

**City of Wilsonville  
Clackamas and Washington Counties, Oregon**

Resolution No. 1675  
(Master Water Revenue Bond Resolution)

Adopted October 2, 2000

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Exhibit A - Form of Bond

**RESOLUTION NO. 1675**

**A RESOLUTION AUTHORIZING THE ISSUANCE OF WATER REVENUE BONDS AND PRESCRIBING THE TERMS UNDER WHICH FUTURE OBLIGATIONS MAY BE ISSUED.**

WHEREAS, in September of 1999 the City's voters approved a ballot measure authorizing the issuance of \$25 million of revenue bonds under the Uniform Revenue Bond Act to finance a Willamette River water treatment plant (the "Project") to provide the City's long term water supply; and,

WHEREAS, the City adopted Resolution No. 1522 on November 2, 1998, authorizing the City to issue up to \$5,800,000 of water revenue bonds under the Uniform Revenue Bond Act to finance other improvements to the City Water System, published notice in compliance with that act, did not receive sufficient petitions to require that the bonds be submitted to City voters, and the City is now authorized to issue the bonds described in Resolution No. 1522; and,

WHEREAS, the City has previously issued its Water System Revenue Bonds, Series 1988 which are dated as of December 1, 1988 and are currently outstanding in the principal amount of \$1,365,000 (the "Series 1988 Bonds") and bear interest at rates that are higher than current market rates; and,

WHEREAS, the City has previously issued its Water System Bond Anticipation Note, Series 1998 which is dated as of October 29, 1998 and is currently outstanding in the principal amount of \$3,600,000 (the "Series 1998 Note"); and,

WHEREAS, the City has entered into a Non-Revolving Credit Facility with Bank of America, N.A. which is dated as of June 28, 2000 (the "2000 Credit Facility") in order to provide interim financing for the Project; and,

WHEREAS, it is now desirable to authorize the City to issue up to \$15,000,000 of the bonds which were approved by the voters in September of 1999 to provide additional funds for costs of the Project, plus an additional amount of those bonds which is required to refund the 2000 Credit Facility; and,

WHEREAS, it is also desirable to authorize the City to issue bonds pursuant to Resolution No. 1522 to refund the Series 1998 Note; and,

WHEREAS, it is also desirable to authorize the City to issue an amount of revenue bonds sufficient to refund the Series 1988 Bonds pursuant to ORS 288.592; and,

WHEREAS, it is also desirable to prescribe the terms under which the City may issue additional obligations which are payable from the revenues of the City's water system;

**NOW THEREFORE, THE CITY OF WILSONVILLE HEREBY RESOLVES AS FOLLOWS:**

## **Section 1. Definitions**

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

“2000 Bond Proceeds Account” means an account in the Water Fund, which the City uses to account for Series 2000 Bond proceeds.

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

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

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

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

(D) Each Series of Interim Financings shall be assumed to bear interest at its stated rate prior to its final maturity date. The principal amount of each Series of Interim Financings plus the interest due on that Series of Interim Financings at its final maturity date (the “Assumed Principal”) shall be assumed to bear interest from the final maturity date of the Series at the most recent estimate of the Refunding Rate. The Assumed Principal for each Series of Interim Financings shall be assumed to be paid in equal semiannual payments which are sufficient to fully amortize that Assumed Principal, with interest at the Refunding Rate for that Series, over the Refunding Amortization Period for that Series. The first semiannual payment shall be assumed to be due on the first day of December which is at least six months after the final maturity date of the Series of Interim Financings and subsequent semiannual payments for that Series shall be assumed to be due on the following first days of June and December of each year. If an Interim Financing is in the form of a line of credit, the Annual Debt Service for the line of credit shall be calculated assuming that the entire amount available under the line of credit is drawn on the date of closing.

“Authorized Officer” means the City Manager, the Finance Director or the person designated by the City Manager to act on behalf of the City under this Master Resolution.

“Base Period” means any twelve consecutive months selected by the City out of the most recent eighteen months preceding the delivery of a Series of Parity Obligations.

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

“Bond Counsel” means Preston Gates & Ellis LLP or another law firm having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

“Bond Payment Account” means the Bond Payment Account in the Water Fund described in Section 3.2.

“Bond Reserve Account” means the Bond Reserve Account in the Water Fund described in Section 3.3.

“Bonds” means, the Series 2000 Bonds and any Parity Obligations.

“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.

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

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

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

“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 Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility.

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

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

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

“Event of Default” means any event specified in Section 9.2.

“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 fees, charges, 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 Fund except the following:

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

(B) 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 Bonds;

(C) the proceeds of any borrowing;

“Parity Obligation” means any obligation payable from the Net Revenues which is issued in accordance with Section 5.

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

“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 Resolution or any Supplemental Resolution.

“Rate Stabilization Account” means the Rate Stabilization Account of the Water Fund established which is described in Section 3.5.

“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 Bonds or a Credit Facility at the request of the City.

“Record Date” for the Series 2000 Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

“Refunding Amortization Period” means a period equal to the lesser of: twenty (20) years; or the weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Series of Interim Financings, as reasonably estimated by the City.

“Refunding Rate” means the average, fixed rate of interest which the Authorized Officer reasonably estimates that a Series of Parity Indebtedness would bear if they were issued on the date of the estimate and matured over the Refunding Amortization Period in substantially equal amounts of principal and interest.

“Registrar” means the registrar and paying agent for the Bonds appointed by the City Official pursuant to Section 15.4.

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

“Reserve Requirement” means the lesser of Maximum Annual Debt Service on all Outstanding Bonds or the amount described in the next sentence. If, at the time of issuance of a Series of Bonds, the amounts required to be added to the Bond Reserve Account to make the balance in the Bond Reserve Account equal to the Maximum Annual Debt Service exceeds the Tax Maximum calculated with respect to that Series, then the Reserve Requirement means the Reserve Requirement in effect on the date of issuance of the Series of Bonds (calculated as if the Series of Bonds were not Outstanding), plus the Tax Maximum for the Series of Bonds.

“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 7.

“Series 2000 Bonds” means the City's Water Revenue Bonds, Series 2000, issued pursuant to Section 15 of this Master Resolution.

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

“State” means the State of Oregon.

“Subordinate Obligations Account” means the Subordinate Obligations Account of the Water Fund which is described in Section 3.4.

“Subordinate Obligations” means obligations having a lien on the Net Revenues which is subordinate to the lien of the Bonds. Restrictions on Subordinate Obligations are described in Section 6.

“Supplemental Resolution” means any resolution which supplements or amends this Master Resolution, entered into by the City in compliance with Section 10.

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

“Transfer Date” means the third Business Day before each Payment Date.

“Valuation Date” means June 30 of each year (or the first Business Day thereafter, if June 30 is not a Business Day) and any date on which amounts are withdrawn from the Bond Reserve Account pursuant to Section 3.3(1).

“Water Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Bonds.

“Water SDCs” means systems development charges which are imposed by the City in connection with the Water System, the revenues from which may legally be spent to pay principal and interest on Bonds.

“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, including the City’s share of any jointly owned facilities. However, the Water System does not include any Separate Utility System, any power generating facilities which are operated in connection with assets which are part of the Water System, or any share of jointly owned facilities which is the responsibility of another party.

## **Section 2. Deposit, Pledge and Use of Gross Revenues**

2.1 **Deposit.** All Gross Revenues and Water SDCs shall be deposited to and maintained in the Water Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. All Gross Revenues in the Water Fund (other than amounts credited to the Bond Payment Account and the Bond Reserve Account) shall be used on or before the following dates for the following purposes in the following order of priority:

- (1) At any time to pay Operating Expenses which are then due;
- (2) On each Transfer Date, the City shall credit to the Bond Payment Account an amount sufficient, with any other amounts available in the Bond Payment Account, to pay all Bond principal, interest and premium which is due on the following Payment Date.
- (3) On each Transfer Date specified in Section 3.3(2) and Section 3.3(3), the City shall deposit in the Bond Reserve Account the amounts required by those sections;
- (4) On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the City shall pay the amounts due from the Net Revenues;
- (5) After all transfers and payments having a higher priority under this section have been made, the City may transfer to the Subordinate Obligations Account the Net Revenues required by the proceedings authorizing the Subordinate Obligations;
- (6) After all transfers and payments having a higher priority under this section have been made, the City may transfer or spend Net Revenues for any other lawful purpose, including transfers to the Rate Stabilization Account and any franchise fees and similar charges imposed by the City on the Water System or its operations.

2.2 **Pledge.** The City hereby pledges the following amounts to the payment of principal of, premium (if any) and interest on all Bonds: the Net Revenues, Water SDCs, all amounts in the Bond Payment Account and the Bond Reserve Account, and any amounts available

to be drawn under a Reserve Credit Facility. In addition, the City hereby pledges the Net Revenues and Water SDCs which are required to be credited to the Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 288.594, these pledges hereby made by the City shall be valid and binding from the time of the adoption of this Master Resolution. The amounts 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, and the lien of the pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 288.594(2).

### **Section 3. Bond Funds and Accounts**

- 3.1 **Obligation to Maintain Accounts.** So long as Bonds are Outstanding, the City shall maintain the Bond Payment Account and the Bond Reserve Account as discrete accounts in the Water Fund. If the City issues Subordinate Obligations the City shall create and maintain the Subordinate Obligations Account for as long as Subordinate Obligations are Outstanding.
- 3.2 **Bond Payment Account.** The City shall deposit the amounts described in Sections 2.1(2) and 3.3(1) to the Bond Payment Account. Amounts in the Bond Payment Account shall be used solely to pay principal, interest and any premium due on Bonds. The City shall transfer amounts in the Bond Payment Account to the Registrar at times and in amounts sufficient to permit the Registrar to pay the Bonds when due.
- 3.3 **Bond Reserve Account.** Amounts credited to the Bond Reserve Account shall be used only to pay Bonds, and only if Water SDCs and Net Revenues credited to other accounts of the Water Fund are insufficient.
- (1) If, on any Transfer Date, after the credit described in Section 2.1(2) has been made, the amount credited to the Bond Payment Account is not sufficient to pay all Bond principal, interest and premium which are due on the following Payment Date, the City shall transfer the amount of the deficiency from the Bond Reserve Account to the Bond Payment Account on that Transfer Date.
  - (2) If an amount is withdrawn from the Bond Reserve Account pursuant to Section 3.3(1), the City shall make substantially equal semi-annual transfers of Net Revenues to the Bond Reserve Account on each Transfer Date, beginning as soon as practicable and not later than the first Transfer Date which is at least seven months after the date of the withdrawal, and continuing until the balance in the Bond Reserve Account is equal to the Reserve Requirement. Each transfer shall be in an amount at least equal to one-third of the sum of: the amount which is withdrawn from the Bond Reserve Account; plus, any interest, fees or penalties owed under a Reserve Credit Facility.
  - (3) If the value of cash, Permitted Investments and any Reserve Credit Facility is less than the Reserve Requirement on a Valuation Date for reasons other than a transfer pursuant to Section 3.3(1), the City shall transfer Net Revenues to the

Bond Reserve Account in an amount equal to the deficiency, not later than the first Transfer Date which occurs at least four months after the Valuation Date.

- (4) If the value of the investments in the Bond Reserve Account on a Valuation Date exceeds the Reserve Requirement, the City may transfer the excess to any account of the Water Fund.
- (5) Transfers to the Bond Reserve Account pursuant to Section 2.1(3) shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Bond Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
- (6) Amounts in the Bond Reserve Account shall be invested in Permitted Investments which mature within three years after the investments are purchased.
- (7) Earnings on the Bond Reserve Account shall be credited to the Bond Reserve Account whenever the balance in that account is less than the Reserve Requirement. Otherwise earnings may be credited to any account of the Water Fund specified by the City.
- (8) Permitted Investments in the Bond Reserve Account shall be valued on each Valuation Date in the following manner:
  - (A) Demand deposits and deposits in the Oregon Short Term Fund or Oregon Local Government Investment Pool shall be valued at their face amount, plus accrued interest;
  - (B) Other Permitted Investments shall be valued at their purchase price, less any portion of the purchase price which is allocable to accrued interest; and
  - (C) Reserve Credit Facilities shall be valued at the amount which is available to be drawn or paid under them.
- (9) Withdrawals from the Bond Reserve Account shall be made in the following order of priority:
  - (A) **First**, from any cash on deposit in the Bond Reserve Account;
  - (B) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such Bond Reserve Account; and
  - (C) **Third**, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.

- (10) Amounts on deposit in the Bond Reserve Account may be applied to the final payment (whether at maturity, by prior Redemption or by means of a defeasance as provided in Section 11 hereof) of a Series of Bonds, so long as the balance remaining in the Bond Reserve Account thereafter is at least equal to the Reserve Requirement for all Bonds which will be Outstanding thereafter.
- (11) Any Supplemental Resolution authorizing the issuance of a Series of Bonds shall require a deposit into the Bond Reserve Account in an amount sufficient to make the balance in the Bond Reserve Account at least equal to the Reserve Requirement on the date of closing of that Series of Bonds, with the Series of Bonds treated as Outstanding.

3.4 **Subordinate Obligations Account.** If the City issues Subordinate Obligations, the City shall create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding. The Subordinate Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Subordinate Obligations Account. Net Revenues shall be deposited into the Subordinate Obligations Account only as permitted by Section 2.1(5). Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations. Net Revenues in the Subordinate Obligations account are pledged to pay the Bonds.

3.5 **Rate Stabilization Account.** The City may create a Rate Stabilization Account within the Water Fund. Net Revenues and revenues from Water SDCs may be transferred to the Rate Stabilization Account at the option of the City as permitted by Section 2.1(6). 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 and withdrawals from the Rate Stabilization Account that occur within ninety days after the end of a Fiscal Year may be treated as occurring within the most recently ended Fiscal Year. Earnings on the Rate Stabilization Account shall be credited to the Water Fund.

#### **Section 4. Rate Covenant.**

4.1 **Basic Rate Covenant.** 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 Resolution to the Registrar, to the Bond Payment Account and to the Bond Reserve Account.

4.2 **Coverage Covenant.** The City covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate:

- (1) to generate Net Revenues, plus Water SDCs, plus withdrawals from the Rate Stabilization Account, and minus deposits to the Rate Stabilization Account in

each Fiscal Year at least equal to one hundred twenty-five percent (125.00%) of Annual Debt Service due in that Fiscal Year; and

- (2) to generate Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Annual Debt Service due in that Fiscal Year.

