

ORDINANCE NO. 2018-05

AN ORDINANCE AUTHORIZING THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF BETTERMENTS AND IMPROVEMENTS TO THE SEWER SYSTEM OF THE CITY OF BULL SHOALS, ARKANSAS; AUTHORIZING THE ISSUANCE OF A SALES AND USE TAX AND WATER AND SEWER REVENUE BOND FOR THE PURPOSE OF FINANCING A PORTION OF THE COST OF THE CONSTRUCTION; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL AND INTEREST ON THE BOND; AND PRESCRIBING OTHER MATTERS RELATING THERETO.

WHEREAS, the City of Bull Shoals, Arkansas (the "City") owns and operates water and sewer facilities, which facilities are operated as one interrelated municipal undertaking (the "System"); and

WHEREAS, the City Council has determined that betterments and improvements to the sewer facilities of the System (the "construction") should be made in order that the City and its inhabitants may have adequate and proper sewer facilities; and

WHEREAS, the City Council has had prepared by a duly qualified consulting engineer a preliminary report and estimates of costs of the construction, which have been examined and approved by the City Council and a copy filed in the office of the City Recorder where it may be inspected by any interested person; and

WHEREAS, the total estimated cost of the construction, including bond issuance costs, is \$9,119,000; and

WHEREAS, there was submitted to the qualified electors of the City the question of issuing capital improvement bonds in the maximum principal amount of \$5,000,000 for the purpose of financing a portion of the costs of the construction; and

WHEREAS, at the special election held May 9, 2017, a majority of the electors voting on the question approved the issuance of the capital improvement bonds; and

WHEREAS, the City does not have sufficient funds to undertake the construction but can obtain the necessary funds by issuing its Sales and Use Tax and Water and Sewer Revenue Bond in the maximum principal amount of \$5,000,000 (the "bond"), from grant funds and from available funds of the City; and

WHEREAS, the City has entered into a Loan Agreement (the "Loan Agreement") with the United States Department of Agriculture (the "Government"), whereby the Government has committed to purchase the bond; and

WHEREAS, the Loan Agreement provides that the bond will bear interest at the lower of the prevailing Rural Development ("RD") interest rate at the time of loan approval (2.25%) or the prevailing RD interest rate at the time the bond is issued; and

WHEREAS, the City has outstanding its Water and Sewer Revenue Bond, dated October 24, 1988; its Water and Sewer Revenue Bond, dated June 7, 2010; its Water and Sewer Revenue Bond, dated December 5, 2012 and its indebtedness to the Arkansas Natural Resources Commission pursuant to a loan agreement dated as of December 1, 2004 (No. 00349-WSSW-L) (collectively, the "Senior Obligations"); and

WHEREAS, the City is authorized, under the provisions of Amendment Nos. 62 and 65 to the Arkansas Constitution and Title 14, Chapter 234, Subchapter 2 of the Arkansas Code of 1987 Annotated, Title 14, Chapter 164, Subchapter 3 of the Arkansas Code of 1987 Annotated, Title 14, Chapter 164, Subchapter 4 of the Arkansas Code of 1987 Annotated, and Title 14, Chapter 235, Subchapter 2 of the Arkansas Code of 1987 Annotated (collectively, the "Authorizing Legislation"), to accept the offer of the Government;

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Bull Shoals, Arkansas:

Section 1. The construction shall be accomplished. The Mayor and City Recorder are hereby authorized to take, or cause to be taken, all action necessary to accomplish the construction and to execute all required contracts and documents.

Section 2. The offer of the Government of par for the bond is hereby accepted, and the bond is hereby sold to the Government. The purchase price shall be paid in multiple advances as funds are needed for the construction and to pay bond issuance expenses. The bond shall be issued in the principal amount necessary to retire the interim indebtedness hereinafter authorized and to pay any balance of the costs of the construction, as determined by the Mayor, but not to exceed \$5,000,000.

Section 3. The City Council hereby finds and declares that the period of usefulness of the System after completion of the construction will be more than forty (40) years.

