

ORDINANCE NO. 2007

AN ORDINANCE AUTHORIZING THE ISSUANCE AND SALE OF WATER AND SEWER REFUNDING REVENUE BONDS; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS; AND PRESCRIBING OTHER MATTERS RELATING THERETO.

WHEREAS, the City of Eureka Springs, Arkansas (the "City") owns water and sewer facilities, which are operated as a single, integrated municipal undertaking (the "System"); and

WHEREAS, the City Council has determined that the City will be able to receive a substantial savings by refunding its Water and Sewer Revenue Bonds, Series 2000 (the "Bonds Refunded") authorized by Ordinance No. 1854 of the City, adopted November 2, 2000, as supplemented by Ordinance No. 1857 of the City, adopted on December 7, 2000 (collectively, the "2000 Ordinance"); and

WHEREAS, the City can refund the Bonds Refunded by the issuance of Water and Sewer Refunding Revenue Bonds, Series 2005, in the principal amount of \$2,355,000 (the "bonds"); and

WHEREAS, the City is making arrangements for the sale of the bonds to Stephens Inc. (the "Purchaser"), at a purchase price of 98.62% of par plus accrued interest (the "Purchase Price"), pursuant to a Bond Purchase Agreement (the "Agreement") which has been presented to and is before this meeting; and

WHEREAS, the Preliminary Official Statement, dated September 28, 2005, offering the bonds for sale (the "Preliminary Official Statement") has been presented to and is before this meeting; and

WHEREAS, the Limited Continuing Disclosure Agreement between the City and BancorpSouth Bank (the "Disclosure Agreement"), providing for the ongoing disclosure obligations of the City with respect to the bonds, has been presented to and is before this meeting; and

WHEREAS, the City has outstanding its Water and Sewer Revenue Bonds, Series 2002 (the "Parity Bonds") authorized by Ordinance No. 1905, adopted on November 12, 2002, as supplemented by Ordinance No. 1909, adopted on December 20, 2002 (the "Parity Bond Ordinance"); and

WHEREAS, the coverage test for securing the bonds with a lien on revenues of the System on a parity with the lien on System revenues in favor of the Parity Bonds has been or will be met;

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Eureka Springs, Arkansas:

Section 1. The refunding of the Bonds Refunded shall be accomplished. The Mayor and City Clerk are hereby authorized to take, or cause to be taken, all action necessary to accomplish the same

and to execute all required contracts. The Bonds Refunded shall be called for redemption on December 1, 2006 at a redemption price equal to the principal amount being redeemed plus accrued interest.

Section 2. The Disclosure Agreement, in substantially the form submitted to this meeting, is approved, and the Mayor is hereby authorized and directed to execute and deliver the Disclosure Agreement on behalf of the City. The Mayor is authorized and directed to take all action required on the part of the City to fulfill its obligations under the Disclosure Agreement.

Section 3. The City Council hereby finds and declares that the period of usefulness of the System will be more than 15 years, which is longer than the term of the bonds.

Section 4. The Agreement, in substantially the form submitted to this meeting, is approved and the bonds are hereby sold to the Purchaser for the Purchase Price. The Mayor is hereby authorized and directed to execute and deliver the Agreement on behalf of the City and to take all action required on the part of the City to fulfill its obligations under the Agreement.

Section 5. The Preliminary Official Statement is hereby approved and the previous use of the Preliminary Official Statement by the Purchaser in connection with the sale of the bonds is hereby in all respects approved and confirmed, and the Mayor be, and he is hereby, authorized and directed, for and on behalf of the City, to execute the Preliminary Official Statement and the final Official Statement in the name of the City for use in connection with the sale of the bonds as set forth in the Agreement.

Section 6. Under the authority of the Constitution and laws of the State of Arkansas (the "State"), including particularly Title 14, Chapter 234, Subchapter 2, Title 14, Chapter 164, Subchapter 4, and Title 14, Chapter 235, Subchapter 2 of the Arkansas Code of 1987 Annotated and applicable decisions of the Supreme Court of the State, including particularly City of Harrison v. Braswell, 209 Ark. 1094, 194 S.W. 2d 12 (1946), City of Eureka Springs, Arkansas Water and Sewer Refunding Revenue Bonds, Series 2005 are hereby authorized and ordered issued in the principal amount of \$2,355,000 for the purpose of refunding the Bonds Refunded, funding a debt service reserve and paying expenses of issuing the bonds. The bonds shall mature on December 1 in the years and the amounts and shall bear interest as follows:

Year(December 1)	Principal Amount	Interest Rate (%)	
2007	\$120,000	3.10	If any securities depository determines not to continue to
2008	140,000	3.20	
2009	145,000	3.35	
2010	145,000	3.45	
2011	150,000	3.60	
2012	160,000	3.70	

2013	160,0003.80	act as a
2014	170,0003.90	securities
2015	175,0004.00	depository
2016	180,0004.10	for the bonds
2017	190,0004.20	for use in a
2018	195,0004.25	book-entry
2019	210,0004.30	system, the
2020	215,0004.35	City may

The bonds shall be dated November 1, 2005 and shall be issuable only as fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof. Unless the City shall otherwise direct, the bonds shall be numbered from 1 upward in order of issuance. Each bond shall have a CUSIP number.