4.3 **Report.** Not later than ninety days after the end of each fiscal year the City shall file a report in the City Manager's office, signed by an Authorized Officer, which demonstrates whether the City has complied with Section 4.2 during that fiscal year based on the best information then available to the City. If the report demonstrates that the City has not complied with Section 4.2 during that fiscal year, it shall not constitute an Event of Default if either:

- (1) The City takes all of the following actions:
  - (A) within thirty days after the report is filed, the City engages the services of a Qualified Consultant; and,
  - (B) within ninety days after the report is filed, the Qualified Consultant recommends a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with Section 4.2 for the next fiscal year; and,
  - (C) Within one hundred and twenty days after the report is filed the City implements the recommendations of the Qualified Consultant; or,
- (2) The fiscal year for which the report is filed is a fiscal year in which the City took all of the actions described in Section 4.3(1).

## **Section 5. Parity Obligations**

5.1 **General Requirements.** The City may issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if:

- (1) No Event of Default under this Master Resolution or any Supplemental Resolution has occurred and is continuing.
- (2) At the time of the issuance of the Parity Obligations the balance in the Bond Reserve Account is at least equal to the Reserve Requirement, calculated as if the Parity Obligations are Outstanding.
- (3) The Supplemental Resolution authorizing the issuance of the Parity Obligations contains a covenant requiring the City to charge rates and fees at the levels specified in Section 4.2.
- (4) There shall have been filed with the City either:

- (A) a certificate of the Authorized Officer stating that Net Revenues (adjusted as provided in Section 5.2) for the Base Period were not less than one hundred ten percent (110.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding, and that the Net Revenues (adjusted as provided in Section 5.2) and Water SDCs for the Base Period were at least equal to one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,
- (B) a certificate or opinion of a Qualified Consultant stating:
  - (a) the amount of the Adjusted Net Revenues computed as provided in Section 5.3 below; and,
  - (b) that the amount shown in Section 5.1(4)(B)(a) is not less than one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding.

5.2 **Adjustments to Net Revenues.** Net Revenues may be adjusted for purposes of Section 5.1(4)(A) by adding any Net Revenues the Authorized Officer calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made for these increases unless they have been approved by the Council prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations. Additionally, no adjustment shall be made for withdrawals from and deposits to the Rate Stabilization Account.

5.3 **Adjusted Net Revenues.** Adjusted Net Revenues for purposes of Section 5.1(4)(B) shall be computed by adjusting the Net Revenues for the Base Period in any of the following ways:

- (1) if the Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period as if the Water System utility properties 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 records relating to the Water System utility properties which will be acquired.
- (2) to reflect any changes in rates and charges adopted by the City Council, which were not in effect during the entire Base Period, and which
  - (A) are in effect on the date of sale and delivery of the Bonds, or
  - (B) are to go into effect not later than twelve months after such date.

- (3) to include the lesser of: one-half of the average annual Water SDC collections during the three most recently completed Fiscal Years; or, fifteen percent of Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding;
- (4) 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;
- (5) 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 Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, 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).

5.4 **Refunding Exception.** The City may issue Parity Obligations to refund Outstanding Bonds without complying with Section 5.1 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

5.5 **Lien of Parity Obligations on Net Revenues.** All Parity 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 Bonds.

## **Section 6. Subordinate Obligations**

The City may issue up to \$10,000,000 in principal amount of Subordinate Obligations to the Oregon Economic and Community Development Department to finance the Project and related costs. The City may issue other Subordinate Obligations only if:

- 6.1 **Limitation on Payment.** The Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to Section 2.1(5).
- 6.2 **No Acceleration.** The Subordinate Obligations are not subject to acceleration.
- 6.3 **Statement of Lien Status.** The Subordinate 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 Bonds.

## **Section 7. 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 there is no deficit in the Bond Reserve Account. The City may issue obligations which are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the City may issue Subordinate Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

## **Section 8. General Covenants**

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

- 8.1 **Payment of Bonds.** That it will promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Resolution and any Supplemental Resolution.
- 8.2 **Books and Records.** That it will maintain complete books and records relating to the operation of the Water System and all City funds and accounts in accordance with generally accepted accounting principles applicable to the Water System, and will cause such books and records to be audited annually at the end of each Fiscal Year, and an audit report prepared and made available for the inspection of Owners. When this Master Resolution requires that amounts of Gross Revenues, Operating Expenses, Net Revenues and similar revenues or expenses be determined, those amounts shall be determined using generally accepted accounting principles which apply to enterprises such as the Water System, such as accrual basis accounting.
- 8.3 **No Superior Liens.** That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues.
- 8.4 **Deposits.** That it will promptly deposit into all funds and accounts all sums required to be so deposited.
- 8.5 **Operation of the Water System.** That it will operate the Water System in a sound, efficient and economic manner, that it will 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 to City operations, to suppress fires or in case of emergencies.
- 8.6 **Insurance.** That it will 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.
  - (1) The net proceeds of insurance against accident to or destruction of the Water System shall be used to repair, rebuild, improve or expand the Water System, and to the extent not so applied, will be applied to the payment or redemption of the Bonds on a pro rata basis.

- (2) Insurance described in Section 8.6 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.

**8.7 Sale or Transfer of System Property.** The City will not, nor will it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:

- (1) The City may dispose of all or substantially all of the Water System, only if the City pays all Bonds or defeases them pursuant to Section 11.
- (2) Except as provided in Section 8.7(3), the City will not dispose of any part of the Water System in excess of five percent (5.0%) of the value of the Water System in service unless prior to such disposition either:
  - (A) 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 4.1 and Section 4.2; or
  - (B) provision is made for the payment, redemption or other defeasance of a principal amount of Bonds equal to the greater of the following amounts:
    - (a) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Bond Reserve Account) 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 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.
- (3) 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.
- (4) If the ownership of all or part of the Water System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Owners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Bonds.

## **Section 9. Events of Default and Remedies**

**9.1 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 Resolution and in any Supplemental Resolution are essential to the payment and security of the Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Master Resolution or any such Supplemental Resolution 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 Bonds.

**9.2 Events of Default.** The following shall constitute "Events of Default":

- (1) If the City shall fail to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- (2) Except as provided in Sections 4.3 and 9.3, if the City shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Resolution, if such default continues for ninety (90) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from the Owners of not less than 20% in aggregate principal amount of the Bonds Outstanding;
- (3) If the City shall sell, transfer, assign or convey any properties constituting the Water System in violation of Section 8.7;
- (4) If an order, judgment or decree shall be entered by any court of competent jurisdiction:
  - (A) appointing a receiver, trustee or liquidator for the City or the whole or any part of the Water System;
  - (B) 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
  - (C) 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
- (5) If the City shall:
  - (A) admit in writing its inability to pay its debts generally as they become due;

- (B) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
- (C) make an assignment for the benefit of its creditors;
- (D) consent to the appointment of a receiver of the whole or any part of the Water System; or
- (E) 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.

9.3 **Exception.** It shall not constitute an Event of Default under Section 9.2(2) if the default cannot practicably be remedied within ninety 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.

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

9.5 **Books of City Open to Inspection.**

- (1) 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 Owners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.
- (2) 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 the Master Resolution.

9.6 **Waivers of Event of Default.**

- (1) No delay or omission of any 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 9 to the Owners may be exercised from time to time and as often as may be deemed expedient by the Owners.
- (2) The owners of not less than fifty percent (50%) in principal amount of the affected Bonds and are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Bonds, waive any past default

under this Master Resolution with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

#### **9.7 Remedies Granted in Master Resolution Not Exclusive.**

No remedy by the terms of the Master Resolution conferred upon or reserved to the 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 the Master Resolution or existing at law or in equity or by statute on or after the date of adoption of the Master Resolution.

#### **Section 10. Amendment of Master Resolution**

**10.1 Amendment without Owner Consent.** This Master Resolution may be amended by Supplemental Resolution without the consent of any Owners for any one or more of the following purposes:

- (1) To cure any ambiguity or formal defect or omission in this Master Resolution;
- (2) To add to the covenants and agreements of the City in this Master Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Master Resolution as theretofore in effect;
- (3) To authorize issuance of Bonds or Subordinate Obligations;
- (4) To modify, amend or supplement this Master Resolution or any Supplemental Resolution to qualify this Master Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;
- (5) To confirm, as further assurance, any security interest or pledge created under this Master Resolution or any Supplemental Resolution;
- (6) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds or the rights or obligations hereunder of any Credit Facility Provider;
- (7) So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Bonds affected by such Supplemental Resolution, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
  - (A) would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

- (B) changes the maturity, the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or
  - (C) materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility.
- (8) To modify any of the provisions of this Master Resolution or any Supplemental Resolution in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Bonds cease to be Outstanding.

10.2 **Amendment with Owner Consent.** This Master Resolution 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 Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Owners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

- (1) Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Owner; or
- (2) Reduces the percent of Owners required to approve Supplemental Resolutions.

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

- (1) at all times for the purpose of the execution and delivery of a Supplemental Resolution or of any amendment, change or modification of this Master Resolution or the initiation by Owners of any action which under this Master Resolution requires the written approval or consent of fifty-one percent (51%) or less in aggregate principal amount of the Bonds then Outstanding; and following an Event of Default for all other purposes.
- (2) Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Owner secured thereby with respect to any such Supplemental Resolution or of any amendment, change or modification of this Master Resolution which:
  - (A) Causes a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

- (B) changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or
  - (C) reduces the percentage or otherwise affects the classes of affected Bonds, the consent of the Owners of which is required to effect any such modification or amendment.
- (3) In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Bonds shall be entitled to exercise any rights under this Section during any period where:
- (A) the Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect;
  - (B) such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;
  - (C) such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or
  - (D) an order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.
- (4) For purposes of determining the percentage of Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Resolution, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

**Section 11. Defeasance**

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

- 11.1 Irrevocably depositing cash or noncallable, nonprepayable Direct Obligations in escrow with an independent escrow agent which are calculated to be sufficient for the payment of Bonds which are to be defeased; and,
- 11.2 Filing with the escrow agent an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Direct Obligations are

calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,

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

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

## **Section 12. Book Entry System for Bonds.**

Unless otherwise provided in a Supplemental Resolution, the Bonds shall be initially issued in BEO form and shall be governed by this Section 12. While Bonds are in BEO form no physical bonds shall be provided to Owners of Bonds. The City has executed and delivered a blanket Letter of Representations to DTC. While the Bonds are in BEO form, registration and transfer of beneficial interests in the Bonds shall be governed by that letter and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the blanket issuer letter of representations. So long as Bonds are in BEO form:

- 12.1 DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of Bonds. Bond payments shall be made, and notices shall be given, to DTC in accordance with the Letter of Representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of Bonds called for redemption or of any other action premised on such notice.
- 12.2 The City may discontinue maintaining the Bonds in the BEO form at any time. The City shall discontinue maintaining the Bonds in BEO form if DTC determines not to continue to act as securities depository for the Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- 12.3 If the City discontinues maintaining the Bonds in book-entry only form, the City shall cause the Registrar to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 14. below, regarding registration, transfer and exchange of Bonds shall apply.
- 12.4 While the Bonds are in BEO form, the City and the Registrar shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
  - (1) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the Bonds;

- (2) the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;
  - (3) the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or
  - (4) the payment to any participant, correspondent, or any other person other than the registered owner of the Bonds as shown in the registration books maintained by the Registrar, of any amount with respect to principal or interest on the Bonds.
- 12.5 The City shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the owner, as shown in the registration books maintained by the Registrar, 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.
- 12.6 Upon delivery by DTC to the City and to the owner of written notice to the effect that DTC has determined to substitute a new nominee in place of the nominee, then the word "nominee" in this order shall refer to such new nominee of DTC, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Registrar. DTC shall tender the Bonds it holds to the Registrar for reregistration.
- 12.7 The provisions of this Section 12. may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC for Bonds issued in book-entry only form.

**Section 13. Redemption of Bonds.**

Unless otherwise provided in a Supplemental Resolution:

- 13.1 The Bonds shall be subject to redemption on the terms established by the Authorized Officer. The City reserves the right to purchase Bonds in the open market.
- 13.2 If any Bonds are subject to mandatory redemption, the City may credit against the mandatory redemption requirement any Bonds of the same maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.
- 13.3 So long as Bonds are in book-entry only form, the Registrar shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption unless DTC permits a shorter notice period, and shall provide such information in connection therewith as required by a letter of representation submitted to DTC in connection with the issuance of the Bonds. The City shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date, unless the Registrar consents to a shorter notice period.
- 13.4 During any period in which the Bonds are not in book-entry only form, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be

redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such Owner to the Registrar. The City shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date, unless the Registrar consents to a shorter notice period. All such official notices of redemption shall be dated and shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (4) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (5) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

**Section 14. Authentication, Registration and Transfer.**

Unless otherwise provided in a Supplemental Resolution:

- 14.1 No Bond shall be entitled to any right or benefit under this Master Resolution unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar shall authenticate all Bonds to be delivered at closing of the Bonds, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Master Resolution.
- 14.2 The ownership of all Bonds shall be entered in the Bond register maintained by the Registrar, and the City and the Registrar may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- 14.3 While the Bonds are in book-entry only form, the Registrar shall transfer Bond principal and interest payments in the manner required by DTC.
- 14.4 If the Bonds cease to be in book-entry only form, the Registrar shall mail each interest payment on the interest Payment Date (or the next Business Day if the Payment Date is not a Business Day) to the name and address of the Owners as they appear on the Bond register as of the Record Date. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.
- 14.5 Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different denominations, and Bonds may be transferred to other Owners if the Owner submits the following to the Registrar:
  - (1) written instructions for exchange or transfer satisfactory to the Registrar, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar and
  - (2) the Bonds to be exchanged or transferred.

- 14.6 The Registrar shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date and ending on the next following Payment Date; however, such Bonds shall be exchanged or transferred promptly following that Payment Date.
- 14.7 The Registrar shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Owner's name is listed on the Bond register.
- 14.8 For purposes of this Section 14, Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in Section 14.5, above.
- 14.9 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.