Section 4. Under the authority of the Constitution and laws of the State of Arkansas (the "State"), including particularly the Authorizing Legislation, 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), a City of Bull Shoals, Arkansas Sales and Use Tax and Water and Sewer Revenue Bond is hereby authorized and ordered issued in the maximum principal amount of \$5,000,000. The bond shall be dated as of the date of delivery and shall bear interest at the lower of the prevailing RD interest rate at the time of loan approval (2.25% per annum) or the prevailing RD interest rate at the time the bond is issued. Principal of and interest on the bond shall be payable in monthly amortized installments commencing one month from the date of the bond and continuing monthly thereafter on the same day (provided, however, that if the bond is dated on the 29th, 30th or 31st day of any month, the monthly payments shall be made on the 28th day of each month). If the interest rate is 2.25% and the bond is issued in the principal

amount of \$5,000,000 the amortized monthly payments shall be in the amount of \$15,850 each. If the interest rate is lower or if the bond is issued in a principal amount lower than \$5,000,000, or both, the monthly payments shall be in the amount necessary to amortize the bond in 480 equal monthly installments. The amount of each monthly payment shall be applied first to payment of interest then due and the balance shall be applied to a reduction of principal. The amortized installments of principal and interest shall continue until the principal of the bond, with interest, is fully paid, except that final payment of the bond shall be due and payable not later than forty (40) years from the date of the bond, subject to prepayment prior to maturity as provided in the face of the bond.

The bond will be issued in typewritten form, registered as to both principal and interest, payable to the registered owner, or registered assigns (the "Owner"), and shall be numbered R-1.

Payment of principal and interest shall be by check or draft mailed to the Owner at its address shown on the bond registration books of the City which shall be maintained by the City Recorder as Bond Registrar, without presentation or surrender of the bond (except upon final payment) and such payments shall discharge the obligation of the City to the extent thereof. The City Recorder shall keep a payment record and make proper notations thereon of all payments of principal and interest.

Payment of principal and interest shall be in any coin or currency of the United States of America which, as at the time of payment, shall be legal tender for the payment of debts due the United States of America. When the principal of and interest on the bond have been fully paid, it shall be canceled and delivered to the City Recorder.

Section 5. The bond shall be executed on behalf of the City by the Mayor and City Recorder and shall have impressed thereon the seal of the City. The bond is not a general obligation of the City but is a special obligation, the principal of and interest on which are secured by a pledge of and are payable from (a) the collections of the City's 1% sales and use tax levied by Ordinance No. 2017-03, adopted February 23, 2017 (the "Tax") and (b) revenues derived from the operation of the System ("System Revenues"). The pledge of collections of the Tax in favor of the bond is a first and prior pledge. The pledge of System Revenues in favor of the bond is subordinate to the pledge in favor of the Senior Obligations. The bond shall not constitute an indebtedness of the City within the meaning of any constitutional or statutory limitation.

Section 6. (a) The bond shall be in substantially the following form and the Mayor and City Recorder are hereby authorized and directed to make all the recitals contained therein:

(form of single registered bond)

UNITED STATES OF AMERICA  
STATE OF ARKANSAS  
COUNTY OF MARION  
CITY OF BULL SHOALS  
\_\_\_% SALES AND USE TAX AND  
WATER AND SEWER REVENUE BOND

No. R-1

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

KNOW ALL MEN BY THESE PRESENTS:

That the City of Bull Shoals, Marion County, Arkansas (the "City"), for value received, hereby acknowledges itself to owe and promises to pay to the registered owner, or registered assigns, solely from the special fund provided as hereinafter set forth, the principal sum of

\_\_\_\_\_ MILLION \_\_\_\_\_ HUNDRED \_\_\_\_\_ THOUSAND DOLLARS  
(or the total principal amount outstanding as reflected  
by the Record of Payment of Advances attached hereto)

with interest on the unpaid balance of the total principal amount at the rate of \_\_\_\_\_% per annum from the date of each advance. The principal and interest shall be payable in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America and shall be payable as follows: one month from the date of this bond and monthly thereafter on the same day (except that if this bond is dated the 29th, 30th or 31st day of any month, each monthly payment shall be due on the 28th day of the month) amortized monthly installments of principal and interest in the amount of \$\_\_\_\_\_ each shall be payable until the principal and interest are fully paid, except that final payment of the entire indebtedness, if not sooner paid, shall be due and payable forty (40) years from the date of this bond.

Payments of the principal and interest installments due hereon shall be made, except for final payment, without presentation and surrender of this bond, directly to the registered owner at his address shown on the bond registration book of the City maintained by the City Recorder as Bond Registrar, and such payments shall fully discharge the obligation of the City to the extent of the payments so made.

This bond is issued for the purpose of providing permanent financing of a portion of the costs of acquiring, constructing and equipping betterments and improvements to the City's sewer system and costs of authorizing and issuing this bond, and is issued pursuant to and in full compliance with the Constitution and laws of the State of Arkansas, including particularly, Amendment Nos. 62 and 65 to the Arkansas Constitution, Title 14, Chapter 164, Subchapter 3 of the Arkansas Code of 1987 Annotated, Title 14, Chapter 164, Subchapter 4 of the Arkansas Code of 1987 Annotated, Title 14, Chapter 234, Subchapter 2 of the Arkansas Code of 1987 Annotated and Title 14, Chapter 235, Subchapter 2 of the Arkansas Code of 1987 Annotated, and applicable



decisions of the Supreme Court of the State of Arkansas, including particularly City of Harrison v. Braswell, 209 Ark. 1094, 194 S.W.2d 12 (1946), and pursuant to Ordinance No. \_\_\_\_\_ of the City, duly adopted and approved on the 20th day of August, 2018 (the "Authorizing Ordinance") and an election duly held at which the majority of the legal voters of the City voting on the question approved the issuance of the bond. Reference is hereby made to the Authorizing Ordinance for the details of the nature and extent of the security and of the rights and obligations of the City and the registered owner of this bond.