The bonds shall be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), which shall be considered to be the registered owner of the bonds for all purposes under this Ordinance, including, without limitation, payment by the City of principal of, redemption price, premium, if any, and interest on the bonds, and receipt of notices and exercise of rights of registered owners. There shall be one certificated, typewritten bond for each stated

maturity date which shall be immobilized in the custody of DTC with the beneficial owners having no right to receive the bonds in the form of physical securities or certificates. DTC and its participants shall be responsible for maintenance of records of the ownership of beneficial interests in the bonds by book-entry on the system maintained and operated by DTC and its participants, and transfers of ownership of beneficial interests shall be made only by DTC and its participants, by book-entry, the City having no responsibility therefor. DTC is expected to maintain records of the positions of participants in the bonds, and the participants and persons acting through participants are expected to maintain records of the purchasers of beneficial interests in the bonds. The bonds as such shall not be transferable or exchangeable, except for transfer to another securities depository or to another nominee of a securities depository, without further action by the City.

establish a securities depository/ book-entry system relationship with another securities depository. If

the City does not or is unable to do so, or upon request of the beneficial owners of all outstanding bonds,⁴ the City and the Trustee (hereinafter identified), after the Trustee has made provision for notification of the beneficial owners by the then securities depository, shall permit withdrawal of the bonds from the securities depository, and authenticate and deliver bond certificates in fully registered form (in denominations of \$5,000 or integral multiples thereof) to the assigns of the securities depository or its nominee, all at the cost and expense (including costs of printing definitive bonds) of the City, if the City fails to maintain a securities depository/book-entry system, or of the beneficial owners, if they request termination of the system.

Prior to issuance of the bonds, the City shall have executed and delivered to DTC a written agreement (the "Representation Letter") setting forth (or incorporating therein by reference) certain undertakings and responsibilities of the City with respect to the bonds so long as the bonds or a portion thereof are registered in the name of Cede & Co. (or a substitute nominee) and held by DTC. Notwithstanding such execution and delivery of the Representation Letter, the terms thereof shall not in any way limit the provisions of this Section or in any other way impose upon the City any obligation whatsoever with respect to persons having interests in the bonds other than the registered owners, as shown on the registration books kept by the Trustee. The Trustee shall take all action necessary for all representations of the City in the Representation Letter with respect to the Trustee to at all times be complied with.

The authorized officers of the Trustee and the City shall do or perform such acts and execute all such certificates, documents and other instruments as they or any of them deem necessary or advisable to facilitate the efficient use of a securities depository for all or any portion of the bonds; provided that neither the Trustee nor the City may assume any obligations to such securities depository or beneficial owners of bonds that are inconsistent with their obligations to any registered owner under this Ordinance.

Interest on the bonds shall be payable on June 1, 2006, and semiannually thereafter on June 1 and December 1 of each year. Payment of each installment of interest shall be made to the person in whose name the bond is registered on the registration books of the City maintained by BancorpSouth Bank, Stuttgart, Arkansas, as Trustee and Paying Agent (the "Trustee"), at the close of business on the fifteenth day of the month (whether or not a business day) next preceding each interest payment date (the "Record Date"), irrespective of any transfer or exchange of any such bond subsequent to such Record Date and prior to such interest payment date.

Each bond shall bear interest from the payment date next preceding the date on which it is authenticated unless it is authenticated on an interest payment date, in which event it shall bear interest from such date, or unless it is authenticated prior to the first interest payment date, in which event it shall bear interest from November 1, 2005, or unless it is authenticated during the period from the Record Date to the next interest payment date, in which case it shall bear interest from such interest payment date, or unless at the time of authentication thereof interest is in default thereon, in which event it shall bear interest from the date to which interest has been paid.

Only such bonds as shall have endorsed thereon a Certificate of Authentication substantially in the form set forth in Section 8 hereof (the "Certificate") duly executed by the Trustee shall be entitled to any right or benefit under this Ordinance. No bond shall be valid and obligatory for any purpose unless and until the Certificate shall have been duly executed by the Trustee, and the Certificate upon any such bond shall be conclusive evidence that such bond has been authenticated and delivered under this Ordinance. The Certificate on any bond shall be deemed to have been executed if signed by an authorized officer of the Trustee, but it shall not be necessary that the same officer sign the Certificate on all of the bonds.

