

CHAPTER 42

WATER REVENUE BONDS

AN ORDINANCE TO PROVIDE FOR THE ISSUANCE AND SALE OF WATER SUPPLY SYSTEM REVENUE BONDS OF THE CITY OF LAPEER FOR THE PURPOSE OF CONSTRUCTING IMPROVEMENTS, REPAIRS, AND REPLACEMENTS TO THE CITY'S WATER SUPPLY SYSTEM; TO PRESCRIBE THE FORM OF BONDS; TO PROVIDE FOR THE COLLECTION OF REVENUES FROM SAID SYSTEM SUFFICIENT FOR THE PURPOSE OF PAYING THE COSTS OF OPERATION AND MAINTENANCE OF SAID SYSTEM AND TO PAY THE PRINCIPAL OF AND INTEREST ON SAID BONDS; TO PROVIDE AN ADEQUATE RESERVE FUND FOR SAID BONDS; TO PROVIDE FOR THE SEGREGATION AND DISTRIBUTION OF SAID REVENUES; TO PROVIDE FOR THE RIGHTS OF THE HOLDERS OF SAID BONDS IN ENFORCEMENT THEREOF; TO PROVIDE FOR OTHER MATTERS RELATING TO SAID BONDS AND SAID SYSTEM.

THE CITY OF LAPEER ORDAINS:

SECTION 1. DEFINITIONS

Whenever used in this Ordinance, except when otherwise indicated by the context, the following terms shall have the following meanings:

- (a) "Act 94" mean Act 94, Public Acts of Michigan 1933, as amended.
- (b) "Bond Bank" means the Michigan Municipal Bond Authority created pursuant to Act 227 of 1985.
- (c) "Bonds" mean the Series 1986 Bonds, together with any additional bonds of equal standing hereafter issued.
- (d) "City" means the City of Lapeer, County of Lapeer, State of Michigan.
- (e) "Commission" means the City Commission of the City.
- (f) "Project" means the repairs, replacements, additions, extensions and improvements to the System including the acquisition and construction of water main improvements and water meters, and appurtenances and attachments thereto.
- (g) "Revenues" and "Net Revenues" mean the revenues and net revenues of the City and shall be construed as defined in Section 3 of Act 94, including with respect to "Revenues", the earnings derived from the investment of moneys in the various funds and accounts

established by this ordinance.

- (h) **?Series 1986 Bonds?** means the Water Supply System Revenue Bonds, Series 1986, of the City in the principal amount of \$395,000 authorized by this Ordinance.
- (i) **?Sufficient Government Obligations?** means direct obligations of the United States of America or obligations the principal and interest on which is fully guaranteed by the United States of American, not redeemable at the option of the issuer, the principal and interest payments upon which, without reinvestment of the interest, come due at such times ad in such amounts as to be fully sufficient to pay the interest as it comes due on the Bonds and the principal and redemption premium, if any, on the Bonds as it comes due whether on the stated maturity date or upon earlier redemption. Securities representing such obligations shall be placed in trust with a bank or trust company, and if any of the Bonds are to be called for redemption prior to maturity, irrevocable instructions to call the Bonds for redemption shall be given to the paying agent.
- (j) **?System?** means the City?s water supply system, including such facilities thereof as are now existing, are acquired and constructed as the Project, and all enlargements, extensions, repairs and improvements thereto hereafter made.

SECTION 2. NECESSITY; APPROVAL OF PLANS AND SPECIFICATIONS.

It is hereby determined to be a necessary public purpose of the City to acquire the Project in accordance with the plans and specifications prepared by Williams & Works of Grand Rapids, Michigan (the ?Engineers?) which plans and specifications are hereby approved.

SECTION 3. COSTS; USEFUL LIFE.

The total cost of the Project is estimated to be Three Hundred ninety-five Thousand Dollars (\$395,000) including the payment of incidental expenses as specified in Section 4 of this Ordinance, which estimate of cost is hereby approved and confirmed, and the period of usefulness of the Project is estimated to be not less than forty (40) years.

SECTION 4. PAYMENT OF COST; BONDS AUTHORIZED.

To pay the cost of acquiring and constructing the Project, including payment of legal, engineering, financial, and other expenses incident thereto and incident to the issuance and sale of the Series 1986 Bonds, the City shall borrow the sum of Three Hundred Ninety-five Thousand Dollars (\$395,000) and issue the Series 1986 Bonds therefor pursuant to the provisions of Act 94. The remaining cost of the Project, if any, shall be defrayed from City funds on hand and legally available for such use and from other funds available to the City.