This bond does not constitute an indebtedness of the City within any constitutional or statutory limitation or provision. This bond is a special obligation payable solely from (a) the collections of the City's 1% sales and use tax levied by Ordinance No. 2017-03 of the City, adopted February 23, 2017 ("Tax Revenues") and (b) revenues derived from the operation of the City's water and sewer system (the "System"). A sufficient amount of revenues derived from the operation of the System ("System Revenues") and Tax Revenues to pay principal and interest has been duly set aside and pledged as a special fund for that purpose, identified as the "2018 Sales and Use Tax and Water and Sewer Revenue Bond Fund," created by the Authorizing Ordinance. The pledge of Tax Revenues in favor of this bond is a first and prior pledge. The pledge of System Revenues in favor of this bond is subordinate to the pledge in favor of the Senior Obligations (as defined in the Authorizing Ordinance). The City has fixed and has covenanted and agreed to maintain rates for use of the System which shall be sufficient at all times, along with Tax Revenues, to at least provide for the payment of the reasonable expenses of operation and maintenance of the System, provide for the payment of the principal of and interest on all the outstanding bonds to which System Revenues are pledged as the same become due, to establish and maintain debt service reserves and to provide a depreciation fund, all as set forth in the Authorizing Ordinance.

Prepayments of principal installments, or any portion thereof, may be made from funds from any source, including collections of the Tax in excess of the amount necessary to insure the prompt payment of the principal and of interest on this bond, at any time at the option of the City in inverse chronological order of maturity at a price of the principal amount thereof plus accrued interest. Such prepayments shall not affect the obligation of the City to pay the remaining installments as scheduled herein.

This bond may be assigned, and in order to effect such assignment the assignor shall promptly notify the City Recorder by registered mail, and the assignee shall surrender this bond to the City Recorder for transfer on the registration records. Every assignee shall take this bond subject to all payments and prepayments of principal and interest (as reflected by the Payment Record maintained by the City Recorder), prior to such surrender for transfer.

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.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitution and statutes of the State of Arkansas to exist, happen and be performed precedent to and in the issuance of this bond do exist, have happened and have been performed in regular and due time, form and manner as required by law; that this bond does not

exceed any constitutional or statutory limitation of indebtedness; and that provision has been made for the payment of the principal of and interest on this bond, as provided in the Authorizing Ordinance.

IN WITNESS WHEREOF, the City of Bull Shoals, Arkansas has caused this bond to be executed in its name by its Mayor and City Recorder, thereunto duly authorized, and its corporate seal to be affixed, all as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

CITY OF BULL SHOALS, ARKANSAS

ATTEST:

By \_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Recorder

(SEAL)

[A Registration Certificate and Record of Payment of  
Advances shall be attached to the bond.]

(b) Pending the preparation and delivery of the permanent and definitive bond hereinabove authorized, temporary bonds in the aggregate principal amount of not to exceed \$5,000,000 may be issued for the purpose of providing construction funds immediately and in anticipation of the issuance of such permanent and definitive bond. The temporary bonds shall be in such denominations as the Mayor shall determine, be numbered from 1 upwards, be sold at a price of par, be dated the date of delivery, bear interest at the rate of not to exceed 5% per annum, and mature not later than two (2) years from their date. Interest on the temporary bonds shall be payable not less often than annually and at maturity. In connection with the issuance of temporary bonds, the Mayor and the City Recorder are hereby authorized to execute a letter of offer and representation with the purchaser or purchasers thereof and to take all other actions whatsoever and execute and deliver such documents, instruments, contracts and writings necessary to cause the temporary bonds to be issued. Upon delivery of the permanent bond, the temporary bonds to the extent then outstanding, with accrued interest, shall be exchanged for, or paid from the proceeds of, the permanent bond, and shall be canceled. The temporary bonds shall be in substantially the form of the permanent bond.

Section 7. The City hereby expressly pledges and appropriates the collections of the Tax ("Tax Revenues") to the payment of the principal of and interest on the bond when due. The City covenants that the Tax shall never be repealed or reduced while the bond is outstanding. The City further covenants to use due diligence in collecting the Tax.