In case any bond shall become mutilated or be destroyed or lost, the City shall, if not then prohibited by law, cause to be executed and the Trustee may authenticate and deliver a new bond of like date, maturity and tenor in exchange and substitution for and upon cancellation of such mutilated bond, or in lieu of and in substitution for such bond destroyed or lost, upon the owner paying the reasonable expenses and charges of the City and Trustee in connection therewith, and, in the case of a bond destroyed or lost, his filing with the Trustee evidence satisfactory to it that such bond was destroyed or lost, and of his ownership thereof, and furnishing the City and Trustee with indemnity satisfactory to them. The Trustee is hereby authorized to authenticate any such new bond. In the event any such bond shall have matured, instead of issuing a new bond, the City may pay the same without the surrender thereof. Upon the issuance of a new bond under this Section, the City may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

The City shall cause books to be maintained for the registration and for the

transfer of the bonds as provided herein and in the bonds. The Trustee shall act as the bond registrar. Each bond is transferable by the registered owner thereof or by his attorney duly authorized in writing at the principal office of the Trustee. Upon such transfer a new fully registered bond or bonds of the same maturity, of authorized denomination or denominations,

for the same aggregate principal amount will be issued to the transferee in exchange therefor. 6

No charge shall be made to any owner of any bond for the privilege of transfer or exchange, but any owner of any bond requesting any such transfer or exchange shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new bond upon each exchange or transfer and any other expenses of the City or the Trustee incurred in connection therewith shall be paid by the City. The City shall not be required to transfer or exchange any bonds selected for redemption in whole or in part.

The person in whose name any bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal or premium, if any, or interest on any bond shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such bond to the extent of the sum or sums so paid.

In any case where the date of maturity of interest on or principal of the bonds or the date fixed for redemption of any bonds shall be a Saturday or Sunday or shall be in the State a legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after the date of maturity or date fixed for redemption.

Section 7. The bonds shall be executed on behalf of the City by the manual or facsimile signatures of the Mayor and City Clerk and shall have impressed or imprinted thereon the seal of the City. The bonds, together with interest thereon, are secured by and are payable solely from revenues derived from the System ("Revenues") which are hereby pledged and mortgaged for the equal and ratable payment of the bonds. The pledge of Revenues is on a parity of security with the pledge in favor of the Parity Bonds. The bonds shall not constitute an indebtedness of the City within any constitutional or statutory limitation.

Section 8. The bonds and the Certificate shall be in substantially the following form and the Mayor and City Clerk are hereby expressly authorized and directed to make all recitals contained therein:

or unless it is authenticated during the period from the Record Date to the next interest payment date, in which case it shall bear interest from such interest payment date, or unless at the time of authentication hereof interest is in default hereon, in which event it shall bear interest from the date to which interest has been paid.

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

This bond is one of an issue of City of Eureka Springs, Arkansas Water and Sewer Refunding Revenue Bonds, Series 2005, aggregating Two Million Three Hundred Fifty-Five Thousand Dollars (\$2,355,000) in principal amount (the "bonds"), and is issued for the purpose of refunding certain outstanding bonds payable from revenues of the City's water and sewer (combined) system (the "System"), paying necessary expenses incidental thereto and to the authorization and issuance of the bonds and funding a debt service reserve.

The bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Arkansas (the "State"), including particularly Title 14, Chapter 234, Subchapter 2, Title 14, Chapter 164, Subchapter 4, and Title 14, Chapter 235, Subchapter 2 of the Arkansas Code of 1987 Annotated and applicable decisions of the Supreme Court of Arkansas, including particularly City of Harrison v. Braswell, 209 Ark. 1094, 194 S.W. 2d 12 (1946), and pursuant to Ordinance No. 2007, duly adopted on October 10, 2005 (the "Authorizing Ordinance"), and do not constitute an indebtedness of the City within any constitutional or statutory limitation. The bonds are not general obligations of the City, but are special obligations payable solely from the revenues derived from the operation of the System. In this regard, the pledge in favor of the bonds is on a parity of security with the pledge in favor of the City's Water and Sewer Revenue Bonds, Series 2002. An amount of System revenues sufficient to pay the principal of and interest on the bonds has been duly pledged and set aside into the 2002 Water and Sewer Revenue Bond Fund created by the Authorizing Ordinance. Reference is hereby made to the Authorizing Ordinance for a detailed statement of the terms and conditions upon which the bonds are issued, of the nature and extent of the security for the bonds, and the rights and obligations of the City, the Trustee and the registered owners of the bonds. The City has fixed and has

covenanted and agreed to maintain rates for the services of the System which shall be sufficient at all times to provide for the proper and reasonable expenses of operation and maintenance of the System and for the payment of the principal of and interest on the bonds, including Trustee's fees, as the same become due and payable, to establish and maintain a debt service reserve and to make the required deposit for the depreciation of the System.

