

MASTER INDENTURE OF TRUST

between

**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

and

**NORWEST BANK MINNESOTA, N.A.
as Trustee**

Dated as of April 1, 1998

**Relating to
District of Columbia Water and Sewer Authority
Public Utility Revenue Bonds**

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Exhibit A List of District General Obligation Bonds
Exhibit B Form of Requisition

THIS MASTER INDENTURE OF TRUST dated as of the 1st day of April, 1998, by and between the District of Columbia Water and Sewer Authority (the "Authority") an independent authority of the District of Columbia government (the "District"), and Norwest Bank Minnesota, N.A. a national banking association, as trustee (in such capacity, together with any successor in such capacity, herein called the "Trustee"), provides:

WHEREAS, pursuant to the Water and Sewer Authority and Department of Public Works Reorganization Act of 1996, D.C. Code Ann. Sections 43-1661 et seq., as amended (the "WASA Act"), and the "District of Columbia Water and Sewer Authority Act of 1996," Pub. L. No. 104-184, the Authority is authorized to issue its revenue bonds for the purpose of financing the Cost of the System, within the meaning of the WASA Act; and

WHEREAS, the Authority now intends to issue its public utility revenue bonds (the "Bonds") in several series (each a "Series of Bonds") to finance certain Costs of the System, which Bonds shall be secured by a pledge of Net Revenues; and

WHEREAS, each Series of Bonds shall be issued pursuant to a Supplemental Indenture which will provide for the terms for such Series of Bonds; and

WHEREAS, the Authority also is authorized to issue Other System Indebtedness and Subordinate Debt, as those terms are defined herein, to finance certain Costs of the System; and

WHEREAS, the Trustee agrees to accept and administer the trusts created hereby;

NOW, THEREFORE, THIS INDENTURE FURTHER WITNESSETH: In consideration of the premises, the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of each Series of Bonds, and Subordinate Debt issued hereunder, by the holders thereof, and for the purpose of fixing and declaring the general terms and conditions upon which the Bonds and Subordinate Debt issued hereunder, are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and to secure the payment of each Series of Bonds, and Subordinate Debt issued hereunder, at any time issued and Outstanding hereunder and the interest and premium, if any, thereon according to their tenor, purport and effect, and to grant certain rights to the applicable holders of Other System Indebtedness and credit enhancers, if any, as hereinafter defined, and to secure the performance and observance of all of the covenants, agreements and conditions contained in such Bonds, Subordinate Debt, Other System Indebtedness or credit enhancement agreements and herein, the Authority has executed this Indenture and does hereby grant a security interest in, assign, transfer, pledge and grant and convey unto the Trustee and its successors and assigns forever, on the terms set forth herein, for the benefit of the holders of the Indebtedness and credit enhancers, if any, until the applicable credit enhancement is no longer outstanding and no amounts are due under the related documents, the following property:

A. Amounts on deposit from time to time, and any investment earnings thereon, in the Bond Fund and Debt Service Reserve Fund (with respect to related Senior Debt), in the Subordinate Bond Fund and the Subordinate Debt Service Reserve Fund (with respect to related

Subordinate Debt) and any other funds and accounts created pursuant hereto, including the earnings thereon, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein; provided, however, that there expressly is excluded from any pledge, assignment, lien or security interest created by this Indenture any amount on deposit in the Operating Fund;

B. Amounts constituting Net Revenues pledged pursuant to Section 609;

C. Any and all other property of any kind from time to time hereafter by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security hereunder for the Bonds, by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof; and

D. All right, title and interest of the Authority owned or hereafter acquired in and to proceeds from the sale of Bonds or Subordinate Debt issued hereunder required to be deposited in the Construction Account pursuant to the provisions of this Indenture (except as limited by the following provisos) and all right, title, and interest in and to the investments held in the Construction Account (except as limited by the following provisos) pursuant to the provisions of this Indenture; provided, however, that the Authority may establish one or more separate accounts in the Construction Account to be funded with proceeds of any particular Series of Bonds or Subordinate Debt issue, which accounts and the proceeds of the particular Series of Bonds deposited therein (together with all investments thereof and investment income earned thereon) may be pledged solely to the payment of one or more designated Series of Bonds or Subordinate Debt issue for any designated periods, or otherwise, all as permitted in Section 5.02 hereof and as shall be more fully provided in any Supplemental Indenture with respect to the proceeds of the Series of Bonds or Subordinate Debt issued thereunder;

TO HAVE AND TO HOLD all said properties pledged, assigned and conveyed by the Authority hereunder, including all additional property which by the terms hereof has or may become subject to the encumbrance hereof, unto the Trustee and its successors in trust and its assigns forever, subject, however, to the rights reserved hereunder;

TO HAVE AND TO HOLD IN TRUST upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders from time to time of all Senior Debt issued hereunder or under other documents and secured by this Indenture, without privilege, priority or distinction as to lien or otherwise of any of the Senior Debt over any of the others except as otherwise provided herein, and on a basis subordinate and junior thereto, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders and related credit enhancer from time to time of all Subordinate Debt issued hereunder or under other documents and secured by this Indenture, without privilege, priority or distinction as to lien or otherwise of any of the Subordinate Debt over any of the others except as otherwise provided herein;

PROVIDED, HOWEVER, that if the Authority shall pay fully and promptly when due all liabilities, obligations and sums at any time secured hereby or provide for the payment thereof in accordance with the provisions hereof, and shall promptly, faithfully and strictly keep, perform and observe, or cause to be kept, performed and observed, all of its covenants, warranties and agreements contained herein and in the related documents, then and in such event, this Indenture shall be and become void and of no further force and effect; otherwise, the same shall remain in full force and effect, and upon the trusts and subject to the covenants and conditions hereafter set forth.

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 101. Definitions.