Section 8. The City has heretofore fixed water and sewer rates by ordinances duly adopted. Reference is hereby made to such ordinances for the details thereof and other provisions pertaining thereto, which rates are hereby confirmed and continued.

The City covenants that it will continuously operate the System as a revenue producing undertaking and will not sell or lease the same, or any substantial portion thereof, without the prior written approval of the bondholder; provided, however, that nothing herein shall be construed to prohibit the City from making such dispositions of properties of the System and such replacements and substitutions for properties of the System as shall be necessary or incidental to the efficient operation of the System as a revenue producing undertaking.

The City covenants and agrees that rates for services of the System will produce gross System Revenues, along with Tax Revenues deposited into the Bond Fund, at least sufficient to pay operation and maintenance expenses of the System, pay the principal of and interest on all outstanding bonds to which System Revenues are pledged ("System Bonds"), as the same become due, create and maintain any required debt service reserves and to make required deposits for depreciation, as specified by this Ordinance. The City covenants always to maintain rates (including increases as necessary) which will provide for the maintenance of the funds hereinafter described. The rates shall never be reduced while the bond is outstanding unless there is obtained from a certified public accountant not in the regular employ of the City ("Accountant") a certificate reciting the opinion that the proposed new rates will produce sufficient Net Revenues (Net Revenues being gross System Revenues to be derived during the next 12 months plus Tax Revenues during the last 12 months, less the reasonably anticipated cost of operation and maintenance for the next 12 months and less the required deposits for depreciation of the System for the next 12 months) equal to not less than 120% of the maximum amount that will become due in any year thereafter for principal, interest and trustee's and paying agent's fees on all System Bonds.

Section 9. The Treasurer of the City (the "Treasurer") shall be the custodian of the Tax Revenues and the System Revenues (collectively, the "Revenues") and that officer shall give bond for the faithful discharge of his or her duties in such amounts as approved by the City Council. All Revenues shall at all times be accounted for separately and distinctly from other moneys of the City. All Revenues shall be held in trust for the Owner and shall be used and applied only as provided herein. Except as hereinafter provided, all Revenues shall be deposited in such depository or depositories for the City as may be lawfully designated from time to time by the City; subject, however, to the giving of security as now or as hereafter may be required by law and provided that such depository or depositories shall hold membership in the Federal Deposit Insurance Corporation ("FDIC"). All deposits shall be in the name of the City and shall be so designated as to indicate the particular fund to which the Revenues belong.

Section 10. The Treasurer shall deposit all Tax Revenues as and when received into a special fund of the City that is hereby created and designated "2018 Sales and Use Tax and Water and Sewer Revenue Bond Fund" (the "Bond Fund").

Section 11. All System Revenues shall be paid as and when received into the fund heretofore created and designated "Water and Sewer Revenue Fund" (the "Revenue Fund"). All moneys at any time in the Revenue Fund shall be applied to the payment of the reasonable and necessary expenses of operation and maintenance of the System, to the payment of the principal of and interest on System Bonds, to the maintenance of any required debt service reserves and depreciation reserves at the required levels and otherwise as described herein.

Section 12. There shall first be paid from the Revenue Fund into a fund heretofore created and designated "Water and Sewer Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), on the first day of each month, an amount sufficient to pay the operating, repair and maintenance expenses of the System for such month and from which disbursements shall be made only for those purposes.

If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid into the Operation and Maintenance Fund from the Revenue Fund in the next succeeding month. If any surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount which shall be necessary to defray the costs of operation and maintenance of the System during the remainder of the then current fiscal year and the next ensuing fiscal year, such surplus may be transferred to the Revenue Fund.

Section 13. (a) The Bond Fund shall be used to provide funds for the payment of principal of and interest on the bond as it becomes due at maturity or at redemption prior to maturity. After making the required payments into the Operation and Maintenance Fund and after making the required monthly transfers with respect to the Senior Obligations, there shall be deposited into the Bond Fund the sums in the amounts and at the times hereinafter stated in subsection (c) for the purpose of providing funds for the payment of the principal of and interest on the bond when due, and to establish a debt service reserve.

(b) Provision has been made for the payment of the principal of the temporary bonds from the proceeds of the bond. Interest on the temporary bonds will be paid as due and at maturity from Revenues. The City Treasurer shall pay to the owners of the temporary bonds an amount equal to the interest due on such dates. Any surplus in the Bond Fund over and above the amount necessary to insure the payment, when due, of principal and interest on the temporary bonds shall be used, at least annually, for the prepayment or redemption of the temporary bonds prior to maturity.