### **Section 15. The Series 2000 Bonds**

- 15.1 **Sale Authorized.** Pursuant to Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945), the bonding authority approved by the City's voters in September, 1999, the bonding authority given by City Resolution No. 1522, and the refunding authority granted by ORS 288.592, the City Council hereby authorizes the sale and delivery of the City of Wilsonville, Oregon Water Revenue Bonds, Series 2000 (the "Series 2000 Bonds"). The aggregate principal amount of the Series 2000 Bonds shall not exceed Fifteen Million Dollars (\$15,000,000), plus the amounts that are required to refund the Series 1988 Bonds, the Series 1998 Note and the 2000 Credit Facility. The Series 2000 Bonds shall be Bonds as defined in this Master Resolution, and shall have the terms established by the Authorized Officer pursuant to Section 15.4.
- 15.2 **Limitation on Payment.** The Series 2000 Bonds shall be special obligations of the City, and shall be payable solely from the Net Revenues, amounts required to be deposited in the Bond Reserve Account and Water SDCs as required and as provided by this Master Resolution.
- 15.3 **Bond Form.** The Series 2000 Bonds shall be in substantially the form attached as Exhibit A, and shall be signed with the facsimile or manual signature of the Mayor and an Authorized Officer.
- 15.4 **Delegation.** The Authorized Officer may, on behalf of the City and without further action by the Council:
- (1) participate in the preparation of, authorize the distribution of, and deem final the preliminary and final official statements and any other disclosure documents for the Series 2000 Bonds;
  - (2) Appoint a Registrar;
  - (3) establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, and other terms of the Series 2000

Bonds, publish a notice of sale, receive bids and award the sale of the Series 2000 Bonds to the bidder complying with the notice and offering the most favorable terms to the City;

- (4) undertake to provide continuing disclosure for the Series 2000 Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
- (5) apply for and purchase a Credit Facility, including a Reserve Credit Facility, enter into agreements with the Credit Facility Providers, and execute and deliver related documents; and
- (6) execute any documents and take any other action in connection with the Series 2000 Bonds which the Authorized Officer finds will be advantageous to the City.

**15.5 Disposition of Series 2000 Bond Proceeds.** The Series 2000 Bond proceeds shall be applied as follows:

- (1) Interest accrued from the date of the Series 2000 Bonds until the date of closing shall be placed in the Water Fund and used to pay Series 2000 Bond interest on the next Interest Payment Date.
- (2) An amount of proceeds of the Series 2000 Bonds required to make the balance in the Bond Reserve Account equal to the Reserve Requirement shall be deposited in the Bond Reserve Account.
- (3) An amount of Series 2000 Bond proceeds required to pay or defease all of the City's outstanding Water System Revenue Bonds, Series 1988, and all outstanding interim financing for the projects financed with the Series 2000 Bonds shall be placed in escrow or otherwise applied to pay such obligations.
- (4) The balance of the Series 2000 Bond proceeds shall be placed in the 2000 Bond Proceeds Account, and shall be disbursed only to finance capital improvements to the Water System, to pay costs incurred in connection with the issuance of the Series 2000 Bonds, and to pay Bonds.

**15.6 2000 Bond Proceeds Account Earnings.** Earnings from investment of the funds in the 2000 Bond Proceeds Account shall be maintained in the 2000 Bond Proceeds Account, and shall be treated and disbursed as Series 2000 Bond proceeds. 2000 Bond Proceeds Account balances which are not needed to pay capital costs of the Water System may be used to pay Bond principal and interest.

**15.7 Tax-Exempt Status.**

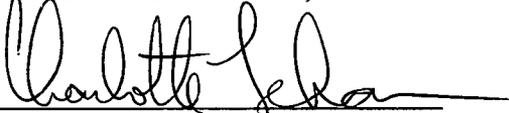
- (1) The City covenants for the benefit of the Owners of the Series 2000 Bonds to comply with all provisions of the Code which are required for interest on the Series 2000 Bonds to be excluded from gross income for federal taxation

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

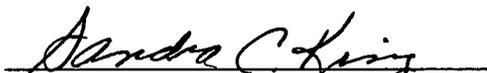
- (A) The City will not take any action or omit any action if it would cause the Series 2000 Bonds to become "arbitrage bonds" under Section 148 of the Code.
  - (B) The City shall operate the facilities financed with the Series 2000 Bonds so that the Series 2000 Bonds do not become private activity bonds within the meaning of Section 141 of the Code.
  - (C) The City shall pay, when due, all rebates and penalties with respect to the Series 2000 Bonds which are required by Section 148(f) of the Code.
- (2) The Authorized Officer may enter into additional covenants to protect the tax-exempt status of the Series 2000 Bonds. The covenants contained in this Section 15.7 and any covenants in the closing documents for the Series 2000 Bonds shall constitute contracts with the owners of the Series 2000 Bonds, and shall be enforceable by them.

ADOPTED by the Wilsonville City Council at a regular meeting thereof this 2<sup>nd</sup> day of October, 2000, and filed with the Wilsonville City Recorder this date.

CITY OF WILSONVILLE, OREGON

  
Charlotte Lehan, Mayor

ATTEST:

  
Sandra C. King, CMC, City Recorder

SUMMARY OF VOTES:

Mayor Lehan	Yes
Councilor Helser	Yes
Councilor Barton	Yes
Councilor Kirk	Yes
Councilor Holt	Yes

**Exhibit A  
Form of Series 2000 Bond**

No. R-

\$ \_\_\_\_\_

\$ \_\_\_\_\_  
**City of Wilsonville  
Clackamas and Washington Counties, Oregon  
Water Revenue Bond, Series 2000**

**Dated Date:** October 1, 2000  
**Interest Rate:** \_\_\_\_\_% per annum  
**Maturity Date:** \_\_\_\_\_  
**CUSIP Number:** \_\_\_\_\_  
**Registered Owner:** -----Cede & Co.-----  
**Principal Amount:** ----- Dollars-----

THE CITY OF WILSONVILLE, State of Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, but solely from the sources indicated below, the Principal Amount on the Maturity Date together with interest thereon from the date hereof at the rate per annum indicated above. Interest is payable semiannually on the first days of February and August in each year until maturity or prior redemption, commencing February 1, 2000. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, on each payment date. Such payments shall be made payable to the order of "Cede & Co."

This Series 2000 Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Water System as provided in Resolution No. 99-22 of the City adopted July 20, 2000 (the "Resolution"). The City covenants and agrees with the owner of this Series 2000 Bond that it will keep and perform all of the covenants in this Series 2000 Bond and in the Resolution. The City has pledged the Net Revenues of the Water System and Water SDCs to the payment of principal and interest on this Series 2000 Bond.

Notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Resolution. Interest on any Series 2000 Bond or Series 2000 Bonds so called for redemption shall cease on the redemption date designated in the notice. The City's paying agent and registrar, which is currently U.S. Bank Trust National Association, in Portland, Oregon (the "Registrar"), will notify The Depository Trust Company promptly of any Series 2000 Bonds called for redemption.

The Series 2000 Bonds are initially issued as a book-entry-only security issue with no certificates provided to the Owners of Series 2000 Bonds. Records of Series 2000 Bond ownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the Series 2000 Bonds shall be issued in the form of registered Series 2000 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such Series 2000 Bonds may be exchanged for Series 2000 Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Resolution.

Any transfer of this Series 2000 Bond must be registered, as provided in the Resolution, upon the Series 2000 Bond register kept for that purpose by the Registrar. Upon registration, a new registered Series 2000 Bond or Series 2000 Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The Registrar and the City may treat the person in whose name this Series 2000 Bond is registered as its absolute owner for all purposes, as provided in the Resolution.

The Series 2000 Owner may exchange or transfer this Series 2000 Bond only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and duly executed by the registered owner or their duly authorized attorney, at the principal corporate trust office of the Registrar in the manner and subject to the conditions set forth in the Series 2000 Bond Resolution.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

This Series 2000 Bond is one of a series of \$\_\_\_\_\_ aggregate principal amount of Water Revenue Series 2000 Bond, Series 2000, of the City, and is issued by the City for the purpose of financing Water System facility improvements in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the charter of the City.

The City reserves the right to redeem all or any portion of the Series 2000 Bonds maturing after \_\_\_\_\_, by lot within a maturity on \_\_\_\_\_, and on any date thereafter, at a price of \_\_\_\_\_ plus accrued interest to the date fixed for redemption.

The Series 2000 Bonds maturing \_\_\_\_\_, shall be subject to mandatory redemption, by lot, at the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, in the amounts and on the dates set forth below:

**Redemption Date**

**Principal Amount**

Series 2000 Bonds optionally redeemed may be credited against the mandatory redemption by lot as determined by the Registrar.

Notice of any call for redemption, unless waived by the owners of the Series 2000 Bonds to be redeemed, shall be mailed not less than thirty days and not more than sixty days prior to such call to the registered owners of the Series 2000 Bonds, and otherwise given as required the Resolution and by law; however, any failure to give notice shall not invalidate the redemption of the Series 2000 Bonds. All Series 2000 Bonds called for redemption shall cease to bear interest from the date designated in the notice.

The Series 2000 Bonds are issuable in the form of registered Series 2000 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Series 2000 Bonds may be exchanged for an equal aggregate principal amount of registered Series 2000 Bonds of the same maturity and of any other authorized denominations in the manner, and subject to the conditions set forth in the Resolution.

Any transfer of this Series 2000 Bond must be registered, as provided in the Resolution, upon the Series 2000 Bond register kept for that purpose at the principal corporate trust office of the Registrar. This Series 2000 Bond may be transferred only by surrendering it, together with a written instrument of transfer which is satisfactory to the Registrar and which is executed by the registered owner or his duly authorized attorney. Upon registration, a new registered Series 2000 Bond or Series 2000 Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The City and the Registrar may treat the person in whose name this Series 2000 Bond is registered on the Series 2000 Bond Register as its absolute owner for all purposes, as provided in the Resolution.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Series 2000 Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon; that the issue of which this Series 2000 Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution and Statutes.

IN WITNESS WHEREOF, the City Council of the City of Wilsonville, Oregon, has caused this Series 2000 Bond to be signed by facsimile signature of its Mayor and attested by facsimile signature of the City Recorder of the City as of the date indicated above.

City of Wilsonville, Clackamas and Washington Counties Oregon

\_\_\_\_\_  
Charlotte Lehan, Mayor

ATTEST:

\_\_\_\_\_  
Sandra C. King, CMC, City Recorder

THIS SERIES 2000 Bond SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

Dated: \_\_\_\_\_

This Series 2000 Bond is one of a series of \$ \_\_\_\_\_ aggregate principal amount of Water Revenue Bond, Series 2000, of the City, issued pursuant to the Resolution described herein.

\_\_\_\_\_, as Registrar

\_\_\_\_\_  
Authorized Officer

**Assignment**

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

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

this Series 2000 Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorney to transfer this Series 2000 Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Series 2000 Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed

\_\_\_\_\_  
(Bank, Trust Company or Brokerage Firm)

\_\_\_\_\_  
Authorized Officer

The following abbreviations, when used in the inscription on the face of this Series 2000 Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

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

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

**NEW ISSUE  
BOOK-ENTRY ONLY**

**RATING: " \_\_\_\_\_ "**

*In the opinion of Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation under Section 103(a) of the Internal Revenue Code of 1986, subject to certain conditions and assumptions described herein under "TAX EXEMPTION." The Bonds are not private activity bonds. Interest on the Bonds is included in the computation of certain federal taxes on corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from present personal income taxation by the State of Oregon.*

\$ \_\_\_\_\_ \*

**City of Wilsonville, Oregon  
Water System Revenue Bonds, Series 2000**

**Dated: October 1, 2000**

**Due: June 1, as shown below**

The Water System Revenue Bonds, Series 2000 (the "Bonds") will be issued in registered, book-entry form only, without coupons, in denominations of \$5,000 or integral multiples thereof. The Bonds, when executed and delivered, will be registered in the name of Cede & Co. as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. While Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondowners and Holders shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "Appendix E--Book-Entry System" herein.

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year beginning June 1, 2001. While the Bonds are in book-entry form, interest on the Bonds will be paid through DTC. See "Appendix E--Book Entry System" herein.

The Bonds are being issued for the purposes of (i) funding improvements to the Water System of the City of Wilsonville, Oregon (the "City"), (ii) refunding certain Water System revenue obligations of the City, (iii) funding reserves, and (iv) paying the costs of issuance of the Bonds, all as more fully described herein.

The Bonds are special obligations of the City, payable solely from the Net Revenues of the City's Water System, certain Water System development charges and amounts deposited in the Bond Reserve Account, all as defined in the City's Master Water Revenue Bond Resolution authorizing issuance of the Bonds. *The Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged to pay the Bonds.* See "THE BONDS--Payment of and Security for the Bonds" herein.

The Bonds are subject to optional redemption prior to their respective maturity dates. See "THE BONDS--Redemption of the Bonds" herein.

<u>Maturity Date</u> <u>June 1*</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity Date</u> <u>June 1*</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2001				2011			
2002				2012			
2003				2013			
2004				2014			
2005				2015			
2006				2016			
2007				2017			
2008				2018			
2009				2019			
2010				2020			

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Prospective investors must read the entire Official Statement in order to make an informed investment decision.*

The Bonds are offered when, as and if issued by the City and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, to the approval of legality by Preston Gates & Ellis, LLP, Portland, Oregon, Bond Counsel, and to certain other conditions. In addition, certain legal matters will be passed upon for the Underwriter by Miller Nash LLP, Portland, Oregon. The City expects that the Bonds will be available for delivery in definitive form in New York, New York, on or about October 31, 2000.

**Salomon Smith Barney**

\* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. This Preliminary Official Statement shall not constitute any offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the securities described herein in any jurisdiction in which any such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.