The following words as used in this Indenture shall have the following meanings unless a different meaning clearly appears from the context:

"Account" shall mean any of the various Accounts, sometimes created within a fund, under this Indenture.

"Annual Budget" shall mean the budget by that name referred to in Section 602.

"Annual Debt Service" shall mean the amount of payments required to be made for principal of and interest on any specified Indebtedness, including mandatory sinking fund redemptions, and payments pursuant to agreements with providers of credit enhancement, liquidity support with respect to such Indebtedness, to reimburse such providers for debt service payments made, with respect to such Indebtedness, scheduled to come due within a specified Fiscal Year, but excluding any capitalized interest funded from proceeds of Bonds. For purposes of calculating Annual Debt Service, the following assumptions are to be used to calculate the principal and interest due in such specified Fiscal Year:

(a) In determining the principal amount due in the Fiscal Year, payment shall be assumed to be made in accordance with any amortization schedule established for such Indebtedness (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization), including any scheduled redemption of such specified Indebtedness on the basis of accreted value and, for such purpose, the redemption payment shall be deemed a principal payment;

(b) If any of the specified Indebtedness constitutes Tender Indebtedness, then Annual Debt Service on the options or obligations of the holders of such Indebtedness to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Indebtedness may or are required to tender such Indebtedness, except that any such option or obligation to tender Indebtedness shall be ignored and not treated as a principal maturity if (1) such Indebtedness is rated at least in the

"A" rating category (without regard to any rating refinement or gradation by numerical modifier or otherwise) by a Rating Agency, or such Indebtedness is rated in the two highest short-term note or commercial paper rating categories by a Rating Agency, and (2) any obligation the Authority may have, other than its obligation on such Indebtedness, to reimburse any provider of a credit or liquidity facility or a bond insurance policy, or similar arrangement, shall either be subordinated to the obligation of the Authority on such Indebtedness or shall have been incurred under and shall have met the tests and conditions for the issuance of such specified Indebtedness set forth in this Indenture;

(c) If any of the specified Indebtedness constitutes Variable Rate Indebtedness, the interest rate on such Indebtedness shall be assumed to be 100% of the greater of (1) the daily average interest rate on such Indebtedness during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Indebtedness shall have been Outstanding or (2) the rate of interest on such Indebtedness on the date of calculation; provided that, with respect to any Variable Rate Indebtedness which is being issued on the date of computation, the initial rate of such indebtedness upon such issuance shall be used;

(d) If any of the specified Indebtedness constitutes Balloon Indebtedness, then, for purposes of determining the annual amount payable on account of principal of and interest on such Indebtedness, such Indebtedness that is or would be Balloon Indebtedness shall be treated as if the principal amount of such Indebtedness were to be amortized in substantially equal annual installments of principal and interest over the lesser of a term of 30 years or the actual term of the Indebtedness; and the interest rate used for such computation shall be the rate quoted in the 30-year revenue bond index, or revenue bond index related to the actual term of the Indebtedness, as applicable, published by The Bond Buyer no more than two weeks prior to the date of calculation, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Indebtedness on the date of issuance, or if there are no such Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States of America ranked by assets;

(e) Indebtedness that is no longer Outstanding shall be disregarded and not included in the calculation of Annual Debt Service;

(f) For any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of the annual amount payable on account of principal and interest on such Indebtedness shall, at the option of the Authority, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement, provided that such credit arrangement is rated at least in the "A" rating category (without regard to any rating refinement or gradation by numerical modifier or otherwise) by a Rating Agency, or rated in the highest short term category by a Rating Agency; and

(g) Except for Hedge Agreements, Interest Rate Swaps are to be disregarded in calculating the Series Debt Service Reserve Requirement. Upon incurrence of a Hedge Agreement, all calculations, including for the annual amount on account of principal and interest on Indebtedness subject to the Hedge Agreement, shall be made using the Hedge Fixed Rate for the applicable period and such Indebtedness shall not be considered as Variable Rate Indebtedness for such period.

"Authority" shall mean the District of Columbia Water and Sewer Authority, an independent authority of the District.

"Authorized Representative of the Authority" shall mean such person or persons as may be designated to act on behalf of the Authority by a certificate executed by the Board Chairman and on file with the Trustee.

"Balloon Indebtedness" shall mean indebtedness having a term of longer than 60 months and 25% or more of the principal of which matures on the same date and which portion of the principal of such indebtedness is not required to be amortized by payment or redemption prior to such date. If any indebtedness consists partially of Variable Rate Indebtedness and partially of indebtedness bearing interest at a fixed rate, the portion constituting Variable Rate Indebtedness and the portion bearing interest at a fixed rate shall be treated as separate issues for purposes of determining whether any such indebtedness constitutes Balloon Indebtedness.

"Board of Directors" shall mean the board of directors that was established to govern the Authority pursuant to Section 43-1674 of the WASA Act.

"Bond Anticipation Notes" shall mean any notes issued in anticipation of the issuance of Bonds.

"Bond Counsel" shall mean an attorney or firm of attorneys nationally recognized on the subject of municipal bonds.

"Bond Fund" shall mean the Bond Fund established in Section 603.

"Bondholders" or **"holders"** of Bonds shall mean the registered owners of Bonds.

"Bonds" shall mean any bonds, notes or other obligations issued from time to time pursuant to Article III, including Bond Anticipation Notes, but not including Other System Indebtedness and Subordinate Debt.

"Business Day" shall mean a day on which banking business is transacted, but not including a Saturday, Sunday or legal holiday, or any day on which banking institutions are authorized by law to close in the city in which the Trustee has its principal corporate trust office or in the District of Columbia.

"Cash Reserve Requirement" shall mean those certain balances required to be maintained by the Authority pursuant to the annual credit policies established by the Authority.

"Code" shall mean the Internal Revenue Code of 1986, as amended, including applicable regulations, rulings and revenue procedures promulgated or applicable thereunder.

