

**RESOLUTION
OF THE
CITY OF PRINEVILLE
CROOK COUNTY, OREGON**

Resolution No. 841

**A RESOLUTION OF THE CITY OF PRINEVILLE, CROOK
COUNTY, OREGON, AUTHORIZING THE ISSUANCE OF
FIRST LIEN SEWER REVENUE REFUNDING BONDS,
SERIES 1998**

Adopted September 22, 1998

RESOLUTION NO. 841

A RESOLUTION OF THE CITY OF PRINEVILLE, OREGON
AUTHORIZING THE ADVANCE REFUNDING OF OUTSTANDING
SEWER REVENUE BONDS, AND PROVIDING THE TERMS
UNDER WHICH PARITY REVENUE REFUNDING BONDS MAY
BE ISSUED.

1. Findings.

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

1.1 The City has previously issued and has outstanding its First Lien Sewer Revenue Bonds, Series 1992, which are dated April 1, 1992 (the "1992 Bonds" or the "Refundable Bonds") which have a senior lien on the net operating revenues of the City's sewer system. These 1992 Bonds were issued pursuant to Resolution No. 727 adopted by the City on April 28, 1992 (the "Master Resolution"). There are no other bonds or obligations outstanding to which the revenues of the water system have been pledged except for its outstanding Parity Notes as described herein.

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

1.3 Issuing advance refunding bonds to refund a portion of the 1992 Bonds will reduce total debt service.

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

1.5 Charter Investment Group has prepared an advance refunding plan for the 1992 Bonds.

1.6 The City Council adopts this Resolution to authorize submission of the advance refunding plan, to authorize the issuance of the City's First Lien Sewer Revenue Refunding Bonds, Series 1998, to advance refund a portion of the 1992 Bonds.

1.7 If the State Treasurer approves the issuance of advance refunding bonds in accordance with the advance refunding plan, the City authorizes the issuance of its First Lien Sewer Revenue Refunding Bonds, Series 1998 (the "Refunding Bonds") in a principal amount sufficient to pay the cost of refunding the Refundable Bonds and the costs incident to the authorization, sale and issuance of the Refunding Bonds pursuant to this Resolution.

1.8 For the proposed issue of advance refunding bonds, the firm of Preston Gates & Ellis LLP is designated as bond counsel, First Security Bank, National Association is designated as Escrow Agent and Paying Agent, Charter Investment Group is designated as Underwriter and Mark S. Hudspeth is designated as financial advisor to the City.

2. Definitions, Assignment and Pledge

2.1. Definitions.

Capitalized terms used in this 1998 Resolution have the meanings defined for such terms in the Master Resolution, some of which are repeated herein for convenience. In addition, the following words and phrases shall have the meanings herein set forth unless the context clearly indicates that another meaning is intended.

“1998 Bonds” means the Revenue Bonds to be issued in one or more series pursuant to this 1998 Resolution.

“1998 Resolution” means this Amending Resolution authorizing issuance of the 1998 Bonds.

“Escrow Agent” means First Security Bank, National Association.

“Escrow Deposit Agreement” means the Escrow Deposit Agreement between the City and the Escrow Agent pursuant to which proceeds of the 1998 Bonds and/or other funds are to be administered to provide for the payment of the portion of the 1992 Bonds to be refunded as provided in this Resolution.

“Escrow Fund” means the fund created by the Escrow Deposit Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of the Escrow Deposit Agreement.

"Gross Revenues" means all fees and charges, including system development charges, resulting from operation of the Sewer System, revenues from product sales and such revenues as may be deposited to the Sewer Fund by the City from the operation of the Prineville Meadows Golf Course plus investment income from Sewer User revenues on deposit with the City under this Resolution; however, Gross Revenues does not include: (a) any payments of improvement assessments levied against benefited properties; (b) the proceeds of any grants; (c) the proceeds of any borrowing for capital improvements; (d) the proceeds of any liability or other insurance; (e) the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System; (f) sales of assets pursuant to Section 14 of the Master Resolution, and (g) ad valorem taxes received by the City which are, at any time, pledged, designated or dedicated to other debt or obligations of the City.

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

"Operating Expenses" means all expenses incurred for operation, maintenance and repair of the Project and the Sewer System, including but not limited to administrative

expenses, financial and auditing expenses, insurance premiums, claims (to the extent monies are not available from proceeds of insurance), taxes, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization, and sick leave benefits, and any other similar expenses to be paid to the extent properly and directly attributable to operations of the Sewer System. Operating Expenses do not include any rebates paid from Gross Revenues under Section 148 of the Code and any interfund transfers of the City.

"Required Reserve" means an amount equal to the lesser of (a) the maximum annual debt service due in any Fiscal Year on the 1998 Bonds and all Outstanding Bonds determined as of the date of issuance of the Bonds, (b) 1.25 times the average annual debt service on the 1998 Bonds and all Outstanding Bonds or (c) ten percent of the proceeds of all issues of Bonds which have Bonds outstanding, in accordance with Section 148(d) of the Code.