**CITY OF WILSONVILLE**

**Clackamas and Washington Counties, Oregon**

**ELECTED OFFICIALS**

Charlotte Lehan, Mayor

John Helser, Council President

Bruce Barton, Councilor

Bennett Holt, Councilor

Alan Kirk, Councilor

**APPOINTED OFFICIALS**

Arlene Loble, City Manager

Gary S. Wallis, CPA, Finance Director

Sandra C. King, City Recorder

Michael E. Kohlhoff, City Attorney

**BOND COUNSEL**

Preston Gates & Ellis LLP  
Portland, Oregon

**FINANCIAL ADVISOR**

Western Financial Group  
Lake Oswego, Oregon

## REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the City, Western Financial Group (the "Financial Advisor") or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact. All estimates and assumptions contained herein are based on the best information available and are believed by the City to be reliable, but no representations are made that such estimates and assumptions are correct or will be realized. The information set forth herein has been obtained from sources believed by the City to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City or the matters described herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE MASTER RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATIONS OF THE CITY, THE WATER SYSTEM AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The City will covenant to provide continuing disclosure as described in this Official Statement under "CONTINUING DISCLOSURE UNDERTAKING" and in "APPENDIX D-FORM OF CONTINUING DISCLOSURE UNDERTAKING," pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended



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**CITY OF WILSONVILLE, OREGON  
WATER SYSTEM REVENUE BONDS, SERIES 2000**

**INTRODUCTION**

This Official Statement has been prepared on behalf of the City of Wilsonville, Oregon (the "City") in connection with the original issuance and sale by the City of its \$ \_\_\_\_\_ Water System Revenue Bonds, Series 2000, dated October 1, 2000 (the "Bonds") as more fully identified on the cover page hereof. The purpose of this Official Statement is to set forth certain information concerning the City, the City's water system (the "Water System"), and the Bonds. The Bonds are authorized by the Oregon Revenue Bond Act (O.R.S. Sections 288.805 through 288.945, the "Act"), and Resolution No. \_\_\_\_\_, the Master Water Revenue Bond Resolution, adopted by the City on \_\_\_\_\_, 2000 (the "Master Resolution"), which also provides the terms pursuant to which the City may issue the Bonds.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from water service charges and other sources of revenue of the City, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position, results of operations or other affairs of the City. No representation is made that past experience, as shown by that financial and other information, will necessarily continue or be repeated in the future.

All summaries of provisions of statutes of the State of Oregon (the "State"), ordinances, resolutions or programs of the City, and of other documents set forth herein are made subject to the detailed provisions thereof to which reference is hereby made for further information, and such summaries do not purport to be complete statements of any or all of such provisions.

Capitalized terms used in this Official Statement and not defined herein have the meanings given to such terms in the Master Resolution, a complete copy of which is attached hereto as Appendix A.

**THE BONDS**

*The following is a summary of certain terms and provisions of the Bonds. Reference is made to the Bonds and the provisions with respect thereto in the Master Resolution for the detailed terms and provisions thereof.*

**Description of the Bonds**

The Bonds are valid and binding special obligations of the City payable solely from the Net Revenues of the Water System and certain other amounts pledged therefor as set forth in the

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\* Preliminary, subject to change.

Master Resolution. *The Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged to their repayment.*

The Bonds will mature on June 1 of the years and in the principal amounts shown on the front cover of this Official Statement. The Bonds will bear interest from October 1, 2000, payable on June 1 and December 1 of each year, commencing June 1, 2001, at the rates per year indicated on the cover of this Official Statement.

The Bonds will be issued only in fully registered form, and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds. If DTC ceases to act as securities depository and the City fails to identify another qualified securities depository to replace DTC, or if the City has decided to terminate the use of the book-entry only system then the registration of any Bonds may, in accordance with its terms, be transferred upon the bond register by the person in whose name it is registered, in person or by his or her duly authorized attorney, accompanied by the delivery of a written instrument of transfer in a form approved by the Registrar and duly executed by the Owner of his or her authorized attorney. See "Appendix E -- Book-Entry System."

Interest on the Bonds will be payable by check or draft mailed to the person whose name appears as the registered owner thereof on the registration books of the City, maintained by the Registrar. Checks will be mailed on the interest payment date (or the next business day if the interest payment date is not a business day). The Registrar for the Bonds is currently

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## **Redemption of the Bonds**

**Optional Redemption of the Bonds.** The Bonds maturing on or after \_\_\_\_\_, \_\_\_\_\_ are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after \_\_\_\_\_, \_\_\_\_\_. Any such redemption shall be at a price equal to \_\_\_ percent of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption. In the case of any redemption of less than all of the outstanding Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amount of each maturity to be redeemed.

**Selection of Bonds for Redemption.** Subject to the City's right to select the maturities and principal amounts to be redeemed at its option, and provided the Bonds then remain subject to a book-entry system, if less than all the outstanding Bonds of a particular maturity are to be redeemed, the particular Bonds of such maturity shall be selected for redemption by DTC in accordance with its customary practices.

**Notice of Redemption.** So long as the Bonds are subject to the book-entry system, notice of any redemption will be given by the Registrar only to DTC not less than 30 days prior to the redemption date unless DTC permits a shorter period. In addition, such other information as is required in accordance with the agreement entered into between the City and DTC will be

provided. It will be the sole responsibility of DTC to give all notices of redemption to DTC Participants, and the DTC Participants, in turn, shall be responsible for giving such notices to the Beneficial Owners. Neither the City nor the Registrar will be responsible for giving any notice of redemption to any Beneficial Owner or any DTC Participant, nor shall the City or the Registrar be liable for any failure of DTC or any DTC Participant to give any such notice as described above.

**Effect of Redemption.** If notice of redemption is given by the Registrar to DTC as described above and if, on or before the date fixed for redemption, the City has deposited or caused to be deposited with the Registrar moneys sufficient to pay the redemption price of the Bonds called for redemption on such date, then from and after the date fixed for redemption interest will cease to accrue on the Bonds so called for redemption, such Bonds will no longer be secured by the Net Revenues of the Water System and the other amounts pledged therefor or be outstanding under or entitled to the benefits of the Master Resolution, and the Owners of such Bonds will be limited to the funds held by the Registrar (or transmitted by the Registrar to DTC), for the payment of the redemption price of such Bonds.

**Authorization and Purpose**

The Bonds are being issued pursuant to the Act and the Master Resolution for the purposes of (i) funding improvements to the City's Water System, including the construction of a water treatment plant with an initial capacity of 15 million gallon per day ("mgd") and the acquisition of appurtenant equipment (collectively, the "Project"), (ii) refunding certain Water System revenue obligations of the City, (iii) funding reserves, and (iv) paying costs of issuing the Bonds. Accrued interest received on the Bonds will be deposited in the Water Fund and will be used to pay interest on the Bonds on the next succeeding interest payment date.

The following is an estimated sources and uses of the proceeds of the Bonds:

Sources of Funds

Principal Amount of the Bonds	\$
Accrued Interest on the Bonds	_____
Total Sources of Funds	\$

Uses of Funds

Deposit to Water Fund (Project Costs)	\$
Deposit to Water Fund (Accrued Interest)	
Deposit to Bond Reserve Account	
Refunding Prior Water System Obligations	
Costs of Issuance <sup>1</sup>	_____
Total Uses of Funds	\$

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<sup>1</sup> Includes Underwriter's Discount

A more complete discussion of the Project, including a description of the major components thereof, is set forth under the caption "THE PROJECT." The prior Water System revenue obligations to be refunded with a portion of the proceeds of the Bonds consist of (i) the remaining outstanding principal portion of the City's Water System Revenue Bonds, Series 1988, dated December 1, 1988 (the "1988 Bonds"), (ii) the City's Water System Bond Anticipation Note, Series 1998 (the "1998 Note"), and (iii) the amounts outstanding under the City's Non-Revolving Credit Facility (the "Credit Facility" and, together with the 1988 Bonds and the 1998 Note, the "Prior Revenue Obligations"), dated June 28, 2000, with Bank of America, N.A. It is anticipated that provision for payment of the 1988 Bonds will be made on the date of original issuance of the Bonds and that the 1988 Bonds will be refunded in whole in advance of their respective maturities on December 1, 2000. The 1998 Note will be refunded in whole in advance of its maturity on the date of original issuance of the Bonds. The amounts outstanding under the Credit Facility will be repaid in full on the date of original issuance of the Bonds; thereafter, the Credit Facility will be terminated.

### **Payment of and Security for the Bonds**

**Security and Pledge.** The Bonds are special obligations of the City, payable from the Net Revenues of the Water System, Water SDCs and amounts deposited in the Bond Reserve Account. The Net Revenues and Water SDCs are pledged to pay debt service on the Bonds, and, upon paying and providing for payment of the Prior Revenue Obligations in accordance with their respective terms as described under "--Authorization and Purpose," there will be no obligations outstanding which have a pledge of or a lien on either the Net Revenues or the Water SDCs which is superior to or on a parity with the pledge of and lien on the Net Revenues and Water SDCs for the Bonds.

Net Revenues and Water SDCs do not include all revenues of the City relating to the Water System. Net Revenues are defined in the Master Resolution to be Gross Revenues of the Water System less the Operating Expenses thereof. Water SDCs are defined in the Master Resolution to be system development charges which are imposed by the City in respect of the Water System, the revenues from which may legally be used to pay debt service on the Bonds. See Appendix A to this Official Statement and the definitions of "Gross Revenues" and "Operating Expenses" set forth therein for a detailed statement of the components of Net Revenues.

**Rate Covenant.** The City covenants for the benefit of the Owners of the Bonds 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 the Master Resolution to the Bond Reserve Account and the other accounts established in the Master Resolution.

In addition, the City covenants for the benefit of the Owners of all Bonds that it will charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate (i) Net Revenues, plus Water SDCs, plus withdrawals from the Rate Stabilization Account, and minus deposits to the Rate Stabilization Account in each Fiscal Year at least equal to 125 percent of Annual Debt Service

due in that Fiscal Year, and (ii) Net Revenues each Fiscal Year at least equal to 110 percent of Annual Debt Service due in that Fiscal Year.

It shall not constitute an Event of Default if the City fails to comply with the foregoing rate covenant as long as: the City timely engages the services of a Qualified Consultant; the Qualified Consultant timely recommends a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with the rate covenant for the next fiscal year; and, the City timely implements the recommendations of the Qualified Consultant. See Appendix A to this Official Statement for a more complete discussion of the Events of Default with respect to the Bonds.

**Bond Reserve Account.** The City covenants to fund and maintain, but solely from Bond proceeds and Net Revenues, a balance in the Bond Reserve Account at least equal to the Reserve Requirement for all Outstanding Bonds. The Reserve Requirement is generally equal to the lesser of Maximum Annual Debt Service on all Outstanding Bonds or the amount the City was required to maintain in the Bond Reserve Account prior to issuing a series of Bonds, plus the largest amount of proceeds of tax-exempt bonds the City may use to fund a reserve under the limitations imposed by the Internal Revenue Code of 1986, as amended (the "Code").

The Master Resolution permits the City to obtain a Reserve Credit Facility in lieu of fully funding the Reserve Requirement with cash. The balance in the Bond Reserve Account includes amounts available to be drawn under such a Reserve Credit Facility.

**Funds and Accounts.** The City covenants to deposit all Gross Revenues and Water SDCs in the Water Fund. The Master Resolution establishes the following accounts in the Water Fund:

- ***Bond Payment Account.*** Amounts in this account may be used only to pay debt service on the Bonds.
- ***Bond Reserve Account.*** Amounts in this account may be used only to pay debt service on the Bonds, and only if amounts in the Water SDCs and Net Revenues credited to other accounts of the Water Fund are insufficient to pay debt service on the Bonds.
- ***Subordinate Obligations Account.*** Amounts in this account may be used to pay debt service on the Subordinate Obligations and the Bonds.
- ***Rate Stabilization Account.*** The Master Resolution permits the creation of a Rate Stabilization Account into which Net Revenues and Water SDCs may be transferred. Amounts in the Rate Stabilization Account may be used at any time for any purpose for which Gross Revenues may be used, including payment of debt service on the Bonds. The City expects that it will establish a Rate Stabilization Account in conjunction with the initial issuance of the Bonds.

The City covenants for the benefit of the Bondowners that it will apply all Gross Revenues on or before the following dates for the following purposes in the following order of priority:

1. At any time to pay Operating Expenses which are then due;
2. On each Transfer Date, to transfer to the Bond Payment Account an amount sufficient, with other amounts then available therein, to pay all Bond principal, interest and premium, if any, which is due on the following Payment Date;
3. On each Transfer Date specified in the Master Resolution, to make transfers to the Bond Reserve Account in the amounts required by the Master Resolution in respect of the Reserve Requirement;
4. On the day on which any rebates or penalties for the Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the City will pay the amounts due from Net Revenues;
5. After all transfers and payments having a higher priority have been made, the City may transfer to the Subordinate Obligations Account the Net Revenues required by the proceedings authorizing the Subordinate Obligations; and
6. After all transfers and payments having a higher priority have been made, Net Revenues may be applied for any other lawful purpose, including transfers to the Rate Stabilization Account and any franchise fees and similar charges imposed by the City on the Water System or its operations.

### **Parity Obligations**

The City may issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if (i) no Event of Default has occurred and is continuing under the Master Resolution or any Supplemental Resolution, (ii) the balance in the Bond Reserve Account is at least equal to the Reserve Requirement, calculated as if the Parity Obligations are Outstanding, (iii) the Supplemental Resolution authorizing the Parity Obligations contains a covenant requiring the City to charge rates and fees at the levels described under "--Payment of and Security for the Bonds -- Rate Covenant" above, and (iv) there has been filed with the City either:

1. A certificate of an Authorized Officer stating that (i) Net Revenues (adjusted as described in the immediately succeeding paragraph below) for the Base Period were not less than 110 percent of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding, and (ii) Net Revenues (adjusted as aforesaid) and Water SDCs for the Base Period were at least equal to 125 percent of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,

2. A certificate or opinion of a Qualified Consultant stating (i) the amount of the Adjusted Net Revenues (computed as described in the second succeeding paragraph below), and (ii) that such amount is not less than 125 percent of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding.

Net Revenues may be adjusted by adding any Net Revenues an Authorized Officer calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made for these increases unless they have been approved by City Council prior to delivery of the proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations. Additionally, no adjustment may be made for withdrawals from and deposits to the Rate Stabilization Account.

The Qualified Consultant may compute Adjusted Net Revenues by adjusting the Net Revenues for the Base Period in any of the following ways:

1. if the Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period if the Water System utility properties 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 records relating to the Water System utility properties which will be acquired;
2. to reflect any changes in rates and charges that have been adopted by the City Council, which were not in effect during the entire Base Period, and which:
  - a. are in effect on the date of sale and delivery of the Bonds; or
  - b. are to go into effect not later than twelve months after such date;
3. to include the lesser of: one half of the average annual Water SDC collections during the three most recently completed Fiscal Years; or 15 percent of Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding;
4. 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; or
5. 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 Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, 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).

The City may issue Parity Obligations to refund Outstanding Bonds without complying with the foregoing requirements if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

All Parity Obligations issued in accordance with the requirements of the Master Resolution shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Bonds.

