second Lien Bonds of the same Series and maturity which are in different authorized denominations, and Second Lien Bonds may be transferred to other owners if the Owner submits the following to the Paying Agent:
    - (i) 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

- (ii) The Second Lien Bonds to be exchanged or transferred.
  - C. The Paying Agent shall not be required to exchange or transfer any Second Lien Bonds submitted to it during any period beginning with the applicable Record Date and ending on the next following payment date; however, such Second Lien Bonds shall be exchanged or transferred promptly following the payment date.
  - D. The Paying Agent shall not be required to exchange or transfer any Second Lien Bonds which have been designated for redemption if such Second Lien Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.
  - E. For purposes of this Section, Second Lien Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 15.5.B.
- 15.6. The City 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.

EXECUTED ON BEHALF OF THE CITY OF PORTLAND BY ITS DEBT MANAGER AS OF  
THE \_\_ DAY OF \_\_\_\_, 2013.

City of Portland, Oregon

By: \_\_\_\_\_  
Debt Manager