"Redemption Account" means the First Lien Sewer System Revenue Bond Debt Redemption Account, to be maintained pursuant to Section 12 of the Master Resolution by the City to hold funds to be used to pay Bond principal and interest and premiums if any.

3. Assignment and Pledge of Revenues

3.1. Pledge of Net Operating Revenues.

The City hereby pledges the Net Operating Revenues to the payment of the principal of, premium (if any) and interest on all Bonds issued hereunder and on a parity with its 1992 Bonds and its Parity Notes. Pursuant to ORS 288.594, the pledge of the Net Operating Revenues hereby made by the City shall be valid and binding from the time of the adoption of this 1998 Resolution. The Net Operating Revenues so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the pledge shall be superior to all other claims and liens whatsoever (except for the lien of the 1992 Bonds and the Parity Notes) to the fullest extent permitted by ORS 288.594.

4. Findings and Determinations

4.1. Master Resolution Parity Test

The debt service on the 1998 Bonds shall not exceed the required debt service of the Refundable Bonds in any Fiscal Year; therefore, Section 16.B of the Master Resolution is satisfied.

4.2. Additional Tests for the 1998 Bonds.

4.2.1. On or prior to execution of a Bond Purchase Contract there shall have been filed with the City and the Bond Purchaser a certificate stating that:

4.2.1.1. No Default under the Master Resolution has occurred and is continuing; and

4.2.1.2. There is no deficiency in the Redemption Account and the Reserve Account;

4.2.2. On or prior to closing, there shall be deposited to the Reserve Account an amount sufficient or Reserve Equivalent to bring the balance in the Reserve Account equal to the Required Reserve for all outstanding Bonds, including the 1998 Bonds.

5. General Terms and Provisions of 1998 Bonds

5.1. Book-Entry-Only Form.

The 1998 Bonds shall be initially issued in book entry only form (“BEO form”) and shall be governed by this Section 4. While the 1998 Bonds are in BEO form no physical 1998 Bonds shall be provided to Bondowners. The City has executed and delivered a blanket Letter of Representations to Depository Trust Company, New York, New York (“DTC”). While the 1998 Bonds are in BEO form, registration and transfer of beneficial interests in the 1998 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 1998 Bonds are in BEO form:

5.1.1. DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Bondowners. The 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 1998 Bonds called for redemption or of any other action premised on such notice.

5.1.2. The City may discontinue maintaining the 1998 Bonds in the BEO form at any time. The City shall discontinue maintaining the 1998 Bonds in BEO form if DTC determines not to continue to act as securities depository for the 1998 Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.

5.1.3. If the City discontinues maintaining the 1998 Bonds in book-entry only form, the City shall cause the Paying Agent to authenticate and deliver replacement 1998 Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees.

5.1.4. While the 1998 Bonds are in BEO form, the City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:

5.1.5. the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the 1998 Bonds;

5.1.6. the delivery to any participant or correspondent or any other person of any notice with respect to the 1998 Bonds, including any notice of prepayment;

5.1.7. the selection by DTC of the beneficial interest in the 1998 Bonds to be redeemed prior to maturity; or

5.1.8. the payment to any participant, correspondent, or any other person other than the registered owner of the 1998 Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal or interest on the 1998 Bonds.

5.1.9. The City shall pay or cause to be paid all principal and interest on the 1998 Bonds only to or upon the order of the Bondowner, as shown in the registration books maintained by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation on the 1998 Bonds which are so paid.

5.1.10. Upon delivery by DTC to the City and to the Bondowner 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 of that notice to the Paying Agent. DTC shall tender the 1998 Bonds it holds to the Paying Agent for reregistration.

5.1.11. The provisions of this Section 5 relating to BEO form may be modified without the consent of the beneficial owners in order to conform this Section 5 to the standard practices of DTC for 1998 Bonds issued in book-entry only form.

5.1.12. The City reserves the right to purchase 1998 Bonds in the open market.

5.1.13. If any 1998 Bonds are subject to mandatory redemption, the City may credit against the mandatory redemption requirement any 1998 Bonds of the same lien status and maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.

5.1.14. So long as the 1998 Bonds are in book-entry only form, the Paying Agent shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by a letter of representation submitted to DTC in connection with the issuance of the 1998 Bonds.

5.1.15. During any period in which the 1998 Bonds are not in book-entry only form, unless waived by any Bondowner of the 1998 Bonds to be redeemed, official notice of any redemption of the 1998 Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Bondowner of the 1998 Bond or 1998 Bonds to be redeemed at the address shown

the Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent. The City shall notify the Paying Agent of any intended redemption not less than 45 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:

5.1.16. the redemption date,

5.1.17. the redemption price,

5.1.18. if less than all outstanding 1998 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 1998 Bonds to be redeemed,

5.1.19. that on the redemption date the redemption price will become due and payable upon each such Bond or portion of a Bond which is called for redemption, and that interest thereon shall cease to accrue from and after that date, and

5.1.20. the place where such 1998 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

5.2. Responsibilities of the Registrar.

5.2.1. The Registrar has no obligation to make payments on the 1998 Bonds except from Net Operating Revenues and other money provided to it by the City.