### **Other Covenants**

The City covenants it will:

1. not take or fail to take any action which is required for interest on the Bonds to be excluded from gross income for federal taxation purposes;
2. 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 applicable to the Water System, and to cause such books and records to be audited annually, with the audit report made available for the inspection of Bondowners;
3. not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues;
4. promptly deposit into all funds and accounts all sums required to be so deposited;
5. operate the Water System in a sound, efficient and economic manner, that it will not enter into any new agreement to provide Water System products or services at a discount from published rate schedules or to provide free Water System products or services (except for City operations, fire suppression and in cases of emergencies);
6. self insure the Water System, or purchase insurance on the Water System of the sort customarily maintained by entities such as the City with respect to works and properties like the Water System, against accident, loss of or damage thereto, and that it will apply the net proceeds of insurance covering Water System damage to repair, rebuild, improve or expand or rebuild the Water System, or to the redemption of the Bonds on a pro rata basis;
7. not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System or permit the same except as specifically permitted by the Master Resolution;
8. 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.

## THE PROJECT

### General Information

A portion of the proceeds of the Bonds will be used by the City to pay part of the costs of constructing, equipping and improving the Project. The Project is being undertaken by the City on a cooperative basis with the Tualatin Valley Water District (the "District"), a public water supply district formed under the laws of the State (as further described below under "--Ownership Structure"), to provide a new primary long-term source of water supply for the City's Water System. Successful development of such a new primary water source will remedy existing inadequacies in the City's water supply source network, satisfy certain state regulatory directives and provide adequate water supply to support continued growth and development in the City and surrounding areas serviced by the District. The total estimated cost of developing the Project is \$46.9 million. The following table identifies the anticipated total sources of funds necessary to pay the estimated costs of developing the Project:

<u>Expected Funding Sources</u>	<u>Amount</u>
City of Wilsonville	\$23.5 million
Tualatin Valley Water District	17.0 million
Oregon Department of Corrections	<u>6.4 million</u>
Total Expected Sources of Funds	<u>\$46.9 million</u>

The City's share of the costs of the Project will be financed through a combination of Bond proceeds, previously reserved water system development charges, a portion of the proceeds received from the sale of an interest in the Project Site to the District and a loan (the "OECD Loan") from the State of Oregon Economic Community Development Department (the "OECD"). In connection with the foregoing funding sources, the City has entered into agreements with the District and the OECD. The City has also entered into an agreement with the State of Oregon Department of Corrections (the "Department of Corrections") to provide water to a new women's prison and intake facility to be constructed on a site just outside the northwest boundaries of the City. Pursuant to its agreement with the City, the Department of Corrections will contribute approximately \$6.4 million to the construction and development of the Project.

The Project (excepting the piping components thereof) will be located on 31.57 acres situated within the territorial boundaries of the City on the north side of the Willamette River, approximately 0.5 miles west of Interstate 5, south of Wilsonville Road near Industrial Way

(such property is hereinafter collectively referred to as the "Project Site"). The major elements of the Project include:

- Raw water intake facilities, including pipelines, wet wells, a pump station and facilities for screening.
- An administration building.
- A water treatment plant with coagulation, sedimentation ozone, granular activated carbon and chloramine treatment.
- A finished water pipeline to deliver water to the City's existing transmission system.
- A 2.5 million gallon clearwell.

The Project will draw and treat, initially at the rate of up to 15 mgd, water from the Willamette River under existing water rights owned by the City and the District. The City is paying for 10 mgd of the anticipated initial capacity and the remaining 5 mgd is being funded by the District. Treated Willamette River water will be transported in new water lines for ultimate distribution to customers of the Water System by way of existing Water System facilities. After construction and start-up of the Project, water drawn from the Willamette River will constitute the sole primary source of water for the Water System and replace water now taken from the City's existing network of aquifer wells which will be maintained as a secondary water source for emergencies and for possible future use during periods of peak usage before the Project is later expanded to its ultimate design capacity. The Project is expected to be operational by April 2002 with final completion in October 2002.

The Project will be designed and constructed employing what the City believes to be state-of-the-art "best available technologies" to ensure continuous production of finished water of the highest quality. In addition, the Project will be sized and constructed to accommodate intake capacity expansion up to 120 mgd and treatment plant capacity to 70 mgd to support future growth and development in the City and surrounding areas serviced by the District.

### **Ownership Structure**

In connection with the development of the Project, the City has entered into a joint acquisition, ownership and operation agreement (the "Intergovernmental Agreement") with the District. In exchange for equity participation in the Project in the estimated amount of \$17 million, the City has sold to the District a 49 percent interest in the Project Site. The City and the District hold the Project Site as tenants-in-common.

Under the Intergovernmental Agreement, the City and the District have set forth a framework for allocating between them the costs of operating and maintaining the Project. However, since it is currently contemplated that the City will be the only user of the Project for the first five years of operation, the City will bear all such costs during such period. Once the District begins to take water produced by the Project, the current framework provides for a pro

rata sharing of costs based on relative usage, including operation costs and funding maintenance and replacement reserves.

In exchange for such cost-sharing, each of the City and the District have initially reserved rights to the finished water produced at the Project in the amounts of 10 mgd and 5 mgd, respectively. Similarly, the City and the District have reserved participating interests in the additional output of the Project as it may be increased in the future to its ultimate design capacity of 120 mgd. Additionally, the District has retained the right to convey, in whole or in part, its rights in the Project to the Willamette Water Supply Agency or participating members of that agency.

### **Operation, Maintenance and Management**

Under the Intergovernmental Agreement, the City and the District have equal rights to use, operate and manage the Project. However, the City has been designated as the initial "managing owner" (as defined in the Intergovernmental Agreement) of the Project, with actual responsibility for the management, operation, repair and replacement thereof. In the event the City's water treatment plant capacity usage becomes less than 50 percent of annual plant production usage, the District may assume the managing owner function with respect to the Project by delivering notice to the City of its election to do so. Notwithstanding any change in managing owner status, the City will retain sole responsibility for all billing and collection activities relating to the Water System and the District will have no right to receive or apply the revenues of the Water System under such circumstances.

The Intergovernmental Agreement permits the managing owner of the Project to perform the required services thereunder with either its own work force or by contract with third parties. The City and the District have mutually agreed that the initial operation and maintenance of the Project (but not the remainder of the Water System facilities) will be performed by a third party water service company under contract. Currently, the City and the District are in negotiations with U.S. Filter Operating Services, Inc. ("U.S. Filter") to provide such operation and maintenance services. U.S. Filter is one of the largest providers of public water facilities services in the United States.

## **THE WATER SYSTEM**

### **General Background**

The City currently owns, operates and maintains the Water System which provides substantially all of the potable public water supply to customers within its territorial boundaries. The City encompasses 4,363 acres within its urban growth boundary, approximately 79 percent of which is developed today. The table set forth below summarizes existing land use patterns in the City.

**City of Wilsonville, Oregon**  
**Developed and Undeveloped Land Use (in acres)**

<u>Land Use</u>	<u>Developed</u>	<u>Undeveloped</u>
Residential	1,015	146
Industrial	880	272
Commercial	250	115
Public	923	62
RA-1 Land <sup>1</sup>	<u>373</u>	<u>327</u>
Total	3,441	922

<sup>1</sup> RA-1 Land is comprised of residential-agricultural parcels for which development could be either residential, commercial or industrial under the City's existing Comprehensive Plan.

*Source: City of Wilsonville Community Development Department*

New development in the City was subject to a moratorium from January 1998 to January 2000 due to a lack of adequate water supply. During the moratorium, the City accepted applications for development review and building permits, however, such matters were deferred resulting in a substantial backlog of development projects. At the end of the moratorium, deferred projects and new applications became subject to the City's "Public Facilities Strategy." This strategy allocates all remaining Water System production capacity for continued development. Additionally, it allows development projects to proceed as long as water is not needed until October 15, 2001. It is expected that upon completion and start-up of the Project, several of the development projects currently subject to the Public Facilities Strategy will come on-line and the development backlog will be eliminated permanently. See "ECONOMIC AND DEMOGRAPHIC INFORMATION -- Commercial, Industrial and Residential Development."

**System Facilities and Source of Supply**

The Water System consists of various facilities for the supply, storage and distribution of potable water to more than 3,750 residential, commercial, industrial and institutional customers. Upon completion and start-up, the Project will include the vast majority of the assets and physical facilities of the Water System other than water rights, existing transmission, distribution and storage facilities and supply facilities to be maintained for emergency and back-up purposes.

Existing supply facilities consist of eight wells drilled into basalt aquifers lying beneath the City. Upon completion and start-up of the Project, the Willamette River will be the primary source of raw water for the Water System and existing supply facilities will provide support during emergencies and periods of peak usage before the Project is later expanded to its ultimate design capacity.

Existing storage facilities consist of four enclosed reservoir tanks with the total combined capacity of 8 million gallons. The smallest of these tanks is concrete, the other three are steel. The existing transmission and distribution facilities consist of approximately 64 miles of cast and ductile iron pipe which are in good condition and will be maintained and replaced as necessary. The Water System is fully metered and evaluations of meter readings indicate that very low levels of water loss are experienced. All customer connections are metered.

## **Organization and Staffing**

The City has divided management of the Water System into two primary functions: operation/maintenance and billing/collection. Operation and maintenance of the Water System (exclusive of the Project which will be initially operated and maintained by a third party water service company) are performed by the staff of the Operations Division of the City's Public Works Department. Billing and collection functions are handled by the staff of the City's Finance Department, with the exception of meter reading which is performed monthly by a private service company under contract with the City.

## **Regulatory Matters**

The Water System, like all public water systems engaged in the production and distribution of drinking water, is subject to extensive federal and state regulation. The City believes the Water System is currently in compliance with all applicable regulations and related permits. Certain additional regulatory matters are implicated by the construction of the Project and the utilization of Willamette River as a drinking water source.

The City currently holds a permit from the Oregon Water Resources Department (Permit No. 46319) authorizing the diversion of 30 cubic feet per second or 19.39 mgd from the Willamette River. It is projected that this resource will satisfy the City's need for water until the year 2042. Permit modifications of the City's water rights have been received for an additional diversion and water rights extension for the water to be drawn from the Willamette River.

The District also holds an Oregon Water Resources Department permit (Permit No. 49240) authorizing the diversion of 202 cubic feet per second or 130.55 mgd from the Willamette River (a portion of which may be assigned to other providers).

The Oregon Division of State Lands has issued a permit for fill/removal and wetland crossing at the Project Site. In addition, the City has applied for and received a submerged land lease for the Project's intake pipe and screens. The Oregon Health Division permit plan review has been approved for the design/build of the Project. The City believes these are the only State regulatory approvals and permits required for the construction and start-up of the Project and that it is in full compliance with all such approvals and permits.

An easement from the Bonneville Power Administration for the construction of the finished water line as well as an access road and bridge for the Project has been granted to the City. Given its status as a navigable waterway of the United States, the Willamette River is also subject to the jurisdiction of the U.S. Army Corps of Engineers (the "Corps of Engineers"). The Corps of Engineers has issued the City a Section 404 permit after consultation with the National Marine Fisheries Services regarding potential project impacts to various endangered species. The Corps of Engineers' jurisdiction for this permit is for work done below the ordinary Willamette River high water mark which in this case includes the Project's outfall structure, utility line, intake structure and protective pilings.

## Capital Planning

The City regularly engages in capital planning efforts with respect to the Water System. The Project constitutes the major capital project currently being undertaken by the City with respect thereto. In addition to the Project, which is expected to be operational by April 2002, the City expects that it will be necessary to expend up to \$3 million within the next five years for upgrades and improvements to water pipelines at various locations within the Water System. The City anticipates funding the costs of those improvements from available system development charges. Other than those water line upgrades, the Project and regular maintenance and ordinary repairs to existing Water System facilities, the City does not anticipate any material Water System capital expenditures for the next five years.

## WATER SALES AND BILLING INFORMATION

### General Rates and Charges

The City charges for water using an inverted block rate structure. Under this structure the unit rate for water increases as consumption increases. Additionally, irrigation meters pay a permit rate which is greater than that applicable to water used for human consumption. Two other revenue sources are also key to Water System operations. One is interest from investments and the other is system development charges applied to new development projects. The table set forth below presents the historical collection of Water System charges for the ten years from FY 1991 through FY 2000.

#### City of Wilsonville, Oregon History of Water System Charges

<u>Fiscal Year</u>	<u>User Charges</u>	<u>System Development Charges</u>	<u>Total<sup>1</sup></u>
1990-91	\$ 837,190	n.a.	\$ 837,190
1991-92	979,372	\$ 85,556	1,064,928
1992-93	938,027	117,375	1,055,402
1993-94	1,276,800	112,454	1,389,254
1994-95	1,208,403	163,111	1,371,514
1995-96	1,295,359	177,719	1,473,078
1996-97	1,403,802	417,445	1,821,247
1997-98	1,374,882	423,786	1,798,668
1998-99	1,790,834	583,289	2,374,123
1999-00	2,071,568	2,381,946 <sup>2</sup>	4,453,514

<sup>1</sup> Does not include investment income.

<sup>2</sup> Reflects payment of \$2,037,960 by the Department of Corrections in connection with the construction of the new women's prison and intake facilities.

*Source: Annual Financial Reports, audited except for 1999-2000 pending*

On March 16, 2000, the City Council approved Resolution No. 1624 which established a series of water rate increases. The increases will occur every six months and began in April 2000. The first three increases are set for 22% each. The final two increases, if necessary on the basis of debt carrying costs and actual costs of operations, will be 10% and 9%, respectively. Thus, the cumulative increase above the March 2000 rates will be 117% by April 2002.

Water use charges are billed monthly and are composed of a base charge plus a volume charge. In FY 1999, for a typical wintertime residential customer, the monthly base charge was \$7.80 and the volume charge was another \$6.35. After the full phase-in of the increases described above, the comparable charges will be \$16.98 and \$13.82, respectively.

Water System development charges are charges imposed by the City for each new water service connection made to the Water System (such charges which are available under State law to pay debt service on the Bonds are referred to herein as "Water SDCs"). The amount charged is dependent on the size of the service, with larger services paying a greater amount, and where the connection is made, with connections made outside the City being charged at two times the inside-City rate to offset reductions for debt service financing otherwise paid by developments within the City.