"Connection Fees" shall mean all nonrecurring fees that the Authority collects from developers, builders or others (1) to compensate the Authority for providing System capacity, and (2) to connect facilities related to installation of and expansion to the System.

"Contracted Services" shall mean (a) services rendered or facilities provided to the Authority in respect to the System or (b) the performance of functions for or on behalf of the Authority that are similar to those performed by the System, from a specific project or system, pursuant to a contract, lease, service agreement or another similar arrangement. No designation or characterization of payments pursuant to the terms of a particular Service Contract will affect the Authority's right to make designations as to the Debt Service Component, Operating Component and Remaining Component of the Cost of Contracted Services thereunder.

"Construction Account" shall mean the Construction Account established in Section 501.

"Construction Fund" shall mean the Construction Fund established in Section 501.

"Consulting Engineer" shall mean (a) an Independent Consulting Engineer or (b) the designated person(s) within the Authority or of any successor department who is (1) an engineer experienced in the field of water or wastewater or stormwater (as appropriate), and (2) licensed and registered as a professional engineer in the District.

"Cost" shall mean Cost as set forth in Section 502.

"Cost of Contracted Services" shall mean the payments to be made by the Authority for Contracted Services under service contracts as set forth in Section 812, which may consist of any of the following three components: a Debt Service Component, an Operating Component, and a Remaining Component, as designated by the General Manager or his designee for each Service Contract.

"Debt Service Component" shall mean the portion of the Cost of Contracted Services that an Authorized Representative of the Authority determines, in a certificate delivered to the Trustee, to be for the purpose of paying a fixed charge or the principal of or interest on the obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

"Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund established in Section 603.

"District General Obligation Bonds" shall mean the bonds listed on Exhibit A attached hereto and made a part hereof.

"District MOU relating to the Payment of General Obligation Debt" shall mean the Memorandum of Understanding between the Chief Financial Officer of the District of Columbia and the Authority dated as of March 23, 1998.

"District MOU relating to the PILOT" shall mean the Memorandum of Understanding between the Office of the Chief Financial Officer of the District of Columbia and the Authority dated as of January 29, 1998.

"EPA Grants" shall mean grants provided by the Environmental Protection Agency for the construction of water and wastewater projects.

"EPA Grant Account" shall mean the EPA Grant Account established in Section 501.

"Event of Default" shall mean any of the events enumerated in Section 901.

"Fiscal Year" shall mean the twelve-month period beginning on October 1 of one year and ending on September 30 of the following year, or such other fiscal year of twelve months as may be selected by the Authority.

"Fitch" shall mean Fitch IBCA, Inc. or its successors.

"Government Certificates" shall mean certificates representing proportionate ownership of Government Obligations, which Government Obligations are held by a bank or trust company organized under the laws of the United States of America or any of its states in the capacity of custodian of such certificates.

"Government Obligations" shall mean (a) bonds, notes and other direct obligations of the United States of America, (b) securities unconditionally guaranteed as to the timely payment of principal, if applicable, and interest by the United States of America, or (c) bonds, notes and other obligations of any agency of the United States of America unconditionally guaranteed as to the timely payment of principal and interest by the United States of America.

"Hedge Agreement" shall mean an Interest Rate Swap, cap, collar, floor, forward or other hedging agreement, arrangement or security however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any Indebtedness where (a) interest on such Indebtedness or such portion of such Indebtedness is payable at a variable rate of interest for any future period of time or is calculated at a varying rate per annum, and (b) a fixed rate is specified by the Authority in such agreement, or such Indebtedness, taken together with such agreement, results in a net fixed rate payable by the Authority for such period of time (the "Hedge Fixed Rate"), assuming the Authority and the party(ies) with whom the Authority has entered into the agreement make all payments required to be made by the terms of the agreement (the "Hedge Party"), provided that no such agreement may be entered into by the Authority unless any termination or similar payment which may be payable by the Authority thereunder is expressly subordinated to the obligation of the Authority on the Indebtedness, and such Hedge Party or guarantor of the Hedge Agreement have a long term credit rating at least in the "AA" rating category (without regard to

any rating refinement or gradation by numerical modifier or otherwise) by a Rating Agency. If the rating of such Hedge Party or guarantor of the Hedge Agreement is lowered, such Hedge Agreement shall no longer constitute a "Hedge Agreement" hereunder.

"IMA Capital Payments" shall mean the payments made to the Authority for shared capital costs of the wastewater portion of system by the signatories to the Blue Plains Intermunicipal Agreement of 1985.

"Indebtedness" shall mean Senior Debt and Subordinate Debt.

"Indenture" shall mean this Master Indenture of Trust as supplemented or amended by one or more Supplemental Indentures.

"Independent Consulting Engineer" shall mean an independent engineer, who is not an employee of the Authority, experienced in the field of water, wastewater or stormwater (as appropriate) and licensed and registered as a professional engineer in the District.

"Interest Account" shall mean the Interest Account in the Bond Fund established in Section 603.

"Interest Rate Swap" shall mean a contract pursuant to which a party (the "Counterparty") has agreed to make payments to the Authority during a particular period equal to the interest payable on specified Indebtedness or on a specified nominal amount at the actual rate or rates or, if on a nominal amount at a stated rate or rates, payable thereon and, in consideration therefor, the party obligated on the Indebtedness or otherwise executing the agreement agrees to make payments to the Counterparty equal to the interest required to be paid on the specified Indebtedness or stated to be due on the nominal amount during the period calculated as if the specified Indebtedness or nominal amount bore an assumed rate of interest specified in the contract.

"Master Indenture of Trust" shall mean this Master Indenture of Trust dated as of April 1, 1998 between the Authority and the Trustee.

"Moody's" shall mean Moody's Investors Service, New York, New York, or its successors.

"Net Proceeds" shall mean the gross proceeds from any insurance recovery or recovery in any condemnation proceeding remaining after payment of attorneys' fees, fees and all other expenses incurred in collection of such gross proceeds.