5.2.2. The Registrar is the agent of the City, and does not represent Owners.

5.2.3. The Registrar shall not be liable to the City or any Bondowner unless the Registrar has breached its contractual obligations or has negligently acted or omitted to act.

5.2.4. The City shall transfer amounts in the Redemption Account to the Registrar on or prior to each Payment Date, in amounts and at times so that the Registrar will have sufficient funds available to it to permit the Registrar to pay the 1998 Bond principal, interest, and premium, if any, when due.

5.3. 1998 Bond Form; Execution.

The 1998 Bonds shall be in substantially the form attached as Exhibit A to this Resolution. The 1998 Bonds shall be signed on behalf of the City with the facsimile signatures of the Mayor and Recorder of the City, and shall be authenticated by a manual signature of the Registrar.

6. 1998 Bond Proceeds; Covenants

6.1. Disposition of the Proceeds from the Sale of the 1998 Bonds.

6.1.1. On closing, the proceeds of the 1998 Bonds and/or other funds of the City shall be deposited or transferred as follows:

6.1.1.1. Interest accrued from the date of the 1998 Bonds until the date of closing shall be placed in the Redemption Account, and shall be used to pay interest on the Series 1998 Bonds. Proceeds of the 1998 Bonds or other funds of the City shall be deposited in the Reserve Account or the City shall obtain a Reserve Equivalent sufficient to meet the Required Reserve for the 1998 Bonds. Proceeds of the 1998 Bonds or other funds of the City shall be deposited in the Escrow Fund. The balance of the Series 1998 Bond proceeds shall be disbursed as directed by the City Administrator and may be used to pay costs of issuing and administering the Series 1998 Bonds.

6.2. Reaffirmation of Prior Covenants From Master Resolution.

6.2.1. The City covenants that it will charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Operating Revenues in each fiscal year at least equal to 1.25 times Bond principal and interest due in that fiscal year. If the Net Operating Revenues fail to meet this level, the City will promptly increase its rates and fees to a level so that Net Operating Revenues are projected to meet the required level. The City will demonstrate its compliance with the provisions of Section 13 of the Master Resolution by providing a report, certified by the City's Auditor, and prepared at the time of the delivery of the City's year-end audit. This report will demonstrate the City's compliance with this covenant, or the methods by which the City intends to achieve compliance with this covenant, and shall be filed with the City Recorder.

6.2.2. The City shall annually, within six months after the close of each Fiscal Year, file with the City Recorder a City Certificate showing for the preceding Fiscal Year (i) Net Operating Revenues and (ii) the debt service requirements for such Fiscal Year. If the statement filed shows that such Net Operating Revenues are less than one hundred twenty-five percent (125%) of such debt service requirements, then the City shall simultaneously file with the City Recorder a Certificate of the City stating in effect that changes in operating procedures or revisions in rates can and will be made which, in the opinion of such signatory, would have resulted in greater Net Operating Revenues sufficient to provide that such Net Operating Revenues would have been at least equal to one hundred twenty-five percent (125%) of such debt service requirements, together with a copy of a resolution, adopted by the Council and certified of the City, authorizing and directing that such changes or revisions be effectuated as promptly as possible, but in no event in greater than ninety (90) days.

7. Parity Obligations

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

7.1.1. No Default has occurred and is continuing;

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

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

7.1.4. The Resolution authorizing the issuance of the Parity Obligations contains a covenant requiring the City to charge rates and fees projected to generate Net Operating Revenues equal to the amount described in Section 6 of this Resolution, including the proposed Parity Obligations.

7.1.5. Either (i) the Net Operating Revenues for any 12 consecutive months during the 18 months preceding the date of issuance of the Parity Obligations were not less than 1.25 times the sum of the actual debt service of the Bonds and the Parity Notes for the immediately preceding 12 months, plus the average annual debt service for the proposed Parity Obligations as certified by a qualified engineering, auditing, or other qualified firm; or (ii) the Net Operating Revenues, as projected for the next ensuing three fiscal years and as certified by a qualified engineering, auditing, or other qualified firm (including any rate increases adopted by the Council) are not less than 1.25 times the actual debt service for the ensuing three fiscal year's debt service on all outstanding Bonds and the Parity Notes plus the average annual debt service on the proposed Parity Obligations.

7.2. The City may issue Parity Obligations to refund Outstanding Bonds, not withstanding the requirements of Section 7.1 of the Master Resolution, if the required debt service of the refunding bonds does not exceed the debt service for the refunded bonds payable in any Fiscal Year.