The bonds are subject to redemption at the option of the City, from funds from any source, on and after December 1, 2010 in whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the bonds shall be called for redemption, the particular maturities of the bonds to be redeemed shall be selected by the City in its discretion. If fewer than all of the bonds of any one maturity shall be called for redemption, the particular bonds or portions thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

Notice of redemption identifying the bonds or portions thereof (which shall be \$5,000 or a multiple thereof) to be redeemed shall be given by the Trustee, not less than 30 nor more than 60 days prior to the date fixed for redemption, by mailing a copy of the redemption notice by first class mail, postage prepaid, to all registered owners of bonds to be redeemed. Failure to mail an appropriate notice or any such notice to one or more registered owners of bonds to be redeemed shall not affect the validity of the proceedings for redemption of other bonds as to which notice of redemption is duly given in proper and timely fashion. All such bonds or portions thereof thus called for redemption and for the retirement of which funds are duly provided in accordance with the Authorizing Ordinance prior to the date fixed for redemption will cease to bear interest on such redemption date.

This bond is transferable by the registered owner hereof in person or by his attorney-in-fact duly authorized in writing at the principal corporate trust office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Authorizing Ordinance, and upon surrender and cancellation of this bond. Upon such transfer a new fully registered bond or bonds of the same maturity, of authorized denomination or denominations, for the same aggregate principal amount, will be issued to the transferee in exchange therefore. This bond is issued with the intent that the laws of the State shall govern its construction.

The City and the Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all

other purposes, and neither the City nor the Trustee shall be affected by any notice to the contrary. 10

The bonds are issuable only as fully registered bonds in the denomination of \$5,000, and any integral multiple thereof. Subject to the limitations and upon payment of the charges provided in the Authorizing Ordinance, fully registered bonds may be exchanged for a like aggregate principal amount of fully registered bonds of the same maturity of other authorized denominations.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of the bonds do exist, have happened and have been performed in due time, form and manner as required by law; that the

indebtedness represented by the bonds, together with all obligations of the City, does not exceed any constitutional or statutory limitation; and that the above referred to revenues pledged to the payment of the principal of and premium, if any, and interest on the bonds as the same become due and payable will be sufficient in amount for that purpose.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Authorizing Ordinance until the Certificate of Authentication hereon shall have been signed by the Trustee.

THE CITY HAS DESIGNATED THIS BOND AS A "QUALIFIED TAX-EXEMPT OBLIGATION" WITHIN THE MEANING OF SECTION 265(b) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

IN WITNESS WHEREOF, the City of Eureka Springs, Arkansas has caused this bond to be executed by its Mayor and City Clerk, thereunto duly authorized, and its corporate seal to be impressed on this bond, all as of the Dated Date shown above.

CITY OF EUREKA SPRINGS, ARKANSAS

ATTEST:

By _____
Mayor

City Clerk

(SEAL)

(Form of Trustee's Certificate)

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds designated Series 2005 in and issued under the provisions of the within mentioned Authorizing Ordinance.

Date of Authentication:

BANCORPSOUTH BANK TRUSTEE

By _____ Authorized Signature

(Form of Assignment)

ASSIGNMENT

FOR VALUE RECEIVED, ----- ("Transferor"),

hereby sells, assigns and transfers unto --- , the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ as attorney to transfer the within bond on the books kept for registration thereof with full power of substitution in the premises.

DATE:

Transferor

GUARANTEED BY:

NOTICE: Signature(s) must be guaranteed by a member of or participant in the Securities Transfer Agents Medallion Program (STAMP), or in another signature guaranty program recognized by the Trustee.

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Section 9. Since the bonds are being issued on a parity of security with the Parity Bonds, the bonds are to have the benefit of and are to be governed by the Parity Bond and all of the provisions of the Parity Bond Ordinance, except those provisions clearly inconsistent herewith or inapplicable hereto, including, without limitation, the provisions pertaining to the establishment and charging of rates for services of the System, vacancies in office, the collection, depositing, securing, disbursing, investing and handling of Revenues and funds, the parity bond requirements and the operation, maintenance, insurance and care of the System, are hereby made applicable hereto and are incorporated herein by reference as though fully set forth at this point. The effect of

the above covenant shall be to continue the applicable provisions in full force and effect even after the payment of the Parity Bonds and until the bonds are paid, or provision made therefor. In this regard, the following funds incorporated into the Parity Ordinance are hereby confirmed and continued: Water and Sewer Fund (the "Revenue Fund"); Water and Sewer Operation and Maintenance Fund (the "Operation and Maintenance Fund"); 2002 Water and Sewer Revenue Bond Fund (the "Bond Fund"); and Water and Sewer Depreciation Fund.

Section 10. (a) After making payments into the Operation and Maintenance Fund, there shall be paid from the Revenue Fund into the Bond Fund the sums in the amounts and at the times described below for the purpose of providing funds for the payment of the principal of and interest on the Parity Bonds and the bonds, as they mature, with trustee's fees for each issue, and as a debt service reserve.