"Net Revenues" shall mean Revenues less Operating Expenses.

"Operating Component" shall mean the portion of the Cost of Contracted Services (excluding any Debt Service Component) reasonably determined by an Authorized Representative of the Authority, in a certificate delivered to the Trustee from time to time, to be directly or indirectly attributable to the portion of the Costs of Contracted Services that

represents operating expense for the provision of the Contracted Services; provided, however, if no such determination is made, all of the Cost of Contracted Services (excluding any Debt Service Component) will be treated as Operating Component.

"Operating Expenses" shall mean all current expenses directly or indirectly attributable to the ownership or operation of the System, including reasonable and necessary usual expenses of administration, operation, maintenance and repair, costs for billing and collecting the rates, fees and other charges for the use of or the services furnished by the System, the cost of purchased water, amounts to reimburse the Authority for administrative expenses incurred in connection with the System, insurance and surety bond premiums, credit enhancement and liquidity support fees, legal, engineering, auditing and financial advisory expenses, expenses and compensation of the Trustee, and deposits into a self-insurance program as described in Section 808. Operating Expenses shall not include any payments in lieu of taxes or allowance for depreciation and amortization. Operating Expenses shall also exclude expenses which constitute extraordinary, nonrecurring and non-continuing expenses of the System in the written opinion of the Qualified Independent Consultant.

"Operating Fund" shall mean the Operating Fund established in Section 603.

"Operating Reserve Fund" shall mean the Operating Reserve Fund established in Section 603.

"Operating Reserve Requirement" shall mean an amount equal to 60 days of Operating Expenses based on the Operating Expenses relating to the Fiscal Year prior to such calculation, or an amount determined by a Qualified Independent Consultant.

"Opinion of Counsel" shall mean an opinion of any attorney or firm of attorneys acceptable to the Trustee, who may be counsel for the Authority but shall not be an employee of either the Authority or the Trustee.

"Other System Indebtedness" shall mean (a) any Debt Service Component that the Authority is required, or has elected, to treat as payable on a parity with the Bonds with respect to the pledge of Net Revenues, and (b) any other Indebtedness incurred by the Authority pursuant to Section 304 that the Authority is required, or has elected, to treat as payable on a parity with the Bonds with respect to the pledge of Net Revenues, including but not limited to the Treasury Loans.

"Outstanding" shall mean, when used as descriptive of obligations, that such obligations have been authorized, issued, authenticated and delivered under this Indenture or a different document and have not been canceled or surrendered to the Trustee or a comparable trustee for cancellation, deemed to have been paid as provided in Article XII, have had other obligations issued in exchange therefor or had their principal become due and moneys sufficient for their payment deposited with the Trustee as provided in Section 209, or, for Indebtedness other than Bonds or Subordinate Debt issued hereunder, otherwise so treated under comparable issuance documents.

In determining whether holders of a requisite aggregate principal amount of the Outstanding Indebtedness have concurred in any request, demand, authorization, direction, notice, consent or waiver under this Indenture or other documents, words referring to or connoting "principal of" or "principal amount of" Outstanding Indebtedness shall be deemed also to be references to, to connote and to include the accreted value of Indebtedness of any Series as of the immediately preceding interest compounding date for such Indebtedness. Indebtedness that are owned by the Authority shall be disregarded and deemed not to be Outstanding for the purpose of any such determination.

"Payments in Aid of Construction Account" shall mean the Payments in Aid of Construction Account established in Section 501.

"Permitted Investments" shall mean: (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including certificates or other instruments evidencing ownership interests in such direct obligations of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (ii) obligations issued or guaranteed by Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Banks, Government National Mortgage Association, Federal National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; or by any agency, department or instrumentality of the United States if such obligations are rated in one of the two highest rating categories by Fitch, S&P and Moody's if in any such case the timely payment of principal and interest on such obligations is backed by the full faith and credit of the United States of America; (iii) investment agreements meeting the investment criteria issued by a credit enhancer; (iv) interest-bearing bankers acceptances or certificates of deposit of, or time deposits in any bank (including the Trustee), lead bank of a parent holding company, or any savings and loan associations whose unsecured obligations are rated in one of the two highest rating categories by Fitch, S&P and Moody's, provided such deposits are either (a) secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (i) or (ii) of this definition) of a market value of no less than the amount of moneys so invested or (b) fully insured by the Federal Deposit Insurance Corporation; (v) repurchase agreements which satisfy the following criteria: (a) repurchase agreement which provide for the transfer of securities from dealer banks or securities firms to the Trustee or its agents, and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date; (b) repurchase agreement must be between the Trustee and a dealer bank or securities firm which are either a primary dealer on the Federal Reserve reporting dealer list or a bank rated A or above by Fitch, S&P and Moody's; (c) the written repurchase agreement must include the following terms: (1) securities which are acceptable for transfer are (A) direct United States government obligations, or (B) obligations of federal agencies backed by the full faith and credit of the United States government; (2) with respect to control of the collateral, if the dealer bank or securities firm supplied the collateral pursuant to the repurchase agreement, it may not retain possession of such collateral and the collateral must be delivered to the Trustee (unless the Trustee is supplying the collateral) or a

third party acting as agent for the Trustee before or simultaneous with payment; and (3) the securities must be valued weekly, marked-to-market at current market price plus accrued interest, the value of collateral must be equal to 102% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest and if the value of securities held as collateral is less than 102% of the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred; and (d) to the extent required by a credit enhancer, an opinion of Bond Counsel, to the effect that such repurchase agreements are obligations in which public funds are permitted to be invested under District law, shall be delivered to the Trustee, with a copy to the Bond Insurer; (vi) commercial paper of "prime" quality of the highest ranking or the highest rating category as provided by Fitch, S&P and Moody's; (vii) obligations the interest on which is exempt from federal income taxation and which, if rated by the Rating Agencies are rated by Fitch, Moody's and S&P in one of the two highest rating categories of such rating agencies; and (viii) a time deposit account drawn on the Trustee for amounts whose aggregation is less than \$5,000; (ix) mutual funds, including any such fund of the Trustee or any affiliate of the Trustee, which invest exclusively in any investment described in clauses (i) through (viii) otherwise left uninvested in the funds; and (x) Federally tax-exempt bonds which are not subject to the AMT for individuals and subject to a put option at par at least semi-annually and rated at least "double-A" by Moody's Investors Service, Standard & Poor's or Fitch IBCA and in the highest short-term rating category by such rating agency.