The requirements of Section 7.1 shall apply if the debt service on the refunding bonds exceeds the debt service on the refunded bonds payable in any Fiscal Year.

7.3. The City may issue Parity Obligations pursuant to Section 16 of the Master Resolution.

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

7.5. The City specifically reaffirms for the benefit of the owners of the 1998 Bonds all of the covenants the City made for the benefit of Bondowners in the Master Resolution.

8. Miscellaneous Provisions; Defeasance

8.1. 1998 Bonds Deemed No Longer to Be Outstanding Hereunder.

In the event that the City, to effect the payment, retirement or redemption of any Bond, sets aside in the Redemption Account or in another special account, held in trust by an independent trustee or escrow agent, obligations (“Defeasance Obligations”) in amounts which will mature and pay interest on or prior to the Bond payment dates and which are sufficient to redeem, retire or pay such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such Defeasance Obligations are irrevocably set aside and pledged for such purpose then no further payments need be made into the Redemption Account for the payment of the principal of and interest on such Bond. The Owner of such Bond shall cease to be entitled to any lien, benefit or security of the Master Resolution except provisions regarding the transfer, exchange and replacement of Bonds, and shall be entitled to receive payment of principal, premium, if any, and interest only from such special account; such Bond shall be deemed not otherwise to be Outstanding hereunder and under the Master Resolution. The lien of such Bond upon the Net Operating Revenues may be defeased, and such Bond shall be deemed paid, if the City places in irrevocable escrow Defeasance Obligations which are calculated to be sufficient, without reinvestment, to pay principal, interest and any premium on such Bond as it becomes due, either at maturity or on prior redemption.

8.2. Benefits of 1998 Resolution Limited to City, the Registrar, and Bondowners.

8.2.1. The covenants, representations, and warranties contained in this 1998 Resolution and the Master Resolution and each supplemental and amending resolution adopted pursuant to the Master Resolution and any covenants, representations and warranties in the closing documents relating to each series of Bonds issued pursuant to this 1998 Resolution and such supplemental and amending resolutions shall constitute contracts with the Bondowners of each such series of Bonds, and shall be enforceable by them.

8.2.2. Nothing in the Master Resolution or this 1998 Resolution, express or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the City, the Registrar, and the Bondowners any rights, remedies or claims under or by reason of the Master Resolution or the 1998 Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Master Resolution or the 1998 Resolution contained by or on behalf of the City shall be for the sole and exclusive benefit of the City, the Registrar, and the Bondowners.

9. Escrow

The net proceeds of the Refunding Bonds shall be placed in the Escrow Fund, pursuant to the Escrow Deposit Agreement in substantially the form attached. The Escrow Agent or the City Administrator are hereby authorized to subscribe for and purchase the government obligations to be placed in the escrow, on behalf of the City.

10. Redemption of Refundable Bonds

Contingent solely on the issuance of the Refunding Bonds and the deposit of the net proceeds and/or other funds of the City in the Escrow Fund, the City hereby irrevocably calls for redemption of all of the Refundable Bonds on July 1, 2004, which is the earliest date on which they are subject to redemption.

11. SEC Disclosure

The City Administrator is hereby authorized and directed on behalf of the City to execute any required Continuing Disclosure Certificate (the "Certificate"). The Certificate is being executed for the benefit of the holders of the 1998 Bonds and to assist the underwriter of the 1998 Bonds in complying with Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). The City shall comply with the provisions of the Certificate and the Rule and shall enforce the provisions of the Certificate on behalf of the holders of the 1998 Bonds.

12. Bank Qualified.

The City designates the 1998 Bonds as qualified tax-exempt obligations pursuant to Section 265(b)(3) of the Code. The City does not expect to issue more than \$10,000,000 of tax-exempt obligations during the current calendar year.

13. Delegation, Prepayment and City Purchase

13.1. Delegation

13.1.1. The City Administrator may, on behalf of the City and without further action by the City Council:

13.1.1.1. 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 1998 Bonds;

13.1.1.2. enter into an undertaking to provide continuing disclosure for the benefit of the owners of the 1998 Bonds in accordance with the applicable rules of the United States Securities and Exchange Commission;

13.1.1.3. establish the final principal amounts, maturity schedules, interest rates, which shall not exceed a true interest rate of 6.5%, sale prices,

redemption terms, payment terms and dates, the number of issues or series, and other terms of the 1998 Bonds;

13.1.1.4. apply for and purchase insurance and Reserve Sureties for the 1998 Bonds and execute and deliver related documents;

13.1.1.5. negotiate the terms of and execute a bond purchase contract with the Bond Purchaser or otherwise award the sale of the 1998 Bonds;

13.1.1.6. execute and deliver any related certificates or documents which are reasonably required to issue, sell and deliver and insure the 1998 Bonds in accordance with this 1998 Resolution and take any other action in connection with the 1998 Bonds which the City Administrator finds will be advantageous to the City.