The purpose of the Ordinance is to authorize the issuance of revenue bonds to finance the cost of acquiring additions, extensions and improvements to the Project.

SECTION 5. BOND DETAILS, ISSUANCE IN SERIES, REGISTRATION AND EXECUTION.

The Series 1986 Bonds hereby authorized shall be designated WATER SUPPLY SYSTEM REVENUE BONDS, SERIES 1986, shall be payable out of the Net Revenues, as set forth more fully in Section 6 hereof, shall consist of bonds of the denomination of \$5,000, or multiples of \$5,000 not exceeding the amount of a single maturity, dated as of September 25, 1986, numbered in order of registration from 1 upwards, and shall mature on May 1st in the years and amounts as follows:

YEAR	AMOUNT	YEAR	AMOUNT
1987	\$10,000	1997	\$20,000
1988	10,000	1998	20,000
1989	10,000	1999	20,000
1990	10,000	2000	25,000
1991	10,000	2001	25,000
1992	15,000	2002	25,000
1993	15,000	2003	30,000
1994	15,000	2004	30,000
1995	15,000	2005	35,000
1996	20,000	2006	35,000

The Series 1986 Bonds shall bear interest at a rate or rates to be determined on sale thereof, but in any event not exceeding 18% per annum, payable on May 1st and November 1st of each year, commencing May 1, 1987, by check drawn on the transfer agent mailed to the registered owner at the registered address, as shown on the registration books of the City maintained by the transfer agent. Interest shall be payable to the registered owner of record as of the 15th day of the month preceding the interest payment date. The date of determination of registered owner for purposes of payment of interest as provided in this paragraph may be changed by the City to conform to market practice in the future. The principal of the bonds shall be payable at a bank or trust company to be designated by the City as registrar and transfer agent for this issue or, if such Bonds are purchased by the bond Bank, at the office of the Bond Bank. The Series 1986 Bonds shall be sold at not less than 98% of their par value.

The Series 1986 Bonds or portions thereof maturing on or after November 1, 1995, may be subject to redemption prior to maturity at the times and prices and in the manner and with notice as set forth in the form of the Series 1986 Bonds in Section 19 of this Ordinance.

In case less than the full amount of an outstanding bond is called for redemption, the transfer agent upon presentation of the bond called in part for redemption shall register, authenticate and deliver to the registered owner a new bond in the principal amount of the portion of the original bond not called for redemption. Notice of redemption shall be given in the manner specified in the form of the Series 1986 Bonds contained in Section 19 of this Ordinance. The Bonds shall be executed in the name of the City with the facsimile signatures of the Mayor and the Clerk and shall have the City's seal printed on them. No Bond shall be valid until authenticated by an authorized signer of the transfer agent. The Bonds shall be delivered to the transfer agent for authentication and be delivered by him or her to the purchaser in accordance with instructions from the Treasurer of the City upon payment of the purchase price for the Bonds in accordance with the bid therefor when accepted. Executed blank bonds for registration and issuance to transferees shall simultaneously, and from time to time thereafter as necessary, be delivered to the transfer agent for safekeeping.

Any Bond may be transferred upon the books required to be kept pursuant to this section by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the transfer agent. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the transfer agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount. The transfer agent shall require payment by the bondholder requesting the transfer of any tax or other governmental charge required to be paid with respect to the transfer. The City shall not be required:

- (i) to issue, register the transfer of or exchange any Bond during a period beginning at the opening of business 15 days before the day of the giving of a notice of redemption of Bonds selected for redemption as described in the form of Series 1986 Bonds contained in Section 19 of this Ordinance and ending at the close of business on the day of that giving of notice
- (ii) to register the transfer of or exchange any Bond so selected for redemption in whole or in part, except the unredeemed portion of Bonds being redeemed in part. The City shall give the transfer agent notice of a call for redemption at least 20 days prior to the date such notice of redemption is to be given.

The transfer agent shall keep or cause to be kept, at its principal office, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City; and, upon presentation for such purpose, the transfer agent shall, under such reasonable regulations as it may prescribe, transfer or cause to be transferred, on said books, Bonds as hereinbefore provided.