(b) There shall be paid into the Bond Fund on the first business day of each month, until all outstanding bonds, with interest thereon, have been paid in full or provision made for such payment, a sum equal to 1/6 of the next installment of interest due on the bonds and the Parity Bonds and 1/12 of the next installment of principal bonds and the Parity Bonds; provided, however, that installments of principal shall not be deposited until December 2006.

The Debt Service Reserve within the Bond Fund shall be maintained in an amount equal

to one-half of the maximum annual debt service requirements on the bonds plus one-half of the maximum annual debt service on the Parity Bonds (the "Required Level"). There shall be deposited into the Debt Service Reserve proceeds of the bonds sufficient for such purpose. Should the Debt Service Reserve become impaired or be reduced below the Required Level, the City shall make additional monthly payments from the Revenue Fund until the impairment or reduction is corrected over a twenty-four month period.

The City shall maintain records reflecting the Bond Fund and Debt Service Reserve as constituted of two subaccounts, identified, respectively, as the "2005 Subaccount" and the "2002 Subaccount." The 2002 Subaccount shall hold all debt service payments for the Parity Bonds and the portion of the Debt Service Reserve relating to the Parity Bonds, and the 2005 Subaccount shall hold all debt service payments for the bonds and the portion of the Debt Service Reserve relating to the bonds. The maintenance of records reflecting a 2005 Subaccount and a 2002 Subaccount shall not be interpreted to affect in any way the parity of security between the bonds and the Parity Bonds, and the Bond Fund and Debt Service Reserve shall secure each of them on a parity of pledge and security, without distinction or priority.

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The City shall also pay into the Bond Fund such additional sums as necessary to provide¹³ for the trustee's fees for each issue and expenses (including reasonable legal fees) plus any arbitrage rebate due the United States Treasury under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The City shall receive a credit against monthly deposits into the Bond Fund from bond proceeds deposited therein, all interest earnings on moneys in the Bond Fund and for transfers into the Bond Fund derived from earnings in the Debt Service Reserve during the preceding month as hereinafter provided.

(c) If for any reason there shall be a deficiency in the payments made into the Bond Fund so that there are unavailable sufficient moneys therein to pay the principal of and interest on the bonds or the Parity Bonds as the same become due, any sums then held in the Debt Service Reserve shall be used to the extent necessary to pay such principal and interest, but the Debt Service Reserve shall be reimbursed as described above. The Debt Service Reserve shall be used solely as herein described, but the moneys therein may be invested as set forth below. Any earnings on moneys in the Debt Service Reserve which increase the amount therein above the Required Level shall be transferred from the Debt Service Reserve and used as a credit against the next monthly deposit into the Bond Fund.

(d) It shall be the duty of the City Treasurer to cause to be withdrawn from the Bond Fund and deposited with the Trustee at least one business day before the due date of any principal and/or interest on any bond or Parity Bond, at maturity or redemption prior to maturity, an amount equal to the amount of such bond or Parity Bond and interest due thereon for the sole purpose of paying the same, together with the fees of any trustee or paying agent. When the moneys held in the Bond Fund shall be and remain sufficient to pay the principal of and interest on all bonds and Parity Bonds then outstanding, the City Treasurer shall not be obligated to make any further payments into the Bond Fund.

(e) All moneys in the Bond Fund shall be used solely for the purpose of paying the principal of, premium, if any, and interest on the bonds and the Parity Bonds when due and any arbitrage rebate due under Section 148 of the Code, except as herein specifically provided. If a surplus shall exist in the Bond Fund over and above the amount required for making all principal and interest payments due during the next 12 months and over and above the Required Level for the Debt Service Reserve, such surplus shall be used to redeem the bonds or the Parity Bonds to the extent callable, shall be transferred into the Revenue Fund.

(f) The bonds shall be specifically secured by a pledge of all Revenues on a parity of security with the Parity Bonds. This pledge in favor of the bonds is hereby irrevocably made according to the terms of this Ordinance, and the City and its

officers and employees shall execute, perform and carry out the terms thereof in strict conformity with the 14 provisions of this Ordinance.

Section 11. So long as any of the bonds are outstanding, the City shall not issue or attempt to issue any bonds claimed to be entitled to a priority of lien on Revenues over the lien securing the bonds. The City reserves the right to issue additional bonds to finance or pay the cost of making any future extensions, betterments or improvements to the System, or to refund such bonds, but the City shall not authorize or issue any such additional bonds ranking on a parity with the bonds, unless and until the parity bond test set forth in Section 17 of the Parity Bond Ordinance is met and the necessary certificates are filed with the Trustee.

Section 12. The bonds shall be subject to redemption prior to maturity in accordance with the terms set out in the bond form in Section 8 hereof.