13.2. Severability.

If any one or more of the covenants or agreements provided in the 1998 Resolution on the part of the City to be performed shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements shall be null and void and shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the 1998 Resolution or of the 1998 Bonds issued hereunder.

13.3. Article and Section Headings; Table of Contents.

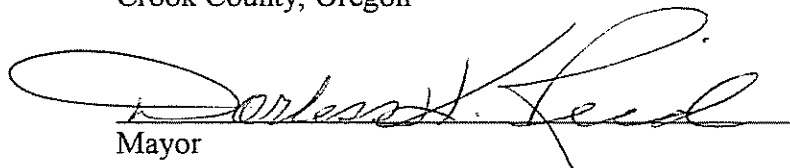
The headings or titles of the several articles and sections hereof, and any table of contents appended hereto or to copies hereof, shall be solely for convenience of reference and shall not affect the meaning or construction, interpretations or effect of this 1998 Resolution.

13.4. Master Resolution

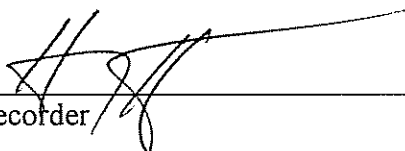
Except as herein provided otherwise, all terms and conditions of the Master Resolution remain in full force and effect.

Dated this 22nd day of September 1998.

City of Prineville
Crook County, Oregon


Mayor

Attest:


Recorder

**Exhibit A
Form of Bond**

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
County of Crook
City of Prineville
First Lien Sewer Revenue Refunding Bonds
Series 1998

Dated Date: _____, 1998
Interest Rate Per Annum: «CouponRate»%
Maturity Date: _____, «MaturityYear»
CUSIP Number: _____«CUSIPNumbr»
Registered Owner: -----CEDE & CO.-----
Principal Amount: -----«PrincipalAmtSpelled» DOLLARS-----

THE CITY OF PRINEVILLE, IN CROOK COUNTY, 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 indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above. Interest is payable semiannually on the first days of July and January in each year until maturity or prior redemption, commencing July 1, 1999. Payment of each installment of principal or interest shall be made to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently First Security Bank, National Association in Lake Oswego, Oregon (the "Registrar") as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This Bond is one of a duly authorized series of bonds of the City aggregating \$_____ in principal amount and designated as First Lien Sewer Revenue Refunding Bonds, Series 1998 of the City (the "Bonds"), and is issued by the City for the purpose of financing sewerage 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.

This Bond is not a general obligation or liability of the City, and is payable solely from the Net Operating Revenues of the Sewer System as provided in Resolution No. 727 of the City adopted April 28, 1992 and supplemental Resolution No. ___ adopted September 22, 1998 (collectively, the "Resolution"). The City covenants and agrees with the owner of this Bond that it will keep and perform all of the covenants in this Bond and in the Resolution. The City has pledged the Net Operating Revenues of the Sewer System to the payment of principal and interest on this Bond on a parity with other outstanding obligations.

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

Should the book-entry only security system be discontinued, the Bonds shall be issued in the form of registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such Bonds may

be exchanged for Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Resolution.

[insert term bond provisions, if applicable]

The Bonds shall mature and be subject to redemption as described in the purchase agreement for the Bonds which is dated _____, 1998 and in the final Official Statement for the Bonds which is dated _____, 1998.

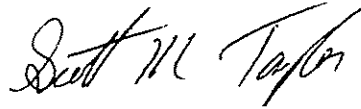
Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Resolution. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Registrar will notify The Depository Trust Company of any Bonds called for redemption not less than 30 days prior to the date fixed for redemption. Notice of redemption shall be published as provided by law. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail not less than thirty days nor more than sixty days prior to the date fixed for redemption to the Registered Owner of each Bond to be redeemed at the address shown on the Bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds.

Any exchange or transfer of this Bond must be registered, as provided in the Resolution, upon the bond register kept for that purpose at the principal corporate trust office of the Registrar. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and which is executed by the Registered Owner or duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The Registrar and the City may treat the person in whose name this Bond is registered 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 Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon and the Charter of the City; that the issue of which this Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution, Statutes and Charter.

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

City of Prineville, Oregon



Mayor

Attest:



Recorder

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

CERTIFICATE OF AUTHENTICATION

This is one of the \$ _____ aggregate principal amount of City of Prineville, Crook County, Oregon First Lien Sewer Revenue Refunding Bonds, Series 1998 issued pursuant to the Resolution described herein.