The City's Water SDCs have been established in accordance with O.R.S. Sections 223.297 through 223.314 and are composed of a reimbursement fee and an improvement fee. The current Water SDC model is set forth below:

**City of Wilsonville, Oregon  
Water Rate and SDC Model  
Combined Fee by Meter Size as of April 2000**

<u>Meter Size</u>	<u>Equivalent Meter Ratios</u>	<u>Capacity Allowance (gpd)</u>	<u>Combined SDCs</u>
5/8" x 3/4"	1.0	891	\$ 3,699
3/4"	1.5	1,337	5,549
1"	2.5	2,228	9,248
1 1/2"	3.6	3,208	13,316
2"	8.0	7,128	29,592
3"	15.0	13,365	55,485
4"	25.0	22,275	92,475
6"	50.0	44,550	184,950
8"	80.0	71,280	295,920
10"	143.8	128,126	531,916

*Source: City of Wilsonville Finance Department*

A measure has been certified for the November 2000 Oregon ballot that, if approved, would, among other things, retroactively limit the ability of Oregon local governments (including the City) to increase most types of fees and charges without voter approval. For various substantive legal reasons, the City believes its recent water use charge and Water SDC increases

would not be subject to the provisions of the ballot measure should it be approved by the voters. However, in the event the measure passes and the City's water use charges and/or Water SDCs are found to be subject to its provisions, the ability of the City to increase such fees and charges without voter approval and its ability to collect revenues attributable to the increases described above would be severely limited. See "NOVEMBER 2000 BALLOT MEASURE" for more details regarding the ballot measure, certain of its key provisions and the potential affect on the City and its Water System rates and charges should the measure be approved and found to be applicable to the City.

**Customers and Water Sales**

Virtually all water users within the City's boundaries obtain their water from the City. A small number have private wells; however, all new development is required to obtain water from the City's Water System. The Water System service area includes all property within the City limits and extends to a State-operated rest stop south of the City and will be extended to the new facilities being constructed by the Department of Corrections which will be served by the Project.

The number of residential accounts totals approximately 3,340 which covers a population of approximately 12,300. Commercial, industrial and other users total approximately 410 utility accounts. The table below sets forth the current mix of Water System customers and indicates their respective percentage shares of consumption and sales as of June 30, 2000.

**City of Wilsonville, Oregon  
Water System Customer Base (as of June 30, 2000)**

	<u>Number of Customers</u>	<u>Percent of Consumption</u>	<u>Percent of Sales</u>
Residential <sup>1</sup>	3,346	53.8%	55.7%
Commercial & Industrial	355	44.6%	42.6%
Public and Other	<u>56</u>	<u>1.6%</u>	<u>1.7%</u>
Total	3,757	100%	100%

<sup>1</sup> Includes single family and multifamily residential customers

*Source: City of Wilsonville Finance Department*

The table set forth below presents the historical customer base for the period FY 1996 through FY 2000 for the Water System.

**City of Wilsonville, Oregon  
Water System Customer Base (Historical)**

<u>Year (as of June 30<sup>th</sup>)</u>	<u>Residential Customers<sup>1</sup></u>	<u>Commercial and Industrial</u>	<u>Public and Other</u>
1996	2,757	313	47
1997	2,926	330	52
1998	3,159	354	57
1999	3,230	355	62
2000	3,346	355	56

<sup>1</sup> Includes single family and multifamily residential customers.

*Source: City of Wilsonville Finance Department*

The City anticipates that the Water System customer base will experience net increases during the forecast period from FY 2001 through FY 2005 in accordance with the following projections:

**City of Wilsonville, Oregon  
Water System Customer Base (Projected)**

<u>Year</u>	<u>Residential Customers<sup>1</sup></u>	<u>Commercial and Industrial</u>	<u>Public and Other</u>
2001	3,430	364	57
2002	3,516	373	58
2003	3,604	382	59
2004	3,694	392	60
2005	3,786	402	62

<sup>1</sup> Includes single family and multifamily residential customers.

*Source: City of Wilsonville Finance Department*

The following table indicates the top fifteen customers of the Water System in terms of consumption. Respective consumption levels for the twelve month period ended June 30, 2000 is also indicated.

**City of Wilsonville, Oregon**  
**Top Fifteen Water System Customers**  
**(by units of consumption<sup>1</sup> as of June 30, 2000)**

<u>Name</u>	<u>Consumption Last 12 Months ended June 30, 2000</u>	<u>Percentage of Total Consumption</u>
Coca Cola	87,390	9.1%
Xerox	70,883	7.3%
Bridgecreek Apartments	30,941	3.2%
Boulder Creek	29,746	3.1%
CTL Properties	24,538	2.5%
Fujimi America	23,601	2.4%
Berkshire Court Apartments	21,988	2.3%
Spieker Properties	17,736	1.8%
Marathon Property Management	17,239	1.7%
Holiday Inn	15,261	1.6%
Mentor Graphics	14,187	1.5%
Springridge (residential development)	13,386	1.4%
Thunderbird (residential development)	13,241	1.4%
Wilshire Property Management	11,991	1.2%
Autumn Park Apartments	11,614	1.2%

<sup>1</sup> One unit of consumption equates to 100 cubic feet.

*Source: City of Wilsonville Finance Department*

Upon completion of its new facilities to be serviced by the Project, the Department of Corrections is expected to have an average annual consumption of 105,000 units, making it the single largest customer of the Water System.

### **Billing and Collections**

Water billing and collection services are provided through the auspices of the City's Finance Department. The City's entire water distribution system is metered and the City contracts with a private company for meter reading services. Meters are read and billings are generated monthly.

Historically, the majority of water bills are paid and collected as they come due (80% within 30 days of billing). Payments are received and processed through the mail to City Hall, through a lock box arrangement with a local bank, and via ACH automatic debits to the customer accounts.

When a bill becomes 30 days past due a delinquent reminder is sent to the customer assessing a late charge and giving an additional 14 days to pay or face termination of service. Three days prior to the scheduled shut off a door hanger is placed at the property as a final reminder. Once water service is shut off for non-payment, the account balance must be brought current and a turn-on fee of \$25 paid prior to service being restored.

As of August 31, 2000, less than 3% of active subscriber accounts were delinquent by more than 30 days.

## **WATER SYSTEM FINANCIAL INFORMATION**

### **Summary of Water System Financial Operations**

The City's accounting practices with respect to the Water System are maintained in conformance with generally accepted accounting principles applicable to governmental entities. The City's audited Financial Statements showing the results of operations for the fiscal year ended June 30, 1999, the most recent full year available, are shown in Appendix B to this Official Statement.

### **Water System Obligations**

Provision for payment of all other Water System debt outstanding as of the date of original issuance of the Bonds will be made with a portion of the proceeds received from the sale of the Bonds. See "THE BONDS -- Authorization and Purpose." Thus, upon issuance of the Bonds and application of a portion of the proceeds thereof as aforesaid, there will be no obligations of the City secured by revenues or system development charges of the Water System on a basis senior to or on a parity with the pledges thereof made with respect to the Bonds.

As discussed under the "THE PROJECT -- General Information," the City has entered into an agreement with the OECDD in connection with a loan thereby to the City in the amount of \$10 million. The OECDD Loan will be used to pay a portion of the costs of constructing of the Project. The City's obligations to repay the OECDD Loan will be secured by a pledge of revenues of the Water System which will be subordinate in all respects to the pledge of Net Revenues which secures the Bonds.

### **Historical Revenues and Expenses**

The following table presents historical revenues and expenses for the City's consolidated water funds from FY 1996 through FY 2000.

**City of Wilsonville, Oregon**  
**Historical Water System Revenues and Expenses**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>Gross Revenues</b>					
Charges for services	\$1,313,713	\$1,451,454	\$1,419,753	\$1,824,840	\$2,078,091
Investment revenues	113,834	174,062	239,238	256,080	374,469
Other revenues	1,195	1,621	2,485	1,889	12,804
<b>Total Gross Revenues</b>	<b>\$1,428,742</b>	<b>\$1,627,137</b>	<b>\$1,661,476</b>	<b>\$2,082,809</b>	<b>\$2,465,364</b>
<b>Operating Expenses</b>					
Personal services	\$ 217,040	\$ 231,212	\$ 203,619	\$ 207,430	\$ 222,211
Utilities	115,751	115,431	87,385	118,012	129,704
Other operating	157,515	159,566	305,672	482,634	[350,075]
Administration	339,443	296,719	308,278	387,762	450,554
<b>Total Operating Expenses</b>	<b>\$ 829,749</b>	<b>\$ 802,928</b>	<b>\$ 904,954</b>	<b>\$1,195,838</b>	<b>\$1,152,544</b>
<b>Net Revenues</b>	<b>\$ 598,993</b>	<b>\$ 824,209</b>	<b>\$ 756,522</b>	<b>\$ 886,971</b>	<b>\$1,312,820</b>
<b>System Development Charges</b>	<b>\$ 177,719</b>	<b>\$ 417,445</b>	<b>\$ 423,786</b>	<b>\$ 583,289</b>	<b>\$2,381,946</b>
<b>Net Revenues and System Development Charges</b>	<b>\$ 776,712</b>	<b>\$1,241,654</b>	<b>\$1,180,308</b>	<b>\$1,470,260</b>	<b>\$3,694,766</b>
<b>Other Revenues and Expenses</b>					
Transfers in	\$ 41,807	\$ 15,094	\$ 9,835	\$ 5,500	\$ --
Franchise fees	52,125	55,121	55,904	66,495	88,184
Interest expense	(125,113)	(119,590)	(113,674)	(206,594)	(248,778)
Franchise fee payment	(52,125)	(55,121)	(55,904)	(66,495)	(88,184)
Depreciation	(188,321)	(204,196)	(251,996)	(286,257)	(321,943)
<b>Total other revenues and expenses</b>	<b>\$(271,627)</b>	<b>\$(308,692)</b>	<b>\$(355,835)</b>	<b>\$(487,351)</b>	<b>\$(570,721)</b>
<b>System Development Charges to contributed capital</b>	<b>\$(177,719)</b>	<b>\$(417,445)</b>	<b>\$(423,786)</b>	<b>\$(583,289)</b>	<b>\$(2,381,946)</b>
<b>Net Income</b>	<b>\$ 327,366</b>	<b>\$ 515,517</b>	<b>\$ 400,687</b>	<b>\$ 399,620</b>	<b>\$ 742,099</b>
Depreciation on assets funded by contributed capital	--	--	105,530	137,587	149,897
Prior period adjustments					
Assets funded by contributed capital	--	--	1,858,631	--	--
Depreciation on assets funded by contributed capital	--	--	--	534,301	--
<b>Retained earnings, July 1</b>	<b>\$3,093,230</b>	<b>\$3,420,596</b>	<b>\$3,936,113</b>	<b>\$6,300,961</b>	<b>\$ 7,372,469</b>
<b>Retained earnings, June 30</b>	<b>\$3,420,596</b>	<b>\$3,936,113</b>	<b>\$6,300,961</b>	<b>\$7,372,469</b>	<b>\$ 8,264,465</b>

*Source: City of Wilsonville Finance Department*

## Projected Revenues, Expenses and Debt Service Coverage

The following table sets forth projected revenues and expenses and debt service coverage for the consolidated funds of the Water System during the five year forecast period, FY 2001 through FY 2005.

### City of Wilsonville, Oregon Projected Water System Revenues, Expenses and Debt Service Coverage

[To be updated]

	Projected <u>2001</u>	Projected <u>2002</u>	Projected <u>2003</u>	Projected <u>2004</u>	Projected <u>2005</u>
Gross Revenues	\$2,938,866	\$3,878,509	\$4,479,084	\$4,709,380	\$4,875,833
Operating Expenses	1,195,178	1,423,098	2,037,087	2,126,870	2,218,783
Net Revenues					
Available for 1.10x Test	\$1,743,688	\$2,455,411	\$2,441,997	\$2,582,510	\$2,657,050
System Development Charges (SDCs) <sup>1</sup>	\$ 345,262	\$ 355,120	\$ 365,112	\$ 379,204	\$ 394,056
Transfers from Rate Stabilization Account (RSA)	--	--	--	--	--
Transfers to RSA	--	--	--	--	--
Net Revenues					
Available for 1.25x Test	\$2,088,950	\$2,810,531	\$2,807,109	\$2,961,714	\$3,051,106
Annual Debt Service					
Senior Lien Obligations					
Water Revenue Bonds <sup>2</sup>	\$ 665,000	\$1,140,000	\$1,641,005	\$1,640,085	\$1,639,100
Coverage-Net Revenues, no SDCs	2.62	2.15	1.49	1.57	1.62
Coverage-Net Revenues, plus SDCs	3.14	2.47	1.71	1.81	1.86
Junior Lien Obligations					
OECD Note Payable <sup>3</sup>		921,528	843,750	843,750	843,750
Total Coverage <sup>4</sup>					

<sup>1</sup> SDC revenues reduced by 50 percent from expected receipts level.

<sup>2</sup> Reflects the anticipated issuance of 20 year water revenue bonds in the aggregate principal amount of \$19 million at an assumed interest rate of 6% per year[, with no principal payable during the first two years of the amortization period].

<sup>3</sup> Reflects the \$10 million subordinate loan at an annual interest rate of 5.6% payable in equal annual installments throughout the 20 year amortization period.

<sup>4</sup> Includes all Senior Lien and Junior Lien debt service.

Source: City of Wilsonville Finance Department

**Debt Service Schedule for the Bonds**

The following table sets forth the debt service requirements for the Bonds.

**City of Wilsonville, Oregon  
Water Revenue Bond Debt Service**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2001	\$	\$	\$
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
Total	\$ <u>                    </u>	\$ <u>                    </u>	\$ <u>                    </u>

**ECONOMIC AND DEMOGRAPHIC INFORMATION**

The City is located in northwestern Oregon approximately 20 miles from downtown Portland, in western Clackamas County and southeastern Washington County. The region in which the City is located is economically diverse in nature and is particularly strong in the high tech industry.