If any Bond shall become mutilated, the City, at the expense of the holder of the Bond, shall execute, and the transfer agent shall authenticate and deliver, a new Bond of like tenor in exchange and substitution for the mutilated Bond, upon surrender to the transfer agent of the mutilated Bond. If any Bond issued under this Ordinance shall be lost, destroyed or stolen, evidence of the loss, destruction or theft may be submitted to the transfer agent and, if this evidence is satisfactory to both and indemnity satisfactory to the transfer agent shall be given, and if all requirements of any applicable law including Act 354, Public Acts of Michigan 1972, as amended ("Act 354"); being sections 129.131 to 129.135, inclusive of the Michigan Compiled Laws have been met, the City, at the expense of the owner, shall execute, and the transfer agent shall thereupon authenticate and deliver, a new Bond of like tenor and bearing the statement required by Act 354, or any applicable law hereafter enacted, in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the transfer agent may pay the same without surrender thereof.

SECTION 7. PAYMENT OF BONDS

The Series 1986 Bonds and the interest thereon shall be payable solely from the net Revenues, and to secure such payment, there is hereby created a statutory lien upon the whole of the net Revenues which shall be a first lien to continue until payment in full of the principal of and interest on all bonds payable from the net Revenues, or, until sufficient cash or Sufficient Government obligations have been deposited in trust for payment in full of all Bonds of a series then outstanding, principal and interest on such Bonds to maturity, or, if called for redemption, to the date fixed for redemption together with the amount of the redemption premium, if any. Upon deposit of cash of Sufficient government Obligations, as provided in the previous sentence, the statutory lien shall be terminated with respect to that series of Bonds, the holders of that series shall have no further rights under this ordinance except for payment from the deposited funds, and the Bonds of that series shall no longer be considered to be outstanding under this Ordinance.

SECTION 8. BONDHOLDER'S RIGHTS; RECEIVER.

The holder or holders of the Bonds representing in the aggregate not less than twenty per cent (20%) of the entire principal amount thereof then outstanding, may, by suit, action, mandamus or other proceedings, protect and enforce the statutory lien upon the net Revenues of the System, and may, by suit, action, mandamus or other proceedings, enforce and compel performance of all duties of the officers of the City, including the fixing of sufficient rates, the collection of Revenues, the proper segregation of the Revenues of the System and the proper application thereof. The statutory lien upon the Net Revenues, however, shall not be construed as to compel the sale of the System or any part thereof.

If there is a default in the payment of the principal of or interest upon the Bonds, any court having jurisdiction in any proper action may appoint a receiver to administer and operate the system on behalf of the City and under the direction of the court, and by and with the approval of the court to perform all of the duties of the officers of the City more particularly set forth herein and in Act 94.

The holder or holders of the Bonds shall have all other rights and remedies given by Act 94 and law, for the payment and enforcement of the Bonds and the security therefor.

SECTION 9. MANAGEMENT; FISCAL YEAR

The operation, repair and management of the System and the acquiring of the Project shall continue to be under the supervision and control of the City Commission.

SECTION 10. RATES AND CHARGES

The rates and charges for service furnished by and the use of the System and the methods of collection and enforcement of the collection of the rates shall be those in effect on the date of adoption of this Ordinance.

SECTION 11. NO FREE SERVICE OR USE

No free service or use of the System, or service or use of the System at less than cost, shall be furnished by the System to any person, firm or corporation, public or private, or to any public agency or instrumentality.

SECTION 12. FIXING AND REVISING RATES; RATE COVENANT

The rates now in effect are estimated to be sufficient to provide for the payment of the expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the System in good repair and working order, to provide for the payment of the principal of and interest on all of the Bonds as the same become due and payable, and the creation and maintenance of the reserve therefor and to provide for all other obligations, expenditures and funds for the System required by law and this Ordinance. The rates shall be fixed and revised from time to time as may be necessary to produce these amounts, and it is hereby covenanted and agreed to fix and maintain rates for services furnished by the System at all times sufficient to provide for the foregoing.

SECTION 13. OPERATING YEAR

The System shall be operated on the basis of an operating year which shall coincide with the City's fiscal year.

SECTION 14. FUNDS AND ACCOUNTS; FLOW OF FUNDS

Commencing on September 1, 1986, all Revenues of the System shall be set aside as collected and credited to a fund to be designated WATER SUPPLY SYSTEM RECEIVING FUND (the "Receiving Fund"). In

addition, on September 1, 1986 all Revenues in any accounts of the System shall be transferred to the Receiving Fund and credited to the funds and accounts as provided in this Section 14. The Revenues credited to the Receiving Fund are pledged for the purpose of the following funds and shall be transferred or debited from the Receiving Fund periodically in the manner and at the times and in the order of priority hereinafter specified:

A. OPERATION AND MAINTENANCE FUND:

Out of the Revenues credited to the Receiving Fund there shall be first set aside in, or credited to, a fund designated OPERATION AND MAINTENANCE FUND (the "Operation and Maintenance Fund"), monthly a sum sufficient to provide for the payment of the next month's expenses of administration and operation of the System and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.