Date of Authentication: _____

First Security Bank, as Paying Agent and Registrar

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____

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

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

Dated: _____

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

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

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

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

TEN COM -- tenants in common

TEN ENT -- as tenants by the entireties

JT TEN -- as joint tenants with right of survivorship

and not as tenants in common

OREGON CUSTODIANS use the following

_____ CUST UL OREG _____ MIN

as custodian for

(name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

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

ESCROW DEPOSIT AGREEMENT

between

**City of Prineville,
as Issuer**

and

**First Security Bank, National Association
as Escrow Agent**

Dated as of October 15, 1998

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ESCROW DEPOSIT AGREEMENT

**City of Prineville
Crook County, Oregon
Sewer Revenue Refunding Bonds
Series 1998**

THIS ESCROW DEPOSIT AGREEMENT, dated as of October 15, 1998 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between the City of Prineville (herein called the "Issuer") and First Security Bank, National Association, as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The notice addresses of the Issuer and the Escrow Agent are shown on Exhibit A attached hereto and made a part hereof.

WITNESSETH:

WHEREAS, the Issuer heretofore has issued and there presently remain outstanding the obligations described in Exhibit B attached hereto (the "Refunded Bonds"); and

WHEREAS, pursuant to a Resolution of the Issuer adopted on September 22, 1998 (the "Authorizing Action"), the Issuer has determined to issue its First Lien Sewer Revenue Refunding Bonds, Series 1998 (the "Refunding Bonds") for the purpose of providing funds to pay the costs of refunding the Refunded Bonds; and

WHEREAS, the Escrow Agent has reviewed this Agreement, and is willing to serve as Escrow Agent hereunder.

WHEREAS, Ernst & Young, Certified Public Accountants, have prepared a verification report which is dated October __, 1998 (the "Verification Report") relating to the source and use of funds available to accomplish the refunding of the Refunded Bonds, the investment of such funds and the adequacy of such funds and investments to provide for the payment of the debt service due on the Refunded Bonds.

WHEREAS, pursuant to the Authorizing Action, all or a portion of the Refunded Bonds have been designated for redemption prior to their scheduled maturity dates and, after provision is made for such redemption, the Refunded Bonds will come due in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit C attached hereto and made a part hereof; and

WHEREAS, when Escrowed Securities have been deposited with the Escrow Agent for the payment of all principal and interest of the Refunded Bonds when due and the principal due upon redemption on July 1, 2004, then the Refunded Bonds shall no longer be

regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, the Issuer's Authorizing Action authorizes the Issuer to issue Refunding Bonds and to deposit the proceeds from the sale thereof, and any other available funds or resources, with the Escrow Agent for the discharge and final payment of the Refunded Bonds; and

WHEREAS, the Authorizing Action further authorizes the Issuer to enter into an escrow agreement with the Escrow Agent with respect to the safekeeping, investment, administration and disposition of any such deposit, upon such terms and conditions as the Issuer and the Escrow Agent may agree, provided that such deposits may be invested only in direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and which may be in book entry form, and which shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of the principal of, interest and redemption premium (if any) on the Refunded Bonds when due and of the redemption price on the Refunded Bonds when called for redemption; and

WHEREAS, the issuance, sale, and delivery of the Refunding Bonds have been duly authorized to be issued, sold, and delivered for the purpose of obtaining the funds required to provide for the payment of the principal of, interest on the Refunded Bonds as shown on Exhibit C attached hereto; and

WHEREAS, the Issuer desires that, concurrently with the delivery of the Refunding Bonds to the purchasers thereof, certain proceeds of the Refunding Bonds, together with certain other available funds of the Issuer, shall be applied to purchase certain direct obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

WHEREAS, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Bonds as it accrues and becomes payable and the principal of the Refunded Bonds as it becomes due and payable on the redemption date; and

WHEREAS, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the Issuer desires to establish the Escrow Fund at the corporate trust office of the Escrow Agent; and

WHEREAS, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest and redemption premium (if any) on the Refunded Bonds, the Issuer and the Escrow Agent mutually undertake, promise and agree for themselves and their respective representatives and successors, as follows:

Article 1. Definitions and Interpretations.

Section 1.1 Definitions.

Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

“Escrow Fund” means the fund created by this Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of this Agreement.

“Escrowed Securities” means the noncallable Government Obligations described in Exhibit D attached to this Agreement, or cash or other Government Obligations substituted therefor pursuant to Section 4.2 of this Agreement.

“Government Obligations” means (a) direct, noncallable United States Treasury Obligations, (b) United States Treasury Obligations - State and Local Government Series, (c) direct, noncallable REFCORP debt obligations including STRIPS from noncallable REFCORP debt obligations or STRIPS (stripped by the Federal Reserve Bank of New York).

“Paying Agent” means BNY Western Trust Company, as the paying agent for the Refunded Bonds.

“SLGS” means United States Treasury Obligations – State and Local Government Series purchased from the Department of Treasury Bureau of Public Debt.

Section 1.2 Other Definitions.

The terms “Agreement,” “Issuer,” “Escrow Agent,” “Authorizing Action,” “Verification Report,” “Refunded Bonds,” and “Refunding Bonds” when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.3 Interpretations.