Section 13. The City shall cause proper books of accounts and records to be kept (separate from all other records and accounts) in which complete and correct entries shall be made of all transactions relating to the operation of the System, and such books shall be available for inspection by the owner of any of the bonds at reasonable times and under reasonable circumstances. The City agrees to have these records audited by an independent certified public accountant at least once each year, and a copy of the audit shall be delivered to the Trustee and made available to the registered owners of the bonds requesting the same in writing. In the event that the City fails or refuses to make the audit, the Trustee or any registered owner of the bonds, may have the audit made, and the cost thereof shall be charged against the Operation and Maintenance Fund.

Section 14. Any bond shall be deemed to be paid within the meaning of this Ordinance when payment of the principal of and interest on such bond (whether at maturity or upon redemption as provided herein, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment, (1) cash sufficient to make such payment and/or

(2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America ("Government Securities") (provided that such deposit will not affect the tax exempt status of the interest on any of the bonds or cause any of the bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code, maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the

Trustee pertaining to the bonds with respect to which such deposit is made shall have been paid or the 15 payment thereof provided for to the satisfaction of the Trustee.

On the payment of any bonds within the meaning of this Ordinance, the Trustee shall hold in trust, for the benefit of the owners of such bonds, all such moneys and/or Government Securities.

When all the bonds shall have been paid within the meaning of this Ordinance, if the Trustee has been paid its fees and expenses and if any arbitrage rebate is paid or provided to the satisfaction of the Trustee, the Trustee shall take all appropriate action to cause (i) the pledge and lien of this Ordinance to be discharged and cancelled, and (ii) all moneys held by it pursuant to this Ordinance and which are not required for the payment of such bonds to be paid over or delivered to or at the direction of the City. In determining the sufficiency of the deposit of Government Securities there shall be considered the principal amount of such Government Securities and interest to be earned thereon until the maturity of such Government Securities.

Section 15. If there be any default in the payment of the principal of or interest on any of the bonds, or if the City defaults in any Bond Fund requirement or in the performance of any of the other covenants contained in this Ordinance, the Trustee may, and upon the written request of the registered owners of not less than 10% in principal amount of the then outstanding bonds, shall, by proper suit, compel the performance of the duties of the officials of the City under the laws of Arkansas. And in the case of a default in the payment of the principal of and interest on any of the bonds, the Trustee may and upon written request of the registered owners of not less than 10% in principal amount of the then outstanding bonds, shall apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of the City and the registered owners of the bonds with power to charge and collect (or by mandatory injunction or otherwise to cause to be charged and collected) rates sufficient to provide for the payment of the expenses of operation, maintenance and repair and to pay any bonds and interest outstanding and to apply the Revenues in conformity with the laws of Arkansas and with this Ordinance. When all defaults in principal and interest payments have been cured, the custody and operation of the System shall revert to the City.

No registered owner of any of the outstanding bonds shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any power or right unless such owner previously shall have given to the Trustee written notice of the default

on account of which such suit, action or proceeding is to be taken, and unless the registered owners of not less than 10% in principal amount of the bonds then outstanding shall have made written request of the

Trustee after the right to exercise such power or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted to the Trustee, or to institute such action, suit or proceeding in its name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are, at the option of the Trustee, conditions precedent to the execution of any remedy. No one or more registered owners of the bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Ordinance, or to enforce any right thereunder except the manner herein described. All proceedings at law or in equity shall be instituted, had and maintained in the manner herein described and for the benefit of all registered owners of the outstanding bonds.

No remedy conferred upon or reserved to the Trustee or to the registered owners of the bonds is intended to be exclusive of any other remedy or remedies, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Ordinance or by law.

The Trustee may, and upon the written request of the registered owners of not less than 50% in principal amount of the bonds then outstanding shall, waive any default which shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted under the provisions of this Ordinance or before the completion of the enforcement of any other remedy, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

All rights of action under this Ordinance or under any of the bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the bonds, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the registered owners of such bonds, subject to the provisions of this Ordinance.

No delay or omission of the Trustee or of any registered owners of the bonds to exercise any right or power accrued upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Ordinance to the Trustee and to the registered owners of the bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

In any proceeding to enforce the provisions of this Ordinance any plaintiff bondholder and the Trustee shall be entitled to recover from the City all costs of such proceeding, including reasonable attorneys' fees.

Section 16. (a) The terms of this Ordinance shall constitute a contract between the City and the registered owners of the bonds and no variation or change in the undertaking herein set forth shall be made while any of these bonds are outstanding, except as hereinafter set forth in subsections (b) and (c).

(b) The Trustee may consent to any variation or change in this Ordinance to cure any ambiguity, defect or omission in this Ordinance or any amendment hereto, or to make any change that the Trustee determines is not to the material prejudice of the bondholders, without the consent of the owners of the outstanding bonds.