The City, prior to the commencement of each operating year beginning with the operating year next commencing after the effective date of this Ordinance, shall adopt a budget covering the foregoing expenses for each year. No payments shall be made to the City from moneys credited to the operation and Maintenance Fund except for services directly rendered to the System by the City or its personnel.

B. BOND AND INTEREST REDEMPTION FUND:

There shall be established and maintained a separate depository fund designated BOND AND INTEREST REDEMPTION FUND (the "Redemption Fund"), the moneys on deposit therein from time to time to be used solely for the purpose of paying the principal of, redemption premiums (if any) and interest on the Bonds. The moneys in the Redemption Fund (including the Bond Reserve Account) shall be kept on deposit with the bank or trust company where the principal of and interest on the Bonds are payable, i.e., the transfer agent.

Out of the Revenues remaining in the Receiving Fund, after provision for the Operation and Maintenance Fund, there shall be set aside monthly in the Redemption Fund a sum proportionately sufficient to provide for the payment when due of the current principal of and interest on the Bonds, less any amount in the redemption Fund representing accrued interest on the Bonds. Commencing September 1, 1986, the amount set aside each month for interest on the Bonds shall be 1/3 of the total amount of interest on the Bonds next coming due. The amount set aside each month for principal, commencing September 1, 1986, shall be 1/3 of the amount of principal next coming due by maturity. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the next

succeeding month's requirements.

There is established a separate account in the Redemption Fund to be known as the BOND RESERVE ACCOUNT (the "Bond Reserve Account"). The date of delivery of the bonds there shall be deposited into the Bond Reserve Account the lesser of 10 percent of the outstanding principal amount of the Bonds or the maximum annual debt service requirements of the Bonds (the "Reserve Amount") is on deposit in the Bond Reserve account, and the Reserve Amount shall be approximately reduced to reflect any reduction in the outstanding principal amount and the maximum annual debt service requirements of the Bonds.

Except as otherwise provided in this Section, the moneys credited to the Bond Reserve Account shall be used solely for the payment of the principal of, redemption premiums (if any) and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use moneys credited to the Bond Reserve Account for such payment, then the moneys so used shall be replaced from the net Revenues first received thereafter which are not required for current principal and interest requirements until the amount on deposit equals the Reserve Amount. If additional Bonds are issued, each Ordinance authorizing the additional Bonds may provide for additional deposits to the Bond Reserve Account to be made from the proceeds of the additional Bonds in an amount that will result in the Bond Reserve Account being equal to the maximum annual principal and interest requirements on the Bonds outstanding after issuance of the additional Bonds. If, at the end of any fiscal year the amount in the Bond Reserve Account exceeds the Reserve Amount, then the excess shall be transferred to the improvement Fund or such other fund as the Commission may designate. Excess amounts attributable to investment earnings shall be transferred to the Receiving Fund.

C. REPLACEMENT FUND:

There shall next be established and maintained a separate depository fund account, designated REPLACEMENT FUND (the "Replacement Fund"), the money credited thereto to be used solely for the purpose of making repairs and replacements to the System. Out of the Revenues and moneys of the System remaining in the Receiving Fund after provision has been made for the deposit of moneys in the Operation and Maintenance Fund and the Redemption Fund (including the Bond Reserve Account) there may be deposited in the Replacement Fund such additional funds as the City commission may deem advisable. If at any time it shall be necessary to use moneys in the Replacement Fund for the purpose for which the Replacement Fund was established, the moneys so used shall be replaced from any moneys in the Receiving Fund which are not required by this Ordinance to be used for the Operation and Maintenance Fund or the Redemption

Fund (including the Bond Reserve Account).

D. IMPROVEMENT FUND:

Out of the remaining Revenues in the Receiving Fund, after meeting the requirements of the Operation and Maintenance Fund and the Redemption Fund (including the Bond Reserve Account), there may be next set aside in or credited to a fund to be designated IMPROVEMENT FUND (the ?Improvement Fund?) such sums monthly as the City Commission may deem advisable to be used for improvements, enlargements or extensions to the System.