"Principal Account" shall mean the Principal Account in the Bond Fund established in Section 603.

"Qualified Independent Consultant" shall mean an independent professional consultant having the skill and experience necessary to provide the particular certificate, report or approval required by the provision of this Indenture or any Supplemental Indenture in which such requirement appears, including an Independent Consulting Engineer and an independent certified public accountant.

"Rate Covenant" shall mean the obligation of the Authority to fix, charge, collect and revise rates, fees and other charges for the use of and the services furnished by the System sufficient to meet the requirements of Section 601(a).

"Rate Stabilization Fund" shall mean the fund so designated which is established pursuant to Section 603 hereof.

"Rating Agency" or **"Rating Agencies"** shall mean Fitch, Moody's or Standard & Poor's, or any of them, and their successors. The Authority may seek a rating from any other nationally recognized securities rating agency.

"Remaining Component" shall mean the portion of the Cost of Contracted Services which is not embraced in the definition of Debt Service Component or Operating Component.

"Reserve Determination Date" shall mean (a) each interest payment date for the Bonds, or (b) any other date established in writing by an Authorized Representative of the Authority for the valuation of obligations on deposit in any Series Debt Service Reserve Account.

"Renewal and Replacement Reserve Fund" shall mean the Renewal and Replacement Reserve Fund established in Section 603

"Renewal and Replacement Reserve Requirement" shall mean an amount equal to 2% of the original cost value of plant in service or such other amount as determined by a Qualified Independent Consultant, which such amount shall be subject to approval by the Board of Directors.

"Revenues" shall mean all moneys received as income, rates, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership and operation of the System, and for the use of and for the services furnished by the System, including Connection Fees, transfers from the Rate Stabilization Fund to the Revenue Fund, proceeds of any business interruption insurance, and investment earnings on all of the funds held by the Trustee hereunder and the Authority, except any rebate fund that may be created hereunder. Revenues shall not include refundable customer deposits, the IMA Capital Payments or other payments solely in aid of construction, the EPA Grants or similar payments, or the proceeds resulting from the sale of all or a portion of the System. For purposes of determining the total amount of Revenues in any year, there shall be deducted an amount equal to the amount transferred from the System Fund to the Rate Stabilization Fund pursuant to Section 604.

"Senior Debt" shall mean Bonds and Other System Indebtedness.

"Series" or "Series of Bonds" shall mean a separate series of Bonds issued under this Indenture and a Supplemental Indenture.

"Series Debt Service Reserve Requirement" for any Series of Bonds shall have the meaning set forth in the Supplemental Indenture authorizing such Series of Bonds.

"Service Contracts" shall mean any contracts or agreements for Contracted Services entered into by the Authority from time to time.

"Sinking Fund Account" shall mean the Sinking Fund Account in the Bond Fund created in Section 603.

"Standard and Poor's" shall mean Standard & Poor's Rating Group, a Division of McGraw-Hill, Inc., New York, New York, or its successors.

"Subordinate Bond Fund" shall mean the Subordinate Bond Fund created in Section 603.

"Subordinate Debt" shall mean any bonds, notes or other obligations issued in connection with the System (a) which are expected to be paid from Net Revenues and designated

by the Authority as Subordinate Debt, and (b) which have pledged to their payment Net Revenues as a subordinate lien pledge after the pledge of Net Revenues to Senior Debt, including but not limited to any Debt Service Component and Remaining Component that the Authority is required, or has elected, to treat as Subordinate Debt, and the District General Obligation Bonds.

"Subordinate Debt Service Reserve Fund" shall mean the Subordinate Debt Service Reserve Fund created in Section 603.

"Supplemental Indenture" shall mean any Supplemental Indenture supplementing or modifying the provisions of this Indenture entered into by the Authority and the Trustee pursuant to Sections 1001 or 1002.

"System" shall mean all plants, systems, facilities, equipment, real and personal property and tangible and intangible property, together with all future extensions, improvements, enlargements and additions thereto, and all replacements thereof, used, or to be used, in connection with the collection, transmission, treatment and disposal of wastewater and stormwater flow, and the supply, treatment, storage and distribution of water.

"Tender Indebtedness" shall mean any indebtedness a feature of which is an option or obligation on the part of the holders of such indebtedness to tender all or a portion of such indebtedness to a fiduciary for purchase or redemption prior to the stated maturity date of such indebtedness, which may include Variable Rate Indebtedness with such a feature.

"Term Bonds" shall mean any Bonds stated to mature on a specified date and required to be redeemed in part prior to maturity according to a sinking fund schedule.

"Treasury Loans" shall mean those certain obligations of the Authority to make payments related to debt service on certain promissory notes from the Secretary of the Army to the United States Treasury set forth in the Water Sales Agreement, and any future obligations of the Authority to the United States of America consistent therewith.

"Trustee" shall mean Norwest Bank Minnesota, N.A. or its successors serving as such hereunder.

"Trustee's Fees and Expenses" shall mean an initial acceptance fee and an annual administrative fee plus expenses in accordance with an agreement between the Trustee and the Authority, as the same may be renegotiated from time to time.