(c) The owners of not less than 75% in aggregate principal amount of the bonds then outstanding shall have the right, from time to time, anything contained in this Ordinance to the contrary notwithstanding, to consent to and approve the adoption by the City of such ordinance supplemental hereto as shall be necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Ordinance or in any supplemental ordinance; provided, however, that nothing contained in this Section shall permit or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any bond, or (b) a reduction in the principal amount of any bond or the rate of interest thereon, or (c) the creation of a lien or pledge superior to the lien and pledge created by this Ordinance, or (d) a privilege or priority of any bond or bonds over any other bond or bonds, or (e) a reduction in the aggregate principal amount of the bonds required for consent to such supplemental ordinance.

Section 17. When the bonds have been executed, they shall be authenticated by the Trustee and the Trustee shall deliver the bonds to the Purchaser upon payment of the Purchase Price. The accrued interest shall be deposited into the Bond Fund. The expenses of issuing the bonds as set forth in the delivery instructions to the Trustee signed by the Mayor and City Clerk (the "Delivery Instructions") shall also be paid from the Purchase Price. The amount necessary from the Purchase Price to refund the Bonds Refunded as set forth in the Delivery Instructions shall be deposited into an escrow account (the "Escrow Account") established with the trustee for the owners of the Bonds Refunded. The sum from the Purchase Price as set forth in the Delivery Instructions as the amount required for the Debt Service Reserve to reach the Required Level shall be deposited into the Bond Fund. The remainder of the Purchase Price, if any, shall be deposited into a special account in the name of the City designated "Cost of

Issuance Fund, Series 2005" (the "Cost of Issuance Fund") in the Trustee. The moneys in the Cost of 18

Issuance Fund shall be disbursed solely in payment of the costs of accomplishing the refunding, paying necessary expenses incidental thereto, and paying expenses of issuing the bonds. Disbursements shall be on the basis of requisitions which shall contain at least the following information: the person to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. Each requisition must be signed by the Mayor and the City Clerk. The Trustee shall issue its check upon the Cost of Issuance Fund payable to the person, firm or corporation designated in the requisition. The Trustee shall be required to keep accurate records as to all payments made on the basis of requisitions.

When all required expenses have been paid and expenditures made from the Cost of Issuance Fund for and in connection with the accomplishment of the refunding and the issuance of the bonds, this fact shall, if there are moneys on hand in the Cost of Issuance Fund, be evidenced by a certificate signed by the Mayor and the City Clerk, which certificate shall state, among other things, that all obligations payable from the Cost of Issuance Fund have been discharged. A copy of the certificate shall be filed with the Trustee, and upon receipt thereof the Trustee shall transfer any remaining balance to the Bond Fund.

Section 18. There shall be a statutory mortgage lien upon the water facilities which are part of the System (including all extensions, improvements and betterments now or hereafter existing) which shall exist in favor of the owners of the bonds, and each of them and such water facilities shall remain subject to such statutory mortgage lien until payment in full of the interest on and principal of the bonds, provided, however, that such statutory mortgage lien shall be interpreted according to the decision of the Supreme Court of the State in City of Harrison _v. Braswell supra.

Section 19. (a) The City covenants that it shall not take any action or suffer or permit any action to be taken or conditions to exist which causes or may cause the interest payable on the bonds to be included in gross income for federal income tax purposes. Without limiting the generality of the foregoing, the City covenants that the proceeds of the sale of the bonds and Revenues will not be used directly or indirectly in such manner as to cause the bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

(b) The City shall assure that (i) not in excess of 10% of the Net Proceeds of the bonds is used for Private Business Use if, in addition, the payment of more than 10% of the principal or 10% of the interest due on the bonds during the term thereof is, under the terms of the bonds or any underlying arrangement, directly or indirectly secured by any interest in property used or

to be used for a Private Business Use or in payments in respect of property used or to be used for a Private Business Use or is to be derived from payments, whether or not to the City, in respect of property or borrowed moneys used or to be used for a Private Business Use; and (ii) that, in the event that both (A) in excess of 5% of the Net Proceeds of the bonds are used for a Private Business Use, and (B) an amount in excess of 5% of the principal or 5% of the interest due on the bonds during

the term thereof is, under the terms of the bonds or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for said Private Business Use or in payments in respect of property used or to be used for said Private Business Use or is to be derived from payments, whether or not to the City, in respect of property or borrowed money used or to be used for said Private Business Use, then said excess over said 5% of Net Proceeds of the bonds used for a Private Business Use shall be used for a Private Business Use related to the governmental use of the improvements financed or refinanced by the Bonds Refunded.

The City shall assure that not in excess of 5% of the Net Proceeds of the bonds are used, directly or indirectly, to make or finance a loan to persons other than state or local governmental units.

As used in this subsection (b), the following terms shall have the following meanings:

"Net Proceeds" means the face amount of the bonds, plus accrued interest and less the deposit into the Debt Service Reserve from proceeds of the bonds.

"Private Business Use" means use directly or indirectly in a trade or business carried on by a natural person or in any activity carried on by a person other than a natural person, excluding, however, use by a state or local governmental unit and use as a member of the general public.