E. SURPLUS MONEYS:

Thereafter, any Revenues in the Receiving Fund after satisfying all the foregoing requirements of this Section may, at the option of the City Commission, be used for any of the following purposes:

1. Transferred to the Replacement Fund, the Improvement Fund or both.
2. Transferred to the Redemption Fund and used for the purchase of Bonds on the open market at not more than the fair market value thereof or used to redeem Bonds prior to maturity pursuant to Section 5 of this Ordinance.
3. Transferred to the general fund of the City and used for any lawful purpose.

SECTION 15. DEPOSITARY AND FUNDS ON HAND

Moneys in the several funds and the accounts established pursuant to this Ordinance, except moneys in the Redemption Fund (including the Bond Reserve Account) and moneys derived from the proceeds of sale of the Bonds, may be kept in one or more bank accounts at a bank or banks designated by resolution of the City Commission, and if kept in one bank account the moneys shall be allocated on the books and records of the City in the manner and at the times provided in this Ordinance.

SECTION 16. PRIORITY OF FUNDS

In the event the moneys in the Receiving Fund are insufficient to provide for the current requirements of the Operation and Maintenance Fund or of the Redemption Fund, any moneys or securities in other funds of the System, except the proceeds of sale of the Bonds, shall be credited or transferred, first, to the Operation and Maintenance Fund, and second, to the Redemption Fund, to the extent of any deficit therein.

SECTION 17. INVESTMENTS

Moneys in the funds and account established herein and moneys derived from the proceeds of sale of the Bonds, may be invested by the City in United States of American obligations or in obligations the principal of and interest on which is fully guaranteed by the united States of American, and moneys derived from the proceeds of sale of the Bonds may also be invested in certificates of deposit of any bank whose deposits are insured by the Federal Deposit Insurance Corporation. Investment of moneys in the Redemption Fund being accumulated for payment of the next maturing principal or interest payment of the Bonds shall be limited to obligations bearing maturity dates prior to the date of the next maturing principal or interest payment on the Bonds. Investment of moneys in the Bond Reserve Account shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the holder thereof, not later than five years from the date of the investment. In the event investments are made, any securities representing the same shall be kept on deposit with the bank or trust company having on deposit the fund or funds or account from which the purchase was made. Profit realized or interest income earned on investment of funds in the Receiving Fund, Operation and Maintenance Fund, Redemption Fund (including the Bond Reserve Account), and Improvement Fund shall be deposited in or credited to the Receiving Fund at the end of each fiscal year.

SECTION 18. BOND PROCEEDS

From the proceeds of the sale of the Bonds there shall be immediately deposited in the Redemption Fund an amount equal to the accrued interest and premium, if any, received on the delivery of the Bonds. The balance of the proceeds of the sale of the Bonds shall be deposited in a bank or banks, designated by the City Treasurer, qualified to act as depository of the proceeds of sale under the provisions of Section 15 of Act 94, in an account designated CONSTRUCTION FUND (the ?Construction Fund?). Moneys in the Construction Fund shall be applied solely in payment of the cost of the Project, including any engineering, legal and other expenses incident thereto and to the financing thereof. Payments for construction, either on account or otherwise, shall not be made unless the registered engineer in charge of such work shall file with the City Commission a signed statement to the effect that the work has been completed in accordance with the plans and specifications therefor; that it was done pursuant to and in accordance with the contract therefor (including properly authorized change orders), that such work is satisfactory and that such work has not been previously paid for.

Any unexpended balance of the proceeds of sale of the Bonds remaining after completion of the Project in the Construction Fund may, in the discretion of the City Commission, be used for further improvements, enlargements and extension to the System, if:

- (i) At the time of such expenditures, such use is approved by the Department of Treasury, if such permission is then required by law.
- (ii) Redemption of the Bond is not required under Section 24 of this Ordinance.

Any remaining balance after such expenditure shall be paid to the Redemption Fund and may be used for the purpose of purchasing Bonds on the open market at not more than the fair market value thereof, but not more than the price at which the Bonds may next be called for redemption, or used for the purpose of paying principal of the Bonds upon maturity or calling Bonds for redemption.