The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Bonds in accordance with applicable law.

Article 2. Deposit of Funds and Escrowed Securities.

Section 2.1 Deposits in the Escrow Fund.

Concurrently with the sale and delivery of the Refunding Bonds the Issuer shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds and Escrowed Securities described in Exhibit D attached hereto, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the Issuer in writing.

Article 3. Creation and Operation of Escrow Fund.

Section 3.1 Escrow Fund.

The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the City of Prineville, Oregon First Lien Sewer Revenue Refunding Bonds, Series 1998 Escrow Fund (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit "D" attached hereto. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.2 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Bonds, any balance then remaining in the Escrow Fund shall be transferred to the Issuer, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.2 Payment of Principal and Interest.

The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Bonds at the respective redemption date and interest thereon to such redemption date together with any redemption premium in the amounts and at the times shown in Exhibit C attached hereto.

Section 3.3 Sufficiency of Escrow Fund.

The Issuer represents that, based upon the information provided in the Verification Report, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Bonds as such interest comes due and the principal of the Refunded Bonds as the Refunded Bonds mature or are paid on an optional redemption date prior to maturity and any redemption premium payable upon the optional

redemption of the Refunded Bonds, all as more fully set forth in Exhibit E attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by the Paying Agent to make the payments set forth in Section 3.2 hereof, the Issuer shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the Issuer's failure to make additional deposits thereto.

Section 3.4 Trust Fund.

The Escrow Agent shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Bonds; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Bonds shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Bonds. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the Issuer, and the Escrow Agent shall have no right or title with respect thereto except as a trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the Issuer or, except to the extent expressly herein provided, by the Paying Agent.

Section 3.5 Security for Cash Balances.

Cash balances from time to time on deposit in the Escrow Fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a pledge of direct obligations of, or obligations unconditionally guaranteed by, the United States of America, having a market value at least equal to such cash balances.

Article 4. Limitation on Investments.

Section 4.1 Investments.

Except for the initial investment in the Escrowed Securities, and except as provided in Section 4.2 hereof, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer, or otherwise dispose of the Escrowed Securities.

Section 4.2 Substitution of Securities.

At the written request of the Issuer, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall utilize cash balances in the Escrow Fund, or sell, transfer, otherwise dispose of or request the redemption of the Escrowed Securities and apply the proceeds therefrom to purchase Refunded Bonds or Government Obligations which do not permit the redemption thereof at the option of the obligor, and in connection therewith the Issuer reserves the right to call for redemption prior to maturity any of the Refunded Bonds to the extent permitted by their authorizing order. The Issuer may, in connection with such transaction, withdraw funds or Escrowed Securities from the Escrow Fund. Any such transaction may be effected by the Escrow Agent only if (a) the Escrow Agent shall have received a written opinion from a nationally recognized firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount sufficient to provide for the full and timely payment of principal of, redemption premium on and interest on all of the remaining Refunded Bonds as they become due, taking into account any optional redemption thereof exercised by the Issuer in connection with such transaction; (b) the Escrow Agent shall have received the unqualified written legal opinion of nationally recognized bond counsel or tax counsel to the effect that such transaction will not cause any of the Refunding Bonds or Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended or, if applicable, Section 103(c) of the Internal Revenue Code of 1954, as amended and (c) notice of such transaction is provided to the rating agencies, if any, which have rated the Refunded Bonds.

Article 5. Application of Cash Balances.

Section 5.1 In General.

Except as provided in Section 3.2 and Section 4.2 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund. Cash balances shall be held by the Escrow Agent as cash and as cash balances as shown on the books and records of the Escrow Agent and shall not be reinvested by the Escrow Agent.

Article 6. Redemption of Refunded Bonds.

Section 6.1 Call for Redemption.

The Issuer hereby irrevocably calls the Refunded Bonds for redemption on their earliest redemption dates, as shown in the Verification Report and on Appendix "A" attached hereto.

Section 6.2 Notice of Redemption.

The Escrow Agent agrees to give notice of the redemption of the Refunded Bonds pursuant to the terms of the Refunded Bonds and in substantially the form attached hereto as

Appendix A attached hereto. The Escrow Agent hereby acknowledges that provision satisfactory and acceptable to the Escrow Agent has been made for the giving of notice of redemption of the Refunded Bonds.

Article 7. Records and Reports.

Section 7.1 Records.

The Escrow Agent will keep books of record and account in which complete and accurate entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection during business hours and after reasonable notice.

Section 7.2 Reports.

While this Agreement remains in effect, the Escrow Agent annually shall prepare and send to the Issuer a written report summarizing all transactions relating to the Escrow Fund during the preceding year, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Bonds or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

Article 8. Concerning the Paying Agents and Escrow Agent

Section 8.1 Representations.

The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 8.2 Limitation on Liability.

The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Bonds shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the Issuer promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Refunding Bonds shall be taken as the statements of the Issuer and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent.