(c) Commencing on the first business day of the month after delivery of the permanent bond and continuing on the first business day of each month thereafter until the bond with interest thereon has been paid in full or provision made for such payment, there shall be deposited into the Bond Fund from the Revenue Fund a sum which, along with collections of the Tax deposited therein that month, shall be equal to the installment of principal and interest due on the next monthly installment payment date for the bond. In addition, there shall be deposited from the Revenue Fund an additional sum equal to 10% of the monthly installment payment. If the interest rate on the bond is 2.25% and the bond is issued in the principal amount of \$5,000,000, the additional sum referenced in the previous sentence will be \$1,585. When a debt service reserve shall have been accumulated, and so long as it shall remain, in the amount equal to the lesser of (i) \$190,200 or (ii) the maximum annual debt service requirements on the bond (the "required level"), the additional payment need not be made.

(d) If Revenues are insufficient to make the required payment on or before the first business day of the following month into the Bond Fund, then the amount of any such deficiency in the payment made shall be added to the amount otherwise required to be paid into the Bond Fund on the first business day of the next month.

(e) If, for any reason, the Treasurer shall fail at any time to make any of the required payments into the Bond Fund, or if for any reason the Bond Fund shall be insufficient at any time to make the required payments for principal and interest, as due, any sums then held in the debt service reserve shall be used to the extent necessary in the payment of the principal of and interest on the bond, but such reserve shall be reimbursed by the increased monthly payments from the Revenue Fund specified in (c) above. The debt service reserve shall be used solely as herein provided.

(f) When the moneys held in the Bond Fund, including the debt service reserve, shall be and remain sufficient to pay in full the principal of and interest on the bond, the Treasurer shall not be obligated to make any further payments into the Bond Fund.

(g) All moneys in the Bond Fund shall be used solely for the purpose of paying the principal of and interest on the bond and any arbitrage rebate due to the United States Treasury under Section 148(f) of the Internal Revenue Code of 1986, as amended (the "Code"), except as herein specifically provided. If a surplus shall exist in the Bond Fund over and above the amount necessary to insure the payment, when due, of principal and interest and any arbitrage rebate and over and above the debt service reserve's required level, such surplus shall, at the option of the City, either (1) be used for the prepayment or redemption of the bond prior to maturity or (2) be transferred to the Revenue Fund; provided, however, that if there is a surplus in the Bond Fund derived from Tax Revenues, such surplus shall be used, at least annually, for the prepayment or redemption of the bond prior to maturity.

(h) It shall be the duty of the Treasurer to withdraw from the Bond Fund and to pay to the Owner, on or before the date on which each installment hereunder is due, an amount equal to the amount of such installment. No withdrawal of funds from the Bond Fund shall be made for any other purpose except as otherwise authorized in this Ordinance.

(i) The bond shall be specifically secured by a pledge of all Revenues. This pledge in favor of the bond 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 provisions of this Ordinance.

(j) The City shall also pay into the Bond Fund such additional sums as necessary to provide for any arbitrage rebate due the United States Treasury under Section 148(f) of the Code.

Section 14. After making the payments set forth above, there shall be paid from the Revenue Fund into a fund heretofore created and designated "Water and Sewer Depreciation Fund" (the "Depreciation Fund") on or before the first business day of each month while the bond is outstanding, an amount equal to the greater of (a) 3% of the gross Revenues for



the preceding month or (b) \$3,961. The moneys in the Depreciation Fund shall be used for the purpose of paying the costs of short-lived assets and replacements made necessary by the depreciation of the System.

Section 15. Any surplus in the Revenue Fund, after making the required deposits in the other funds as set forth herein may be used for any lawful municipal purpose, including particularly, without limitation, the redemption of System Bonds and the construction of extensions, betterments and improvements to the System.

Section 16. The principal and interest installments shall be prepayable prior to maturity as provided in the bond form in Section 6 hereof. The City agrees that Tax Revenues will be used solely to pay principal and interest on the bond and any arbitrage rebate. To this end, the City agrees that Tax Revenues in excess of the amount necessary to pay the principal of and interest on the bond and any arbitrage rebate when due will be used to prepay installments of principal of the bonds at least annually.

Section 17. As long as the bond is outstanding, the City shall not issue or attempt to issue any bonds having or claimed to be entitled to a priority of, or on parity with, the lien on Revenues securing the bond. The City shall not issue any additional bonds secured by Tax Revenues.

Nothing herein shall be construed in any manner to prevent the issuance by the City of additional bonds secured by System Revenues which are subordinate to the pledge in favor of the bond to finance or pay the cost of constructing extensions, betterments and improvements to the System.

Section 18. It is covenanted and agreed by the City with the Owner that it will faithfully and punctually perform all duties with reference to the System and the Tax required by the Constitution and laws of the State and by this Ordinance, including, without limitation, the collection of the Tax, the making and collecting of reasonable and sufficient rates lawfully established for services rendered by the System, segregating Revenues and applying them to the respective funds identified herein.