SECTION 19. BOND FORM

The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

STATE OF MICHIGAN

COUNTY OF LAPEER

CITY OF LAPEER

WATER SUPPLY SYSTEM REVENUE BOND,

SERIES 1986

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Date of Original Issue</u>	CUSIP
		September 25, 1986	

REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

The CITY OF LAPEER, County of Lapeer, State of Michigan (the "City"), for value received, hereby promises to pay the Principal Amount shown above in lawful money of the United States of America to the registered owner specified above on the Maturity Date specified above, unless prepaid prior thereto as hereinafter provided, with interest thereon from the Date of Original Issue or such later date to which interest has been paid, until paid at the Interest Rate per annum specified above, payable on May 1, 1987, and semiannually thereafter. Principal of this bond is payable at the principal office of _____ or such other transfer agent as the City may hereinafter designate by notice mailed to the registered owner not less than 60 days prior to any interest payment date. Interest on this bond is payable to the registered owner of record as of the 15th day of the month preceding the payment date as shown on the registration books kept by the transfer agent by check or draft mailed to the registered owner at the registered address, and for the prompt payment thereof, the revenues of the Water Supply System of the City (collectively the "System"), including all appurtenances, extensions and improvements thereto, after provision has been made for reasonable and necessary expenses of operation, maintenance and administration (the "Net Revenues"), are irrevocably pledged and a statutory first lien thereon is hereby recognized and created.

This bond is one of a series of bonds of even original issue date aggregating the principal sum of \$395,000 issued pursuant to Ordinance No. __, duly adopted by the City Commission of the City, and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended, for the purpose of paying part of the cost of acquiring and

constructing repairs, replacements, additions, extensions and improvements to the System.

For a complete statement of the revenues from which and the conditions under which this bond is payable, a statement of the conditions under which additional bonds of equal standing may hereafter be issued and the general covenants and provisions pursuant to which this bond is issued, reference is made to the above-described Ordinance.

Bonds or portions of bonds in multiples of \$5,000, of this issue maturing in the year 1995 and thereafter may be redeemed at the option of the City, in inverse order of maturity and within any maturity by lot, on any interest payment date on or after November 1, 1995 at par and accrued interest to the date fixed for redemption plus a premium expressed as a percentage of par value as follows:

2% of the par value of each bond or portion thereof called for redemption on or after November 1, 1995, but prior to October 1, 1997;

1?% of the pay value of each bond or portion thereof called for redemption on or after November 1, 1997, but prior to October 1, 1998; and

1% of the par value of each bond or portion thereof called for redemption on or after November 1, 1998, but prior to October 1, 1999;

No premium shall be paid on bonds called for redemption on or after November 1, 2000.

In case less than the full amount of an outstanding bond is called for redemption, the transfer agent upon presentation of the bond called in part for redemption shall register, authenticate and deliver to the registered owner a new bond in the principal amount of the portion of the original bond not called for redemption.

Notice of redemption shall be given to the registered owners of the bonds to be redeemed by mailing of such notice not less than thirty (30) days prior to the date fixed for redemption to the registered owner at the address of the registered owner as shown on the registration books of the City. Bonds so called for redemption shall not bear interest after the date fixed for redemption, provided funds are on hand with the transfer agent to redeem the bonds called for redemption.

This bond is a self-liquidating bond and is not a general obligation of the City and does not constitute an indebtedness of the City within any constitutional or statutory limitation, but is payable, both as to principal and interest, solely from the Net Revenues of the System. The principal of and interest on this bond are secured by the statutory lien hereinbefore mentioned.

The City has covenanted and agreed, and does hereby covenant and agree to fix and maintain at all times while any bonds payable from the Net Revenues of the System shall be outstanding, such rates for service

furnished by the System as shall be sufficient to provide for payment of the interest upon and the principal of the bonds of this issue and any additional bonds of equal standing as and when the same shall become due and payable, and to maintain a bond redemption fund (including a bond reserve account) therefor; to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System as are required by the ordinance.

This bond is transferable only upon the books of the City kept for that purpose at the office of the transfer agent by the registered owner hereof in person, or by his attorney duly authorized in writing, upon the surrender of this bond together with a written instrument of transfer satisfactory to the transfer agent duly executed by the registered owner or his attorney duly authorized in writing, and thereupon a new registered bond or bonds in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Ordinance authorizing the bonds, and upon the payment of the charges, if any, therein prescribed.

It is hereby certified and recited that all acts, conditions and things required by law precedent to and in the issuance of this bond and the series of bonds of which this is one have been done and performed in regular and due time and form as required by law.

This bond is not valid or obligatory for any purpose until the transfer agent's Certificate of Authentication on this bond has been executed by the transfer agent.

IN WITNESS WHEREOF, the City of Lapeer, Count of Lapeer, State of Michigan, by its City Commission, has caused this bond to be executed with the facsimile signatures of its Mayor and its Clerk and its corporate seal to be printed on this bond, all as of the twenty-fifth day of September, A.D. 1986.