"Variable Rate Indebtedness" shall mean any indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate, provided that (a) the maximum interest rate on such indebtedness and the maximum rate payable to any liquidity provider with respect to such indebtedness shall be specified at the time of issuance of such indebtedness; (b) any liquidity facility of any liquidity provider shall cause such Indebtedness to be rated by a Rating Agency in one of the two highest short-term rating categories of such Rating Agency; (c) any accelerated principal payments or any interest in excess of the bond interest rate payable to such liquidity provider shall be subordinate to the payment of debt service on Bonds,

and (d) any two or more series of Bonds that are issued on the same date, the interest on which when such series are considered in the aggregate shall be a fixed or constant rate, shall not be considered Variable Rate Indebtedness.

"WASA Act" shall mean the Water and Sewer Authority and Department of Public Works Reorganization Act of 1996, D.C. Code Ann. Sections 43-1661 et seq., as amended.

"Water Sales Agreement" shall mean the Water Sales Agreement dated as of July 31, 1997, between the United States of America, acting through the Secretary of the Army and the Authority.

Section 102. Rules of Construction.

Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Indenture:

- (a) Words importing the singular number shall include the plural number and vice versa.
- (b) Words importing the redemption or calling for redemption of Bonds shall not be deemed to refer to or connote the payment of Bonds at their stated maturity.
- (c) Unless otherwise indicated, all references herein to particular Articles or Sections are references to Articles or Sections of this Indenture.
- (d) The headings herein and Table of Contents to the Indenture are solely for convenience of reference and shall not constitute a part of this Indenture nor shall they affect its meaning, construction or effect.
- (e) All references herein to the payment of Bonds are references to payment of principal of and premium, if any, and interest on Bonds.
- (f) All references herein to the General Manager, Chief Financial Officer and any other officers are references to officers of the Authority.

ARTICLE II

EXECUTION, AUTHENTICATION, DELIVERY REGISTRATION AND FORM OF BONDS

Section 201. Form and Details of Bonds.

Unless otherwise provided in the applicable Supplemental Indenture, the Bonds shall be designated "Public Utility Revenue Bonds," shall bear an appropriate series designation, shall be issuable only as registered Bonds without coupons, in denominations of \$5,000 and multiples thereof, and shall be appropriately numbered. The form, details, delivery and terms of each

Series of Bonds and such other matters as the Board of Directors of the Authority may deem appropriate shall be set forth in the applicable Supplemental Indenture for such Series of Bonds. Principal, premium, if any, and interest shall be payable in lawful money of the United States of America.

Section 202. Execution of Bonds.

Unless otherwise provided in the applicable Supplemental Indenture, the Bonds shall be signed by the manual or facsimile signature of the General Manager and the Chief Financial Officer, and the Authority's seal shall be affixed thereto or a facsimile thereof printed thereon, attested by the manual or facsimile signature of the Secretary of the Authority. In case any officer whose signature or a facsimile of whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery. Any Bond may bear the facsimile signature of or may be signed by such persons as at the actual time of the execution thereof shall be the proper officers to sign such Bond although at the date of such Bond such persons may not have been such officers.

Section 203. Authentication of Bonds.

Unless otherwise provided in the applicable Supplemental Indenture, the Bonds shall bear a certificate of authentication and shall not be valid until the Trustee shall have executed the certificate of authentication and inserted the date of authentication thereon. The Trustee shall authenticate each Bond with the signature of an authorized officer or employee, but it shall not be necessary for the same person to authenticate all of the Bonds or all of the Bonds of any Series. Only such authenticated Bonds shall be entitled to any right or benefit under this Indenture, and such certificate on any Bond issued hereunder shall be conclusive evidence that the Bond has been duly issued and is secured by the provisions hereof.

Section 204. Registration and Transfer of Bonds; Persons Treated as Owners.

(a) All Bonds issued under this Indenture shall be negotiable, subject to the provisions for registration and registration of transfer thereof contained herein or in the Bonds.

(b) The Trustee shall maintain registration books with respect to each Series of Bonds at the offices of the Trustee and shall provide for the registration and registration of transfer of any Bond of such Series under such reasonable regulations as the Trustee may prescribe. The Trustee shall maintain books for purposes of exchanging and registering Bonds in accordance with the provisions hereof.

(c) Each Bond of a Series shall be registered or registered for transfer only upon the registration books maintained by the Trustee, by the Bondholder thereof in person or by his attorney duly authorized in writing, upon presentation and surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered Bondholder or his duly authorized attorney. Upon surrender for registration of transfer of any such Bond, the Authority shall cause to be executed and the Trustee shall authenticate and

deliver, in the name of the transferee, one or more new Bonds of the same Series, interest rate, maturity, principal amount and date as the surrendered Bond, as fully registered Bonds only.

(d) The Trustee shall treat the registered owner as the person exclusively entitled to payment of principal, premium, if any, and interest and the exercise of all other rights and powers of the owner on the registration books, except that interest payments shall be made to the person shown as owner on the fifteenth day of the month preceding each interest payment date.

Section 205. Exchange of Bonds; Charges for Exchange of Bonds.

Bonds, upon presentation and surrender thereof to the Trustee together with written instructions satisfactory to the Trustee, duly executed by the registered Bondholder or his attorney duly authorized in writing, may be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series and tenor.

Any exchange of Bonds shall be at the expense of the Authority, except that the Trustee may charge the person requesting such exchange the amount of any tax or other governmental charge required to be paid with respect thereto.

Section 206. Temporary Bonds.

Prior to the preparation of Bonds in definitive form, the Authority may issue temporary Bonds in such denominations as the Authority may determine, but otherwise in substantially the form set forth in the applicable Supplemental Indenture, with appropriate variations, omissions and insertions. The Authority shall promptly prepare, execute and deliver to the Trustee before the first interest payment date Bonds in definitive form and thereupon, upon surrender of Bonds in temporary form, the Trustee shall authenticate and deliver in exchange therefor Bonds in definitive form of the same maturity having an equal aggregate principal amount. Until exchanged for Bonds in definitive form, Bonds in temporary form shall be entitled to the lien and benefit of this Indenture.