**Population**

The City has grown rapidly over the course of the last five years, having increased approximately 33% to 12,985 as of June 30, 1999. The population estimates for the last five years are set forth below:

**City of Wilsonville, Oregon  
Population Estimates**

<u>Year</u>	<u>City</u>	<u>Percent Change</u>	<u>Portland Metro Area</u>	<u>Percent Change</u>
1995	9,765	0.9%	1,379,700	1.6%
1996	10,600	8.6%	1,403,200	1.7%
1997	10,940	3.2%	1,420,900	1.3%
1998	12,290	12.3%	1,445,000	1.7%
1999	12,985	5.7%	1,461,550	1.1%

*Source: Center for Population Research and Census, Portland State University*

**Employment**

The City's location in the Portland metropolitan area provides its citizens with diverse employment opportunities. Among the larger employers in the City are Xerox, Mentor Graphics, Hollywood Entertainment, GI Joes and InFocus. Three other large companies, Nike, Sysco and Rite-Aid have located regional warehouse and distribution centers in the City. Although small in population, the City is not dependent upon any one company or industry segment for economic vitality. Currently, approximately 14,000 persons are employed at locations throughout the City. The table below sets forth the top ten employers in the City as of June 30, 2000:

**City of Wilsonville, Oregon  
Top Ten Employers**

<u>Employer</u>	<u>Type of Business</u>	<u>Estimated Employment</u>
Xerox Corporation	Color Printers	1,343
Mentor Graphics Corporation	CAD Software Systems	946
Hollywood Management/Entertainment	Headquarters	852
InFocus Corporation	Data/Video Projectors	562
Sysco Food Services of Portland, Inc.	Wholesale Grocery Distributors	440
Nike USA, Inc.	Sports Apparel Warehouse/Distribution	400
Fry's Electronics, Inc.	Retail	300
Rite-Aid Wilsonville Distribution Center	Distribution Center	280
Milgard Manufacturing Inc.	Window Manufacturer	250
GI Joes Inc.	Headquarters	182

*Source: City of Wilsonville Finance Department*

**Commercial, Industrial and Residential Development**

The City's Comprehensive Plan is the primary source of guidance for continuing development and redevelopment within the boundaries of the City. The Comprehensive Plan recognizes industrial development as the basic element in stimulating economic growth and favors capital intensive rather than labor intensive industries. The City's location along Interstate 5, the major north-south interstate highway in the northwestern United States, has helped it attract light manufacturing, distribution and headquarters users.

The Comprehensive Plan also encourages commercial development to serve local needs. The primary type of commercial development identified in the Comprehensive Plan is the "town center." This is intended to be the major commercial district in the City. The plan envisions a few major department stores and a grocery store as anchors, interspersed with smaller shops offering a wide variety of merchandise. The City's Year 2000 Urban Renewal Plan is intended to implement the town center development concept. The Year 2000 Urban Renewal Plan is the principal economic development program undertaken by the City. These efforts are aided by the Wilsonville Chamber of Commerce, the Tualatin Valley Economic Development Commission and the I-5 Corridor Association. The following table sets forth the history of commercial and residential construction in the City for the last nine years.

**City of Wilsonville, Oregon  
Construction Trends**

Fiscal Year	Commercial Construction		Residential Construction		Total New Construction
	# of Units	Value	# of Units	Value	Value
1990-91	110	\$27,828,286	323	\$23,456,385	\$51,284,671
1991-92	90	17,817,151	163	16,601,106	34,418,257
1992-93	102	8,051,485	166	16,548,958	24,600,443
1993-94	95	18,806,587	194	25,804,518	44,611,105
1994-95	103	16,667,793	377	26,167,643	42,835,436
1995-96	134	13,936,120	198	17,747,884	31,684,004
1996-97	167	33,465,176	448	36,974,884	70,439,667
1997-98	167	27,923,119	461	36,792,682	61,715,801
1998-99	173	25,555,973	551	34,849,339	60,405,312

*Source: City of Wilsonville Building Department*

In response to its limited water supply, the City implemented a two-year building moratorium beginning January 1998. The moratorium ended in January 2000 as required by law. Given that the new primary water source for the Water System was not yet on-line, the City implemented a Public Facilities Strategy, rationing development based on objective criteria, water conservation planning and available water resources.

Under the Public Facilities Strategy, development applications are placed in a queuing line ordered sequentially by date of approval or allocation (as applicable) and considering projected water use of the development relative to other applicants. Each development must also submit a water conservation plan to the City prior to receiving a building permit. Additional developments are phased into the strategy annually based on availability of water resources.

The strategy works to minimize the impacts to current Water System customers and rations available resources over new development in the most equitable and efficient manner possible.

The moratorium and Public Facilities Strategy have resulted in a substantial backlog of development requests. The following is a partial list of some of the more significant development/construction applications received by the City.

- White Oak (Wilsonville Summit), a 376-unit apartment complex.
- Morey's Landing, a 76-unit single family residential development expansion.
- Marcia's Vineyard, a 126-unit apartment complex.
- Vintage Suites (Willamette Woods), a 120-unit senior housing development.
- InFocus, a 828,000 square foot office space expansion.
- Wilsonville Business Park, a 260,000 square foot manufacturing and office space.
- West Linn Wilsonville School District, a 700-student elementary school.
- Village at Main Street, 200 residential rental housing units.

In addition, the Department of Corrections is constructing a new 1600-bed women's prison and co-gender intake facility just outside the territorial boundaries of the City that is scheduled to open in April 2002.

### **Health Care**

Meridian Park Hospital is located ten minutes north of the City on Interstate 5. Meridian Park is a 150-bed community hospital, offering a full range of medical services. The hospital is served by more than 500 physicians. Residents of the City also have access to numerous major health care facilities located throughout the metropolitan area.

### **Transportation**

Interstate 5, the major north-south interstate highway in the northwestern United States, and Interstate 205 provide freeway access to the City and direct access to the central Portland business district.

The City operates its own public transportation system, South Metro Area Rapid Transit (SMART). SMART is funded entirely by an employer payroll tax.

The publicly-owned Tri-County Metropolitan Transportation District (Tri-Met) provides commuter bus service daily throughout the City, with a transfer policy enabling low-cost travel through the entire metropolitan area and most suburban areas. The City is served by numerous freight rail lines that provide direct ties to the main Portland rail terminal. Amtrak lines are accessible at the main Portland terminal as well. The closest major airport is the Portland International Airport, located approximately 20 miles north of the City by way of Interstate 205.

### **Public Services and Utilities**

Northwest Natural Gas supplies natural gas to the Wilsonville area. Telephone service to the area is provided by Pacific Telecom and General Telephone and Electric Company. Electricity is provided by Portland General Electric Company.

The City operates and maintains a wastewater treatment plant and the Water System. The City requires that all future urban development be served by the City's sanitary sewer system.

The City contracts for police protection from the Clackamas County Sheriff's Office. Clackamas County provides 15 full-time officers to the City. Fire protection is provided by the Tualatin Valley Fire and Rescue District.

The West Linn-Wilsonville School District operates six elementary schools, three middle schools, and two high schools, for approximately 6,000 students. Clackamas Community College has an annual enrollment of approximately 22,000, with associate degree programs in 32 disciplines. The college operates a Wilsonville branch. Twelve other colleges and universities are located within a 20-mile radius of the City.

## **Outlook**

As the southern border of the Portland Urban Growth Boundary, the City contains the last developable land that has easy and close access to Interstate 5. Because of this, commercial and industrial development continues to dominate the area's growth. The City has almost 390 acres of undeveloped land zoned for commercial and industrial use. In addition, approximately 150 acres of land is available for residential development.

## **NOVEMBER 2000 BALLOT MEASURE**

[To come.]

## **LITIGATION**

Currently, there are two pending litigation matters filed by opponents to treating and using Willamette River water for drinking water purposes. Neither one of the pending litigation matters directly affects the City's authority to sell the revenue bonds nor the City's ability to repay the bond financing. However, if successful, either could cause time and expense to the City. But the time and expense are not viewed at this time as material or adverse to the City's ability to repay the bond finance.

In *Wilsonville Citizens for Safe Water et al v. City of Wilsonville*, Clackamas County Circuit Court for the State of Oregon, No. CCV 002464, plaintiffs seek declaratory relief challenging the City's interpretation of a charter amendment initiative passed on the same ballot as the revenue bond measure. Plaintiffs interpret the initiative measure to constrain the purpose of the bond measure for the treatment plant facility to treat and use Willamette River water for municipal water supply to except from the purpose use for drinking water and to allow all others. Thus constrained, plaintiffs claim the initiative would require a second vote, but only on the issue of using the treated water for drinking. Plaintiffs do not challenge the City's authority to sell the bonds or to repay them and has so advised the court. The City made a contrary determination at the time of approving the canvas of votes and passages of both measures; interpreting the purpose of the approved bonding measure for treating and using Willamette River water for municipal water supply to include drinking and to have met the initiative requirements. The

court has recently heard arguments on motions for summary judgment from both parties and is expected to render its decision by mid-October. The City expects its motion for summary judgment to prevail.

In *Wilsonville Citizens for Safe Water v. City of Wilsonville and State of Oregon (Health Division)*, Clackamas County Circuit Court for the State of Oregon, No. CCV 0007655, plaintiff, having agreed to dismiss the claims against the City, is now proceeding only against the State of Oregon on a petition for judicial review claiming the Health Department's approval of the City of Wilsonville's construction plans for a water treatment facility was given without requiring a current master plan for the City's water system. Master plans must cover a 20-year period. The City filed its master plan dated 1986 with the agency in 1992. Under agency rules, the master plan is current and will not require update until 2006. The master plan considers both groundwater and surface water alternatives. Plaintiff seeks an interpretation of the agency rules to require greater current detail of the surface water alternative in terms of the specific details of the water standards for the treatment plant. The State disagrees with plaintiff's interpretation of the agency's rules. The City believes the State has correctly interpreted its own rules. The City expects the State to prevail in its defense. Should the State not prevail, the City would be required to update its master plan, which the City had independently planned to do, in any event, by May of 2001.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the unqualified approving opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel. The opinion of Bond Counsel will be delivered to the Underwriter of the Bonds. The proposed text of that opinion is set forth in Appendix C to this Official Statement. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the Bonds, the Master Resolution, and the authority to issue the Bonds, conform to the Bonds and the applicable laws under which they are issued.

Certain legal matters will be passed upon for the Underwriter by Miller Nash LLP, Portland, Oregon.

## **TAX-EXEMPTION**

### **General**

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation under Section 103(a) of the Code, provided the requirements of the Code described in this section under the heading "Continuing Requirements" are complied with.

The Bonds are not private activity bonds and interest on the Bonds is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Bonds is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax

under Section 55 of the Code as more fully described in this section under the heading "Certain Federal Income Tax Consequences."

Except as described herein, Bond Counsel expresses no opinion on any federal, state or local tax consequence arising with respect to ownership of the Bonds.

### **Continuing Requirements**

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the facilities financed or refinanced with such proceeds, limitations on the investment of bond proceeds prior to expenditure and a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States. The City has covenanted in the bond documents that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the City contained in the bond documents pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the bond documents or the Master Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

### **Certain Federal Income Tax Consequences**

The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular bondowners. Prospective bondowners, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

### **Alternative Minimum Tax on Corporations**

Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for such year. The tentative minimum tax is based upon alternative minimum taxable income which is regular taxable income with certain adjustments and increased by the amount of certain items of tax preference. One of the adjustments is 75 percent of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's adjusted current earnings.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

### **Financial Institutions**

The Code denies banks, thrift institutions and other financial institutions a deduction for 100 percent of their interest expense allocable to tax-exempt obligations, such as the Bonds.

### **Borrowed Funds**

The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

### **Property and Casualty Insurance Companies**

The deduction for loss reserves for property and casualty insurance companies is reduced by 15 percent of the sum of certain items, including the interest received on tax-exempt bonds, such as the Bonds.

### **Social Security and Railroad Retirement Benefits**

The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account; in determining gross income, receipts or accruals of interest that is exempt from federal income tax.

### **Branch Profits Tax**

Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Bonds.

## **S Corporations**

Certain S corporations that have subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25 percent of which are passive investment income, which includes interest on tax-exempt obligations, such as the Bonds, may be subject to a tax on excess net passive income.

## **State Tax Exemption**

In the opinion of Bond Counsel, interest on the Bonds is exempt from present State of Oregon personal income taxation.

## **RATING**

\_\_\_\_\_ ("\_\_\_\_\_"), has assigned the Bonds the rating of "\_\_\_\_." The City has furnished \_\_\_\_\_ with certain information and materials which have not been included in this Official Statement.

Such rating reflects only the view of \_\_\_\_\_. An explanation of the significance of such rating may be obtained from \_\_\_\_\_ at \_\_\_\_\_, New York, New York \_\_\_\_\_. The rating is not a recommendation to buy, sell or hold the Bonds and there is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by \_\_\_\_\_ if, in its judgment, circumstances so warrant.

The City expects to furnish \_\_\_\_\_ with information and materials that it may reasonably request. The City, however, assumes no obligation to furnish any such requested information materials, and may seek the issuance of debt and incur other obligations for which ratings may not be requested. Failure to furnish any such requested information and materials, or the issuance or incurrence of such other obligations for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

## **INDEPENDENT AUDITORS**

The financial statements of the City, included in this Official Statement as Appendix B, have been audited by Grant Thornton LLP, independent auditors, as stated in their report appearing therein.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriter identified on the cover page of this Official Statement. The Underwriter has agreed to purchase the Bonds, subject to certain conditions, at a purchase price of \$ \_\_\_\_\_ (which includes Underwriter's discount of \$ \_\_\_\_\_), plus accrued interest, if any. The Underwriter will be obligated to accept delivery and pay for all of the Bonds if any are delivered and accepted thereby. The Underwriter may offer to sell the Bonds to certain dealers (including dealers depositing the Bonds into

investment unit trusts) and others at prices lower than the public offering prices on the cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

### **CONTINUING DISCLOSURE UNDERTAKING**

Pursuant to Rule 15c2-12 (the "Rule") promulgated by the Securities Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, the City, as the "obligated person" with respect to the Bonds within the meaning of the Rule, has agreed to execute, deliver and comply with a continuing disclosure undertaking substantially in the form attached hereto as Appendix D for the benefit of the Bondholders.

The City has never failed to comply with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

### **CERTIFICATION CONCERNING OFFICIAL STATEMENT**

At the time of the original delivery of the Bonds, the City will deliver a certificate addressed to the Underwriter to the effect that the City has examined this Official Statement and the financial and other data concerning the City and the Water System contained herein and that to the best of the City's knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein, in light of the circumstances under which the statements were made, and (ii) between the date of this Official Statement and the date of delivery of the Bonds, there has been no material change in the affairs (financial or otherwise), financial condition or results of operations of the City or the Water System except as may be set forth in this Official Statement

### **MISCELLANEOUS**

All quotations from, and summaries and explanations of provisions of law herein do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the Underwriter or owners of any of the Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representation of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies or the Water System, since the date hereof

### **CONCLUDING STATEMENT**

This Official Statement has been deemed final by the City for purposes of Rule. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading and (ii) between the

date of this Official Statement and the date of delivery of the Bonds there has been to material change in the affairs (financial or other), financial condition or results of operations of the City or the Water System except as may be set forth in this Official Statement.

The preparation, execution, delivery and distribution of this Official Statement have been duly authorized and approved by the City.