CITY OF LAPEER

By _____
Mayor

(Seal)

Countersigned:

Clerk

(FORM OF TRANSFER AGENT'S CERTIFICATE OF AUTHENTICATION)

Certificate of Authentication

This bond is one of the bonds described in the within-mentioned Ordinance.

Transfer Agent

By _____
Authorized Signatory

Date of Registration:

SECTION 20. COVENANTS

The City covenants and agrees with the holders of the Bonds that so long as any of the Bonds remain outstanding and unpaid as to either principal or inters -

- (a) The City will maintain the System in good repair and working order and will operate the same efficiently and will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the State of Michigan and this Ordinance.
- (b) The City will keep proper books of record and account separate from all other records and accounts of the City, in which shall be made full and correct entries of all transactions relating to the System. The City shall have an annual audit of the books of record and account of the System for the preceding operating year made each year by an independent certified public accountant, and a copy of the audit shall be mailed to the manager of each syndicate or account originally purchasing any issue of the Bonds. The auditor shall comment on the manner in which the City is complying with the requirements of the Ordinance with respect to setting aside and investing moneys and meeting the requirements for acquiring and maintaining insurance. The audit shall be completed and so made available not later than four (4) months after the close of each operating year.
- (c) The City will maintain and carry, for the benefit of the holders of the Bonds, insurance on all physical properties of the System and liability insurance, of the kinds and in the amounts normally carried by municipalities engaged in the operation of water supply systems. All moneys received for losses under any such insurance policies shall be applied solely to the replacement and restoration of the property damaged or destroyed, and to the extent not so used, shall be used for the purpose of redeeming or purchasing Bonds.
- (d) The City will not sell, lease or dispose of the System, or any substantial part, until all of the Bonds have been paid in full, both as to principal and interest or provision made thereof as herein provided the City will operate the System as economically as possible, will make all repairs and replacements necessary to keep the System in good repair and working order, and will not do or suffer to be done any act which would affect the System in such a way as to have a material adverse effect on the security for the Bonds.

- (e) the City will not grant any franchise or other rights to any person, firm or corporation to operate a System that will compete with the System and the City will not operate a system that will compete with the System.
- (f) The City will cause the Project to be acquired and constructed promptly and in accordance with the plans and specification therefor.

SECTION 21. ADDITIONAL BONDS

Except as hereinafter provided, the City shall not issue additional Bonds of equal or prior standing with the Series 1986 Bonds.

The right is reserved in accordance with the provisions of Act 94, to issue additional Bonds payable from the Revenues of the System which shall be of equal standing and priority of lien on the Net Revenues of the System with the Bonds but only for the following purposes and under the following terms and conditions:

- (a) To complete the Project in accordance with the plans and specifications therefor. Such bonds shall not be authorized unless the engineers in charge of construction shall execute a certificate evidencing the fact that additional funds are needed to complete the Project in accordance with the plans and specifications therefor and stating the amount that will be required to complete the Project. If such certificate shall be so executed and filed with the City Clerk, it shall be the duty of the Commission to provide for and issue additional revenue bonds in the amount stated in said certificate to be necessary to complete the Project in accordance with the plans and specifications plus an amount necessary to issue such bonds or to provide for part or all of such amount from other sources.
- (b) For subsequent repairs, extensions, enlargements and improvements to the System or for the purpose of refunding part of any Bonds then outstanding and paying costs of issuing such additional Bonds including deposits which may be required to be made to the Bond Reserve Account. Bonds for such purposes shall not be issued pursuant to the subparagraph:
 - (a) Unless the average actual or augmented Net revenues of the System for the then last two (2) preceding twelve month operating years or the actual or augmented Net Revenues for the last preceding twelve month operating year, if the same shall be lower than the average, shall be equal to at least one hundred twenty-five (125%) percent of the average amount of principal and interest thereafter maturing in any operating year on the then outstanding Bonds and on the additional Bonds then being issued. If the additional Bonds are to be issued in whole or in part for refunding

outstanding Bonds the average annual principal and interest requirements shall be determined by deducting from the principal and interest requirements for each operating year the annual principal and interest requirements of any bond to be refunded from the proceeds of the additional Bonds. For purposes of this subparagraph.