Section 207. Mutilated, Lost or Destroyed Bonds.

If any Bond has been mutilated, lost or destroyed, the Authority shall cause to be executed, and the Trustee shall authenticate and deliver, a new Bond of like date, number and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such lost or destroyed Bond; provided, however, that the Authority and the Trustee shall so execute and deliver any new Bond only if the holder has paid the reasonable expenses and charges of the Authority and the Trustee in connection therewith and, in the case of a lost or destroyed Bond, (a) has filed with the Authority and the Trustee evidence satisfactory to them that such Bond was lost or destroyed and of his ownership thereof, and (b) has furnished indemnity satisfactory to them. If any such Bond has matured, instead of issuing a new Bond the Trustee may pay the same without surrender thereof.

Section 208. Cancellation and Disposition of Bonds.

All Bonds that have been surrendered for transfer or exchange pursuant to Sections 204 and 205, paid (whether at maturity, by sinking fund redemption, acceleration, call for redemption or otherwise), or delivered by the Authority to the Trustee for cancellation shall not be reissued, and the Trustee shall, unless otherwise directed by the Authority, shred or otherwise dispose of such Bonds. The Trustee shall deliver to the Authority a certificate of any such shredding or other disposition.

Section 209. Non-Presentation of Bonds

(a) If any Bond is not presented for payment when the principal thereof becomes due (whether at maturity, by sinking fund redemption, upon acceleration or call for redemption or otherwise), all liability of the Authority to the holder thereof for the payment of such Bond shall be completely discharged if moneys sufficient to pay such Bond and the interest due thereon shall be held by the Trustee for the benefit of such holder, and thereupon it shall be the duty of the Trustee to hold such moneys, subject to subsection (b) below, without liability for interest thereon, for the benefit of such holder, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on his part under this Indenture or on, or with respect to, such Bond.

(b) Notwithstanding anything in this Indenture to the contrary, any cash, Government Obligations or, if permitted by the laws of the District, Government Certificates deposited with the Trustee for the payment of the principal of, premium, if any, and interest on any Series of Bonds remaining unclaimed for more than one year after the principal of such Series of Bonds has become due and payable shall be paid to the Authority and shall be held by the Authority in trust for the benefit of bondholders in a separate account for seven years and thereafter in the general fund of the Authority. After such moneys have been paid to the Authority, the holders of such Bonds shall be entitled to look only to the Authority, and all liability of the Trustee with respect to such amounts shall cease.

ARTICLE III

ISSUANCE OF BONDS

Section 301. Purposes of Bonds.

Bonds may be issued (a) to pay Costs, (b) to refund any Indebtedness secured by or payable from Net Revenues, including any Bonds, or (c) for a combination of such purposes.

Section 302. Parity of Senior Debt.

This Indenture constitutes a continuing, irrevocable pledge of Net Revenues to secure payment of the principal of, premium, if any, and interest on all Senior Debt that may from time to time be issued and Outstanding. Each Senior Debt issue shall be issued pursuant to a Supplemental Indenture or evidenced by other documents and shall be equally and ratably secured by the pledge of Net Revenues under this Indenture, without preference, priority or distinction; provided, however, that the moneys in any Series Debt Service Reserve Account

shall only secure the applicable Series of Senior Debt, and provided further that any Senior Debt may have additional revenues or other security pledged to its payment. In connection with the issuance of Senior Debt, the Trustee may create additional accounts and subaccounts within any fund or account established by this Indenture. Nothing herein shall be construed, however, as (a) requiring that any Senior Debt bear interest at the same rate or in the same manner as any other Senior Debt, have the same, or an earlier or later, maturity, or be subject to mandatory, optional or extraordinary redemption prior to maturity on the same basis as any other Senior Debt, (b) prohibiting the Authority from entering into financial arrangements designed to assure that moneys will be available for the payment of certain Senior Debt at its maturity, or (c) prohibiting the Authority from pledging moneys or assets of the Authority other than those pledged herein for the benefit of certain Senior Debt.

Section 303. Conditions for Issuing Bonds.

Before the issuance and authentication of any Series of Bonds by the Trustee, the Authority shall file with the Trustee the following:

- (a) In the case of the initial Series of Bonds:
 - (1) An original executed counterpart of this Indenture;
 - (2) A certified copy of a resolution of the Board of Directors of the Authority authorizing the execution and delivery of this Indenture; and
 - (3) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that this Indenture has been duly authorized, executed and delivered to the Trustee and is a valid, binding and enforceable obligation of the Authority.
- (b) An original executed counterpart of a Supplemental Indenture which (1) shall include: (A) provisions authorizing the issuance, fixing the principal amount and setting forth the details of such Bonds, including their date, the interest rate or rates and the manner in which the Bonds are to bear and pay interest, the principal and interest payment dates of the Bonds, the purposes for which such Bonds are being issued, the manner of numbering of such Bonds, the Series designation, the denominations, the maturity dates and principal maturities, the principal amounts required to be redeemed pursuant to any mandatory redemption provisions or the manner for determining such principal amounts, any provisions for optional or extraordinary redemption before maturity, any provisions regarding the Series Debt Service Reserve Account, and whether the interest on such Bonds shall be excluded from gross income for Federal income tax purposes or subject to Federal income taxation; and (B) provisions for the application of the proceeds of such Bonds; and (2) may include: (A) provisions for credit facilities and for other funds and accounts to be established with respect to such Bonds; (B) provisions necessary or expedient for the issuance of Bonds bearing interest at a variable rate or other manner of bearing interest, including remarketing provisions, liquidity facility provisions and provisions for establishing the variable rate and converting to a fixed rate; (C) provisions for entering into Interest Rate Swaps, guarantees or other arrangements to limit interest rate risks; and (D) such other provisions as the Authority may deem appropriate.