**CITY OF WILSONVILLE, OREGON**

By: \_\_\_\_\_  
Finance Director

**APPENDIX A**  
**MASTER WATER REVENUE BOND RESOLUTION**

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 1999**

**APPENDIX C**  
**PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL**

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

## CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING dated October \_\_\_, 2000, is made by the City of Wilsonville, Oregon (the City), for the benefit of the holders and beneficial owners from time to time of the City's \$ \_\_\_\_\_ Water System Revenue Bonds, Series 2000 dated as of [September 1,] 2000 (the Bonds), under the circumstances summarized in the following recitals (with each capitalized term used but not defined in this Undertaking having the meaning assigned to it in Resolution No. \_\_\_ adopted by the City Council on October \_\_\_, 2000, authorizing issuance of the Bonds (the Master Resolution)):

A. The City, by adoption of the Master Resolution, has determined to issue the Bonds to provide funds for City purposes, and Salomon Smith Barney Inc. (the Original Purchaser) has agreed to provide those funds to the City by purchasing the Bonds.

B. The City understands that the Original Purchaser will sell and deliver Bonds to other holders and beneficial owners; that the Original Purchaser would not purchase the Bonds from the City, and the City would not be assured of the availability of funds required for its purposes, if the Original Purchaser were not able to so sell and deliver the Bonds; and that the Bonds may be transferred from time to time from holders and beneficial owners to other holders and beneficial owners who may rely upon the continuing disclosure agreement made by the City in this Undertaking.

C. As a condition to the purchase of the Bonds from the City and the sale of Bonds to holders and beneficial owners, the Original Purchaser is required to reasonably determine that the City has made an agreement for the benefit of holders and beneficial owners of the Bonds in accordance with paragraph (b)(5)(i) of Rule 15c2-12 (the Rule) promulgated by the Securities and Exchange Commission (the SEC) pursuant to the Securities Exchange Act of 1934, as amended.

D. The City intends to make an agreement in this Undertaking to provide or cause to be provided such financial information and operating data, financial statements and notices, in such manner, as may be required for purposes of paragraph (b)(5)(i) of the Rule or any successor provision thereto.

NOW, THEREFORE, in consideration of the purchase of the Bonds from the City by the Original Purchaser and the contemplated sale of the Bonds to, and transfer of Bonds between, holders and beneficial owners from time to time, the City hereby sets forth the terms of its continuing disclosure agreement made for purposes of the Rule for the benefit of the holders and beneficial owners from time to time of the Bonds, as follows:

Section 1. Provision of Annual Information; Audited Financial Statements; and Notices of Events. The City shall provide or cause to be provided:

(a) to each nationally recognized municipal securities information repository designated from time to time by the SEC (each a NRMSIR) and to any state information depository with which filings are required to be made by the City in accordance with the Rule (the SID), (i) annual financial information and operating data of the type described in Section 2 (the Annual Information) for each City fiscal year ending on or after June 30, 2000, not later than six months following the end of each fiscal year, and (ii) when and if available, audited City financial statements for each such fiscal year; and

(b) to each NRMSIR or to the Municipal Securities Rulemaking Board established by the SEC (the MSRB), and to the SID, in a timely manner, notice of (i) any Specified Event described in Section 2 if that Event is material, (ii) the City's failure to provide the Annual Information on or prior to the date specified above, and (iii) any change in the accounting principles applied in the preparation of its annual financial statements, any change in its fiscal year, and of the termination of this Undertaking.

The City expects that audited annual City financial statements will be prepared, any such statements will be available together with the Annual Information, and the accounting principles to be applied in the preparation of those financial statements will be generally accepted accounting principles as recommended from time to time by the Governmental Accounting Standards Board.

## Section 2. Annual Information and Specified Events.

(a) Annual Information to be provided by the City shall consist of: information and data of the type included in the Official Statement for the Bonds under the captions (i) "WATER SYSTEM FINANCIAL OBLIGATIONS -- Summary of Water System Financial Operations," "-- Water System Obligations," and "-- Historical Revenues and Expenditures," [Add Bond Debt Service Schedule and Debt Service Coverage] and (ii) "WATER SALES AND BILLING INFORMATION -- General Rates and Charges," "-- Customers and Water Sales," and "-- Billing and Collections."

(b) Specified Events shall include the occurrence of the following events, within the meaning of the Rule, with respect to the Bonds, as applicable: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of beneficial owners; (viii) Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes.

The [City has not obtained or provided, and does not expect to obtain or provide, any credit enhancements or credit or liquidity providers for the Bonds, and] repayment of the Bonds is not

secured by a lien on any property capable of release or sale or for which other property may be substituted.

Section 3. Amendments. The City reserves the right to amend this Undertaking, and noncompliance with any provision of this Undertaking may be waived, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City. Any such amendment or waiver shall not be effective unless this Undertaking (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the City shall have received either (a) a written opinion of bond or other qualified independent special counsel selected by the City that the amendment or waiver would not materially impair the interests of holders or beneficial owners, or (b) the written consent to the amendment or waiver of the holders of at least a majority of the principal amount of the Bonds then outstanding. Annual Information containing any revised operating data or financial information shall explain, in narrative form, the reasons for any such amendment or waiver and the impact of the change on the type of operating data or financial information being provided.

Section 4. Remedy for Breach. This Undertaking shall be solely for the benefit of the holders and beneficial owners from time to time of the Bonds. The exclusive remedy for any breach of this Undertaking by the City shall be limited, to the extent permitted by law, to a right of holders and beneficial owners to institute and maintain, or to cause to be instituted and maintained, such proceedings as may be authorized at law or in equity to obtain the specific performance by the City of its obligations under this Undertaking. Any individual holder or beneficial owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the City to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any such proceedings to require the City to perform any other obligation under this Undertaking (including any proceedings that contest the sufficiency of any pertinent filing) shall be instituted and maintained only by a trustee appointed by the holders and beneficial owners of not less than 25% in principal amount of the Bonds then outstanding. A default in respect of any obligation under this Undertaking shall not be deemed to be an event of default under the Master Resolution or the Bonds, and the sole remedy for a default hereunder shall be expressly limited to specific performance as aforesaid.

Section 5. Choice of Law. This Undertaking shall be governed by and construed in accordance with the laws of the State of Oregon, excepting the conflicts of laws provisions thereof; provided that, to the extent this Undertaking concerns matters of federal securities laws, such federal securities laws shall govern this Undertaking and the construction thereof.

Section 6. Termination. The obligations of the City under this Undertaking shall remain in effect only for such period that the Bonds are outstanding in accordance with their terms and the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule.

The obligation of the City to provide the Annual Information and notices of the events described above shall terminate, if and when the City no longer remains such an obligated person.

IN WITNESS WHEREOF, the City has caused this Undertaking to be duly signed and delivered to the Original Purchaser, as part of the Bond proceedings and in connection with the original delivery of the Bonds to the Original Purchaser, on its behalf by its official signing below, all as of the date set forth above, and the holders and beneficial owners from time to time of the Bonds, shall be deemed to have accepted this Undertaking, made in accordance with the Rule.

CITY OF WILSONVILLE, OREGON

By: \_\_\_\_\_  
Title:

## APPENDIX E

### BOOK-ENTRY SYSTEM

*Portions of the following information concerning DTC and DTC's Book-Entry System have been obtained from DTC, a source the City believes to be reliable for such purposes. However, neither the City, the Underwriter nor the Financial Advisor make any representations as to the accuracy of such information and take no responsibility therefor.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Registrar.

Disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

DRAFT

City of Wilsonville

Solomon Smith Barney

Subject: \$ \_\_\_\_\_ City of Wilsonville, Oregon Water System Revenue Bonds, Series 2000

We have acted as bond counsel to the City of Wilsonville, Oregon, (the "City") in connection with its issuance of Water System Revenue Bonds, Series 2000 (the "Bonds"). The Bonds are being sold to Solomon Smith Barney pursuant to a Bond Purchase Agreement which is dated as of \_\_\_\_\_, 2000. This opinion is delivered pursuant to Section \_\_\_ of that Bond Purchase Agreement.

**The Bonds**

The Bonds are issued pursuant to ORS 288.805 et seq. (the "Uniform Revenue Bond Act" or the "Act") and ORS 288.594, and are authorized by Resolution \_\_\_ of the City (the "Resolution") adopted on \_\_, 2000. Capitalized terms which are used but not defined in this opinion have the meanings defined for those terms in the Resolution.

The Bonds are payable from the Net Revenues, Water SDCs, amounts in the Bond Payment Account and the Bond Reserve Account, and any amounts available to be drawn under a Reserve Credit Facility, as defined and provided in the Resolution. The City has no legal obligation to pay the Bonds from any other sources. The City has covenanted in the Resolution to charge rates and fees in connection with the Water System each Fiscal Year which are sufficient to produce:

1. Net Revenues, plus Water SDCs, after adjustments for deposits and withdrawals from the Rate Stabilization Account, which are equal to 125% of the Annual Debt Service on the Bonds, and;
2. Net Revenues each Fiscal Year which are at least equal to one hundred ten percent (110.00%) of Annual Debt Service.

We have assumed that the City will comply with this covenant, and all of its other covenants in the Resolution and the Bonds, at all times while the Bonds are Outstanding.

**Measure 93**

An initiative petition titled by its authors as the "Taxpayer Protection Initiative" has qualified to appear on the November 7, 2000, Oregon general election ballot as Measure 93. This initiative ("Measure 93") prohibits increases in certain taxes, fees and charges ("TF&Cs") after December 6, 2000 without voter approval, and requires governments which have increased

or imposed new TF&Cs after December 6, 1998, to refund those increased or newly imposed TF&Cs unless they are subsequently submitted to and approved by the voters.

You have asked us to render an opinion about the application of Article I, Section 10, paragraph 1 of the United States Constitution to the limitations of Measure 93 and the covenant of the City to impose rates and fees to pay the Bonds.

### **The Contracts Clause**

Article I, Section 10, paragraph 1 of the United States Constitution (the “Contracts Clause”) states “No State shall ... pass any ... Law impairing the Obligation of Contracts .....” This provision has been applied by federal and state courts to invalidate state laws (including initiative petitions like Measure 93) that would have impaired contractual undertakings made by municipal entities, such as the Bonds and the Resolution. However, not every impairment of a contractual undertaking violates the Contracts Clause.

To find that a state law violates the Contracts Clause, a court must determine: (1) that the change in state law impairs that contractual relationship; and, (2) that the impairment is substantial. Even if the impairment of the contractual undertaking is substantial, a court may decline to protect the contractual undertaking if the court determines that the impairment is justified as a reasonable and necessary exercise of the State’s sovereign power. United States Trust Co. v. New Jersey, 431 U.S. 1, 97 S.Ct. 1505 (1977); Allied Structural Steel Co. v. Spannaus, 438 U.S. 234, 98 S.Ct. 2716 (1978); Continental Illinois National Bank and Trust Company of Chicago, et. al. v. State of Washington, 696 F.2d 692 (9<sup>th</sup> Cir. 1983) (“WPPSS”); General Motors Corp. v. Romein, 112 S.Ct. 1105, 110 (1992).

### **Application of the Contracts Clause to the Bonds**

Determinations by courts of whether a contractual undertaking is substantially impaired, and whether the impairment is justified as a reasonable and necessary exercise of the state’s sovereign power must be made based on the facts in existence at the time the court’s determination is made. We are lawyers, and can only offer our opinion on the law. Since these determinations involve questions of fact, we can not offer you a legal opinion that a court will determine that the provisions of Measure 93 substantially impair the City’s contractual undertakings in the Bonds and the Resolution, or that a court will not determine that any impairments created by Measure 93 are nevertheless justified as reasonable and necessary exercises of the state’s sovereign power.

However, we note that existing case law under the Contracts Clause supports the conclusion that Measure 93 should not be applied to prevent the City from increasing rates and fees, if the increases are necessary to prevent a payment default on the Bonds.

## **Opinion**

In our opinion, under existing law if: Measure 93 is approved by the voters of the State of Oregon; Measure 93 is interpreted to require additional voter approval for increases in rates and fees for water service; increases in the rates and fees for water service are necessary to pay the Bonds; and those facts and the law referenced in this opinion are properly presented and argued to a reasonable Oregon court or a reasonable federal court sitting in Oregon; then, based on our review of prior judicial action under the Contracts Clause, that court should find that Measure 93 substantially impairs the City's contractual undertakings in the Bonds and the Resolution, the impairment is not justified as reasonable and necessary exercises of the state's sovereign power, and that the City's covenant in the Resolution to impose the rates and fees should be enforced to the extent necessary to avoid a payment default on the Bonds.

## **The Refund**

Measure 93 may be interpreted to require the City to refund TF&Cs newly imposed or increased after December 6, 1998. We express no opinion regarding the obligation of the City to pay those refunds, but note the following:

1. the Contracts Clause may not protect the City from the obligation to refund; and,
2. In the Resolution the City has covenanted to credit certain Net Revenues and other amounts to the Bond Payment Account and the Bond Reserve Account, has pledged those amounts to pay the Bonds, and has covenanted not to use those amounts for any other purpose. If the City is obligated to pay a refund under Measure 93, the City's covenants and pledges of the amounts which the City is required by the Resolution to credit to the Bond Payment Account and the Bond Reserve Account should prevent those amounts from being used to pay refunds due under Measure 93.

## **Disclaimers and Limitations**

Measure 93 has not been approved by the voters, has not been implemented by the Oregon legislature, and has not been construed by any court. Future legislation and court decisions could alter the effect of Measure 93 on the Bonds in ways that we can not predict, which would cause this opinion to be inaccurate. In addition, we have identified assumptions we have made in rendering this opinion; if our assumptions are not correct our opinion may be inaccurate.

Enforceability of the Bonds and the Resolution may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable

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principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is for your sole benefit. It is limited solely to the effect of Measure 93. Neither this opinion nor any extract from this opinion or reference to this opinion may be furnished to, quoted from or relied upon by any other person, firm or corporation without our express written permission.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein.

No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation, or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. The opinion expressed herein is based on an analysis of existing laws, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted, or events occurring after the date hereof. We have undertaken to determine, or to inform any person, whether such actions or events are taken or do occur. Our engagement with respect to the matters discussed in this letter concludes with its delivery, and we disclaim any obligation to update this letter.

We have acted only as bond counsel to the City in connection with the issuance of the Bonds and have not acted as counsel to Solomon Smith Barney or any other party to this transaction.

Respectfully submitted,

Preston Gates & Ellis LLP