The City covenants and agrees that the Owner shall have the protection of all the provisions of the Authorizing Legislation, and that the City will diligently proceed to enforce those provisions to the end of the Owner realizing fully upon its security. And, if the City shall fail to proceed within 30 days after written request shall have been filed by the Owner, the Owner may proceed to enforce all such provisions.

If there be any default in the payment of the principal of or interest on the bond, or if the City defaults in any Bond Fund requirement or in the performance of any of the other covenants contained or incorporated in this Ordinance, the Owner may, by proper suit, compel the performance of the duties of the officials of the City under the laws of the State. In the case of a default in the payment of the principal of and interest on the bond, the Owner may 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 with the 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, repair and maintenance and to pay any System Bonds and interest outstanding and to apply Revenues in conformity 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 remedy herein conferred upon or reserved to the Owner is intended to be exclusive of any other remedy or remedies herein provided or provided by law, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or given by law. No delay or omission of the Owner 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 default or an acquiescence therein; and every power and remedy given by this Ordinance to the Owner may be exercised from time to time and as often as may be deemed expedient.

The Owner may 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.

Any costs of enforcement of the bond or of any provision of this Ordinance, including reasonable attorney's fees, shall be paid by the City.

Section 19. (a) The City covenants that it shall not take any action or suffer or permit any action to be taken or condition to exist which causes or may cause the interest payable on the temporary and permanent 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 bonds and moneys that are deposited in the funds identified herein will not be used directly or indirectly in such manner as to cause such bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

(b) The City represents that it has not used or permitted the use of, and covenants that it will not use or permit the use of, the improvements financed by the permanent and temporary bonds or the proceeds thereof, in such manner as to cause such bonds to be "private activity bonds" within the meaning of Section 141 of the Code. In this regard, the City covenants that (i) it will not use (directly or indirectly) the proceeds of such bonds to make or finance loans to any person, (ii) that while such bonds are outstanding the System and the improvements financed by such bonds will only be used by persons on a basis as members of the general public or by state or local governmental units.

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

subordinate entities, issued in the calendar years in which the bonds are issued will not and shall not exceed \$5,000,000, and (ii) at least 95% of the proceeds of the temporary and permanent bonds will be expended for local governmental activities of the City.

(d) The City covenants that it will take no action which would cause the temporary and permanent bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. Nothing in this Section shall prohibit investments in bonds or notes 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 any bonds (temporary or permanent) are issued, a statement or statements concerning the temporary and permanent bonds which contains the information required by Section 149(e) of the Code within the time required by such Section.

(f) The City covenants that it will not reimburse itself from proceeds of the permanent or temporary bonds for costs paid by the City prior to the first date any of such bonds are issued except in compliance with U.S. Treasury Regulation §1.150-2 as now or hereafter amended (the "Regulation"). This Ordinance shall constitute an "official intent" for the purpose of the Regulation.

(g) The City covenants that all documents and records pertaining to the permanent bond, the temporary bonds and the construction will be retained for the life of the permanent bond plus an additional three years.

(h) The City shall pay any arbitrage rebate due the United States Treasury under Section 148 of the Code from moneys in the Bond Fund.

Section 20. When the bonds (permanent and temporary) have been executed by the Mayor and City Recorder and the seal of the City impressed, as herein provided, they shall be delivered to the purchaser upon payment of the purchase price. The proceeds from the sale of such bonds shall be disbursed as follows:

(a) In the case of the temporary bonds, the proceeds shall be deposited as and when received in a special account of the City designated "Sewer Construction Fund" (the "Construction Fund") in a bank that is a member of the FDIC.

(b) In the case of the permanent bond, the amount necessary, if any, to pay in full the temporary bonds shall be used for that purpose, and the balance shall be deposited, as and when received, into the Construction Fund. Moneys in the Construction Fund in excess of the amount insured by FDIC shall be continuously secured by bonds or other direct or fully guaranteed obligations of the United States of America, except that any moneys invested as hereafter authorized need not be so secured.

The moneys in the Construction Fund shall be disbursed solely in payment of the cost of the construction, paying necessary expenses incidental thereto and paying expenses of issuing the bonds. Disbursements shall be on the basis of checks which must be signed by the Mayor, and in the case of all items of expense over which the consulting engineers (the "Engineers") shall exercise supervision (which shall include all expenses except engineering fees, legal fees and expenses pertaining to the issuance of the bonds) each check shall be accompanied by a certificate signed by the Engineers (or by a representative thereof designated by the Engineers), certifying approval thereof. The City shall keep records as to all payments made from the Construction Fund.