- (b) The City may elect to use as the last preceding operating year any operating year ending not more than sixteen months from the date of delivery of the additional Bonds and as the next to the last preceding operating year, any operating year ending not more than twenty-eight months from the date of delivery of the additional Bonds. If the System rates, fees or charges shall be increased at or prior to the time of authorizing the additional Bonds, the Net Revenues for each of the two preceding operating years shall be augmented by an amount reflecting the effect of the increase had the System's billings during such operating years been at the increased rates. In addition., the actual Net Revenues for each of the two preceding operating years may be augmented by the estimated increase in Net Revenues to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System to be paid for in whole or in part from the proceeds of the additional Bonds to be issued. In addition, the actual net Revenues may be augmented by an amount equal to the investment income representing interest on investments estimated to be received each operating year from the addition to the Bond Reserve Account to be funded from the proceeds of the additional Bonds being issued. Determination by the City Commission as to existence of conditions permitting the issuance of additional Bonds shall be conclusive. No additional Bonds of equal standing as to the net Revenues of the System shall be issued pursuant to the authorization contained in this subparagraph if the City shall then be in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

- (c) For refunding a part of the outstanding Bonds and paying costs of issuing such additional Bonds including deposits which may be required to be made to the Bond Reserve Account. No additional Bonds shall be issued pursuant to this subsection unless the maximum amount of principal and interest maturing in any operating year after giving effect to the refunding shall be less than the maximum amount of principal and interest maturing in any operating year prior to giving effect to the refunding.

SECTION 22. DEPARTMENT OF TREASURY APPROVAL; SALE OF BONDS

The Treasurer shall, if required by Act 94, make application to the Municipal Finance Division or to the State Treasurer for authority to issue and sell the Series 1986 Bonds. The City Commission shall, if the Series 1986 Bonds are sold at public sale, adopt a form of notice of sale for the Series 1986 Bonds and, upon approval of the Department, if such approval is required, the City Clerk shall fix a date for sale of the Series 1986 Bonds and publish the notice of sale in the Michigan Investor or the Detroit legal news, Detroit, Michigan. The City Commission shall receive bids for the Series 1986 Bonds (unless the Bonds are sold in a sale to the Bond Bank), award sale of the Series 1986 Bonds to the successful bidder determined in accordance with Act 94 and this Ordinance, and take all further necessary steps to issue and deliver the Series 1986 Bonds.

SECTION 23. COVENANT TO COMPLY WITH PROVISIONS OF PROPOSED TAX REFORM ACT OF 1985

The City hereby covenants to use its best efforts, to the extent permitted by law, to comply with the requirements of the Internal Revenue Code of 1954, as currently amended, and the requirements of H.R. 3838, the Tax Reform Act of 1985 (the "Bill"), to preserve the tax exemption of the interest on the Bonds, unless, in the opinion of bond counsel, failure to comply with the requirements of the Bill would not impair the exemption of interest on the Bonds from federal income or State of Michigan taxation. The City hereby designates this issue of bonds as "qualified project bonds" for the purposes of the Bill or any similar amendments to the United States Internal Revenue Code as finally enacted.

SECTION 24. REPEAL, SAVINGS CLAUSE

All ordinances, resolutions or order, or parts thereof, in conflict with the provisions of this Ordinance are, to the extent of such conflict, repealed.

SECTION 25. SEVERABILITY; PARAGRAPH HEADINGS; AND CONFLICT

If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this Ordinance. The paragraph heading in the Ordinance are furnished for convenience of reference only and shall not be considered to be part of this Ordinance.

SECTION 26. PUBLICATION AND RECORDATION

This Ordinance shall be published in full in The Lapeer County Press, a newspaper of general circulation in the City qualified under State law to publish legal notices; promptly after its adoption, and shall be recorded in the Ordinance Book of the City and such recording authenticated by the signatures of the Mayor and City

Clerk.

SECTION 27. APPLICATION TO BOND BANK

The City Clerk is hereby authorized to make application to the Michigan Municipal Bond Authority and to file any additional applications for approval of the Bonds by the Department of Treasury. The City Commission shall determine by resolution whether to sell the Bonds to the Bond Bank or by public sale. If the Bonds are sold to the Bond Bank, then the taxes collected by the State of Michigan (the "State") and returned to the City or State revenue sharing monies shall be pledged for the payment of the Bonds and Bond form contained in Section 19 of this Ordinance shall be amended to reflect this pledge. The City Manager of the City shall negotiate an agreement with the Bond Bank for payment of such taxes to the Bond Bank or a trustee pursuant to the provisions of Section 23 of the Bond Bank's enabling act.

SECTION 28. EFFECTIVE DATE

This Ordinance shall be effective on adoption.