The Escrow Agent is not a party to the proceedings authorizing the Refunding Bonds or the Refunded Bonds and is not responsible for nor bound by any of the provisions thereof (except to the extent that the Escrow Agent may be a place of payment and paying agent and/or a paying agent/registrant therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the Issuer thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own action, neglect or default, nor for any loss unless the same shall have been through its negligence or want of good faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Issuer with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to hold the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the Issuer or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the Issuer at any time.

Section 8.3 Compensation.

The Issuer shall pay to the Escrow Agent fees for performing the services hereunder and for the expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement pursuant to the terms of its fee schedule. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for

any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses as Escrow Agent or in any other capacity.

Section 8.4 Successor Escrow Agents.

If at any time the Escrow Agent or its legal successor or successors should become unable, through operation of law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the Issuer, by appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the Issuer within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Bonds then outstanding by an instrument or instruments in writing filed with the Issuer, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Bond may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Oregon, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$25,000,000 and subject to the supervision or examination by federal or state authority.

Any successor Escrow Agent shall execute, acknowledge and deliver to the Issuer and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties.

The obligations assumed by the Escrow Agent pursuant to this Agreement may be transferred by the Escrow Agent to a successor Escrow Agent if (a) the requirements of this Section 8.4 are satisfied; (b) the successor Escrow Agent has assumed all the obligations of the Escrow Agent under this Agreement; and (c) all of the Escrowed Securities and money held by the Escrow Agent pursuant to this Agreement have been duly transferred to such successor Escrow Agent.

Section 8.5 Successor Escrow Agent by Merger, Consolidation, Transfer or Sale.

Should the Escrow Agent consolidate, merge with, transfer or sell substantially all of its corporate trust business to any bank or banks, trust company or other banking institution,

such consolidation, merger, transfer or sale shall in no way affect the rights of the parties hereto, or the owners of any of the Refunding Bonds or Refunded Bonds, and such succeeding corporation shall be the Escrow Agent under this Agreement, without the execution or filing of any paper or any further act on the part of the parties hereto, anything in this Agreement to the contrary notwithstanding.

Article 9. Miscellaneous

Section 9.1 Notice.

Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the Issuer or the Escrow Agent at the address shown on Exhibit A attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten (10) days prior notice thereof.

Section 9.2 Termination of Responsibilities.

Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities hereunder to the Issuer, the owners of the Refunded Bonds or to any other person or persons in connection with this Agreement.

Section 9.3 Binding Agreement.

This Agreement shall be binding upon the Issuer and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Bonds, the Issuer, the Escrow Agent and their respective successors and legal representatives.

Section 9.4 Severability.

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 9.5 Oregon Law Governs.

This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Oregon.

Section 9.6 Time of the Essence.

Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 9.7 Notice to Moody's.

In the event that this agreement or any provision thereof is severed, amended or revoked, the Issuer shall provide written notice of such severance, amendment or revocation to Moody's Investors Service at 99 Church Street, New York, New York, 10007, Attention: Public Finance Rating Desk/Refunded Bonds.

Section 9.8 Amendments.

This Agreement shall not be amended except to cure any ambiguity or formal defect or omission in this Agreement. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto. No such amendment shall be made unless a prior written opinion of a nationally recognized bond counsel is rendered which opines that the amendment shall not adversely affect the rights of the holders of the Refunding Bonds or the Refunded Bonds. No such amendment shall be made without first receiving written confirmation from the rating agencies (if any), which have rated the Refunded Bonds that such administrative changes will not result in a withdrawal or reduction of its rating then assigned to the Refunded Bonds. If this Agreement is amended, prior written notice and copies of the proposed changes shall be given to the rating agencies which have rated the Refunded Bonds.

EXECUTED as of the date first written above.

City of Prineville

Henry Hartley, City Manager

**First Security Bank, National Association
as Escrow Agent**

Authorized Officer

EXHIBIT A
Addresses of the Issuer and Escrow Agent

Issuer:

City of Prineville
400 E. Third Street
Prineville, OR 97754
Attention: Henry Hartley

Escrow Agent:

First Security Bank, National Association
4949 SW Meadows Road, Suite 150
Lake Oswego OR 97035
Attention: Corporate Trust Department

EXHIBIT B
Description of the Refunded Bonds

City of Prineville, Oregon
First Lien Sewer Revenue Bonds, Series 1992
Maturity: Term Bonds maturing on July 1, 2012 with mandatory sinking fund
redemptions on July 1 of the years 2005 through 2011

EXHIBIT C
Schedule of Debt Service on Refunded Bonds

[to be provided by Ernst & Young]

EXHIBIT D
Escrow Deposit

I. Cash

II. State and Local Government Series Obligations

Principal Amount

Interest Rate

Maturity Date

EXHIBIT E
Escrow Fund Cash Flow

[to be provided by Ernst & Young]