When the construction shall have been completed, this fact shall be evidenced by the filing with the depository in which the Construction Fund is deposited of a certificate signed by the Mayor and the Engineers, which certificate shall state the date of such completion and shall state that all obligations which are payable from the Construction Fund have been discharged. Upon receipt of the above certificate the depository with which the Construction Fund is deposited shall pay or transfer any remaining balance into the Bond Fund, where it shall be applied immediately to prepayment of the bond in multiples of \$1,000 in principal amount. Any remaining balance of less than \$1,000 shall be deposited in the debt service reserve in the Bond Fund. The City shall require the depository to execute an appropriate deposit agreement embodying the substance of the provisions of this Section.

Section 21. (a) Moneys held for the credit of the Construction Fund shall, as nearly as may be practicable, be continuously invested and reinvested in direct obligations of, or obligations the principal of and interest on which are fully guaranteed by, the United States Government ("Government Obligations") or other investments authorized by State law, which mature not later than the date or dates when the moneys will be needed for proper disbursements.

(b) Moneys held for the credit of the debt service reserve in the Bond Fund shall be continuously invested and reinvested in Government Obligations or other investments authorized by State law, which mature not later than ten (10) years after the date of investment.

(c) Moneys held for the credit of any other fund may, at the option of the City, be invested and reinvested by the City in Government Obligations or other investments authorized by State law, which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the date or dates when the moneys held for the credit of the particular fund will be required for the purpose intended.

(d) Obligations purchased as an investment of moneys in any fund shall be deemed a part of the fund, and the interest accruing thereon and any profit realized from such investment shall be credited to the fund, and any loss resulting from the investment shall be charged to such fund. Earnings on moneys in the debt service reserve which cause the required level to be exceeded shall be transferred to the Bond Fund and used as a credit against the next monthly payment from the Revenue Fund.

(e) Moneys invested in Government Obligations or other investments authorized by State law need not be secured by the depository bank.

Section 22. The City covenants and agrees that it will maintain the System in good condition and operate it in an efficient manner and at reasonable cost. While the bond is outstanding, the City agrees that it will insure, and at all times keep insured, in the amount of the actual value thereof, in a responsible insurance company or companies authorized and qualified under the laws of the State to assume the risk thereof, major items of machinery and equipment, pumps, electrical items and all above-ground structures of the System (except reservoirs, standpipes and elevated tanks and other structures built entirely of combustible materials if such structures are not normally insured) against loss or damage thereto from fire, and other risks covered by extended property insurance. Flood insurance will be maintained on any structure located in a flood plain other than intake structures and lines. In the event of loss, the proceeds of such insurance shall be applied solely toward the reconstruction, replacement or repair of the System, and in such event the City will, with reasonable promptness, cause to be commenced and completed the reconstruction, replacement and repair work. If such proceeds are more than sufficient for such purposes, the balance remaining shall be deposited to the credit of the Revenue Fund, and if such proceeds shall be insufficient for such purposes, the deficiency shall be supplied, first, from moneys in the Depreciation Fund, second, from moneys in the Operation and Maintenance Fund, and third, from available moneys in the Revenue Fund. Nothing herein shall be construed as requiring the City to expend any funds for reconstruction, replacement or repair of the System or for operation and maintenance of the System or for premiums on its insurance which are derived from sources other than insurance proceeds or Revenues, but nothing herein shall be construed as preventing the City from doing so.

Section 23. The City will keep proper records, books and accounts relating to the Revenues and the operation of the System, which shall be kept separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the operation of the System and the Revenues. Such books shall be available for inspection by the Owner, or the agent or the representative of the Owner, at reasonable times and under reasonable circumstances.

The City shall submit an annual financial report at the end of each fiscal year. The annual report will be certified by the Mayor and will consist of financial information and a rate schedule. Financial statements must be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and must include, at a minimum, a balance sheet and income and expense statement. The annual report will include separate reporting for each water and wastewater facility, and itemize cash accounts by type (debt service, short-lived assets, etc.) under each facility. The City shall retain all records, books and supporting material for three years after the issuance of the annual report.

If an audit is required, the City must enter into a written agreement with the auditor and submit a copy to the Government prior to advertisement of bids. The audit agreement may include terms and conditions that the City and auditor deem appropriate; however, the agreement should include the type of audit or financial statements to be completed, the time frame in which the audit or financial statements will be completed, what type of reports will be generated from the services provided and how irregularities will be reported.



All audits are to be performed in accordance with 2 CFR Part 200, as adopted by the Government through 2 CFR Part 400. It is not intended that audits be separate and apart from audits performed in accordance with State and local laws. To the extent feasible, the audit work should be done in conjunction with those audits. The audit must be prepared by an Accountant, or a State or federal auditor if allowed by State law, and must be submitted within 9 months after the end of the fiscal year.