The City covenants that it will not (i) enter into wholesale water contracts in the future or (ii) modify the existing wholesale water contracts, if such contracts or modifications to existing contracts would cause the bonds to become "private activity bonds" within the meaning of Section 141 of the Code.

(c) The bonds are hereby designated as "qualified tax-exempt obligations" within the meaning of the Code. The City represents that the aggregate principal amount of its qualified tax-exempt obligations (excluding "private activity bonds" within the meaning of Section 141 of the Code which are not "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code), including those of its subordinate entities, issued in calendar year 2005 will not exceed \$10,000,000.

(d) The City covenants that it will take no action which would cause the bonds to be 20 "federally guaranteed" within the meaning of Section 149(b) of the Code. Nothing in this Section shall prohibit investments in bonds issued by the United States Treasury.

(e) The City covenants that it will submit to the Secretary of the Treasury of the United States, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the bonds are issued, a statement required by Section 149(e) of the Code.

(f) The City covenants that it will, in compliance with the requirements of Section 148(f) of the Code, pay with moneys in the Bond Fund to the United States Government in accordance with the

requirements of Section 148(f) of the Code, from time to time, an amount equal to the sum of (1) the excess of (A) the amount earned on all Non-purpose Investments (as therein defined) attributable to the bonds, other than investments attributable to such excess over (B) the amount which would have been earned if such Non-purpose Investments attributable to the bonds were invested at a rate equal to the Yield (as defined in the Code) on the bonds, plus (2) any income attributable to the excess described in (1), subject to the exceptions set forth in Section 148 of the Code. The City further covenants that in order to assure compliance with its covenants herein, it will employ a qualified consultant to advise the City in making the determination required to comply with this subsection. Anything herein to the contrary notwithstanding, the City need not comply with this provision if in the opinion of Bond Counsel filed with the Trustee, the failure to comply would not affect the tax-exempt status of interest on the bonds for federal income tax purposes.

Section 20. (a) The Trustee shall only be responsible for the exercise of good faith and reasonable prudence in the execution of its trust. The recitals in this Ordinance and in the face of the bonds are the recitals of the City and not of the Trustee. The Trustee shall not be required to take any action as Trustee unless it shall have been requested to do so in writing by the registered owners of not less than 10% in principal amount of the bonds then outstanding and shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby. The Trustee may resign at any time by giving 60 days' notice in writing to the City Clerk and to the registered owners of the bonds, and the City or the majority in value of the registered owners of the outstanding bonds or the City, so long as it is not in default under this Ordinance, at any time, with or without cause, may remove the Trustee. In the event of a vacancy in the office of Trustee, either by resignation or by removal, the City shall forthwith designate a new Trustee by a written instrument filed in the office of the City Clerk. The original Trustee and any successor Trustee shall file a written

acceptance and agreement to execute the trust imposed upon it or them by this Ordinance, but only upon the terms and conditions set forth in this Ordinance and subject to the provisions of this Ordinance, to all of which the respective registered owners of the bonds agree. Such written acceptance shall be filed with the City Clerk and a copy thereof shall be placed in the bond transcript. Any successor Trustee shall have all the powers herein granted to the original Trustee.

(b) Every successor Trustee appointed pursuant to this Section shall be a trust company or bank, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$5,000,000.

(c) Any resignation by the Trustee shall not be effective until the appointment of a successor Trustee under this Section.

Section 21. All moneys in the Water and Sewer Revenue Bond Fund are hereby

appropriated and shall be used as necessary to refund the Bonds Refunded, with any balance to be transferred to the 2005 Subaccount in the Bond Fund, as directed by the Delivery Instructions.

Section 22. The insurance policies required by Section 19 of the Parity Bond Ordinance are to carry a clause making them payable to the Trustee as its interest may appear, and satisfactory evidence of said insurance shall be filed with the Trustee.

Section 23. The provisions of this Ordinance are hereby declared to be separable and if any provision shall for any reason be held illegal or invalid, such holding shall not affect the validity of the remainder of this Ordinance.

Section 24. All ordinances and resolutions or parts thereof, in conflict herewith are hereby repealed to the extent of such conflict.

PASSED: October 10, 2005.

APPROVED:

ATTEST:

Mayor

City Clerk

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(SEAL)

CERTIFICATE

The undersigned, City Clerk of the City of Eureka Springs, Arkansas, hereby certifies that the foregoing pages are a true and correct copy of Ordinance No. 2007, adopted at a session of the City Council of the City of Eureka Springs, Arkansas, held at the regular meeting place of the City Council in the City at 6 p.m., on the 10th day of October, 2005, and that said Ordinance is of record in Ordinance Record Book No. _____, now in my possession.

GIVEN under my hand and seal this day _____ of _____ 2005.

City Clerk

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(SEAL)