If the City expends \$750,000 or more in federal financial assistance per fiscal year, an annual audit under the Single Audit Act is required. The total federal funds expended from all sources shall be used to determine federal financial assistance expended. Expenditures of interim financing are considered federal expenditures.

If the City expends less than \$750,000 in federal financial assistance per fiscal year and has an outstanding loan balance with the Government of less than \$1,000,000, the City may submit financial statements in lieu of an audit which include at a minimum a balance sheet and an income and expense statement. The City may use Form RD 442-2, "Statement of Budget, Income and Equity," and Form RD 442-3, "Balance Sheet," or similar format to provide the financial information. The financial statements must be signed by the Mayor and submitted within 60 days after the end of the fiscal year.

Thirty days prior to the beginning of each fiscal year after the System commences operations, the City shall submit an annual budget and projected cash flow to the Owner. With the submission of the annual budget, the City must provide a current rate schedule, a current listing of the aldermen and their terms. The budget must be signed by the Mayor. Form RD 442-2 or similar format may be used.

Section 24. The provisions of this Ordinance shall constitute a binding contract between the City and the Owner, and the City will at all times strictly adhere to the terms and provisions hereof and fully discharge all of its obligations hereunder. However, the Owner may, from time to time, approve the adoption of supplemental ordinances for the purpose of amending or rescinding any of the terms or provisions contained in this Ordinance or in any supplemental ordinance.

Section 25. In the event the office of Mayor, City Recorder, City Treasurer or City Council shall be abolished, or any two or more of such offices shall be merged or consolidated, or in the event the duties of a particular office shall be transferred to another office or officer, or in the event of a vacancy in any such office by reason of death, resignation, removal from office or otherwise, or in the event any such officer shall become incapable of performing the duties of his office by reason of sickness, absence from the City or otherwise, all powers conferred and all obligations and duties imposed upon such office or officer shall be performed by the office or officer succeeding to the principal functions thereof, or by the office or officer upon whom such powers, obligations and duties shall be imposed by law. In this regard, if the City should ever fail to maintain the office of Treasurer, the duties of the Treasurer hereunder shall be performed by the City Recorder.

Section 26. This Ordinance shall not create any right of any kind, and no right of any kind shall arise hereunder pursuant to it, until the bonds authorized by this Ordinance shall be issued and delivered.

Section 27. The owner or owners of the temporary bonds shall have all rights of the Owner of the bond hereunder while the temporary bonds are outstanding.

Section 28. The provisions of this Ordinance are hereby declared to be separable, and if any provision shall for any reason be held illegal or invalid, it shall not affect the validity of the remainder of this Ordinance.

Section 29. Any references in this Ordinance to "holder," "Owner" or "bondholder" shall, when appropriate, be deemed to include the registered owner of the bond.

Section 30. All ordinances and resolutions and parts thereof in conflict herewith are hereby repealed to the extent of such conflict.

PASSED: August 20, 2018.

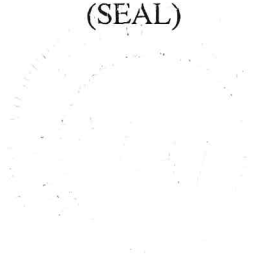
APPROVED:

ATTEST:

  
\_\_\_\_\_  
City Recorder

  
\_\_\_\_\_  
Mayor

(SEAL)



CERTIFICATE

The undersigned, City Recorder of the City of Bull Shoals, Arkansas, hereby certifies that the foregoing pages are a true and perfect copy of Ordinance No. 2018-05, adopted at a special session of the City Council of the City of Bull Shoals, Arkansas, held at the regular meeting place in said City at 6:30 o'clock p.m., on the 20th day of August, 2018, and that the Ordinance is of record in Ordinance Record Book of the City now in my possession.

GIVEN under my hand and seal on this 20th day of August, 2018.

Lina M. Bailey  
City Recorder

(SEAL)

PROOF OF POSTING OF ORDINANCE

STATE OF ARKANSAS

COUNTY OF MARION

We, the Mayor and City Recorder, respectively, of and for the City of Bull Shoals, Marion County, Arkansas (the "City"), hereby certify that a certified copy of Ordinance No. 2018-05 (the "Bond Ordinance") was on August 21, 2018, posted in the following places inside the corporate limits of the City: Harp's Food Store, First Security Bank, Arvest Bank, City Hall and Meeting Place, and that the Bond Ordinance remained posted for thirty (30) days. We further certify that there is no newspaper published within the corporate limits of the City.

DATED this 24th day of September, 2018.

  
\_\_\_\_\_  
Mayor

  
\_\_\_\_\_  
City Recorder

(SEAL)