(c) A certified copy of applicable resolution(s) of the Board of Directors of the Authority authorizing the execution and delivery of a Supplemental Indenture, the issuance, sale, award, execution and delivery of such Bonds and, in the case of a Series of Bonds issued to refund Indebtedness, calling for redemption or payment of the Indebtedness to be refunded, fixing any redemption date and authorizing any required notice of redemption in accordance with the provisions of this Indenture.

(d) A certificate signed by an Authorized Representative of the Authority and dated the date of such issuance, to the effect that:

(1) Either (A) upon and immediately following such issuance, no Event of Default has occurred which has not been cured or waived, and no event or condition exists which, with the giving of notice or lapse of time or both, would become an Event of Default or (B) if any such event or condition is happening or existing, specifying such event or condition, stating that the Authority will act with due diligence to correct such event or condition after the issuance of such Bonds, and describing in reasonable detail the actions to be taken by the Authority toward such correction; and

(2) All required approvals, limitations, conditions and provisions precedent to the issuance of such Series of Bonds have been obtained, observed, met and satisfied.

(e) All policies or certificates of insurance (and any amendments to such policies) or evidence of appropriate substitute arrangements required by this Indenture in connection with the issuance of such Bonds and a certificate of the Chief Financial Officer or Authorized Representative of the Authority that all policies (and amendments) or appropriate substitute arrangements required to be in effect at that time are in full force and effect and are in such forms as necessary to comply with and satisfy all requirements of this Indenture.

(f) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that the Supplemental Indenture for such Series of Bonds has been duly authorized, executed and delivered, is binding on the Authority and complies in all respects with the requirements of this Indenture.

(g) An opinion of Bond Counsel, subject to customary exceptions and qualifications, substantially to the effect that the issuance of such Bonds has been duly authorized, that such Bonds are valid and binding limited obligations of the Authority, and with respect to Bonds to be issued on a tax-exempt basis that the interest on such Bonds is excludable from gross income for purposes of Federal income taxation.

(h) If such Bonds are issued to pay Costs, except in the case of the initial Series of Bonds issued under this Indenture, the following:

(1) Evidence that upon issuance of such Bonds, each Series Debt Service Reserve Account within the Debt Service Reserve Fund will contain the applicable Series Debt Service Reserve Requirement; and

(2) Either (A) a certificate of the General Manager, the Chief Financial Officer or Authorized Representative of the Authority, stating that based on the Authority's financial records for any 12 consecutive months of the last 18 months (the "Test Period") prior to the issuance of such Bonds the Authority would have been able to meet the Rate Covenant in Section 601(a), taking into account (i) the maximum Annual Debt Service on the proposed additional Series of Bonds in the current or any future Fiscal Year, and (ii) the rates, fees and other charges which are in effect and any future changes therein as have been approved by the Board of Directors of the Authority at the time of the delivery of the proposed additional Series of Bonds, or (B) a written statement of a Qualified Independent Consultant, that projects Operating Expenses, Revenues and Net Revenues for five full Fiscal Years following the date of issuance of such proposed additional Series of Bonds and that demonstrates that, on the basis of such projection, the Authority can comply with the Rate Covenant, taking into account those rates, fees and other charges which are in effect at the time of the delivery of the proposed additional Series of Bonds and any future changes therein as have been approved by the Board of Directors of the Authority at the time of the delivery of the proposed additional Series of Bonds.

(i) If any Bonds are issued to refund any Indebtedness, the following:

(1) Evidence that the Authority has made provision as required by this Indenture for the payment or redemption of all Indebtedness to be refunded;

(2) Either (A) a written determination by the General Manager, the Chief Financial Officer, or Authorized Representative of the Authority, or other evidence satisfactory to the Trustee that after the issuance of such Bonds and the provision for payment or redemption of all Indebtedness to be refunded, the Annual Debt Service requirements for each Fiscal Year in which there will be Outstanding Indebtedness not to be refunded will not increase more than 5% over what the Annual Debt Service requirements for such Fiscal Year would have been on all Senior Debt immediately prior to the issuance of such Bonds, including the Indebtedness to be refunded (if such Indebtedness was Senior Debt), and that the final maturity of Indebtedness being refunded has not been extended, or (B) a certificate of the General Manager, the Chief Financial Officer or Authorized Representative of the Authority, stating that based on the Authority's financial records for any 12 consecutive months of the last 18 months prior to the issuance of such Bonds the Authority would have been able to meet the Rate Covenant in Section 601(a), taking into account (i) the maximum Annual Debt Service on the proposed additional Series of Bonds in the current or any future Fiscal Year, but not the actual debt service on the Indebtedness to be refunded, and (ii) the rates, fees and other charges which are in effect and any future changes therein as have been approved by the Board of Directors of the Authority at the time of the delivery of the proposed additional Series of Bonds, or (C) a written statement of a Qualified Independent Consultant, that projects Operating Expenses, Revenues and Net Revenues for five full Fiscal Years following the date of issuance of such proposed additional Series of Bonds, which such projection does not include the actual debt service for any Indebtedness to be refunded, and that demonstrates that, on the basis of such projection, the Authority can comply with the Rate Covenant, taking into account those rates, fees and other charges which are in effect at the time of the delivery of the proposed additional Series of Bonds

and any future changes therein as have been approved by the Board of Directors of the Authority at the time of the delivery of the proposed additional Series of Bonds.

(j) A request and authorization of the Authority, signed by the General Manager or Authorized Representative of the Authority, to the Trustee to authenticate and deliver such Bonds to the purchaser upon payment to the Trustee for the account of the Authority of a specified sum plus accrued interest to the date of delivery.

Except for the requirements of subsection (d) of this Section (which may be waived by the purchasers of such Bonds by an instrument or concurrent instruments in writing signed by such purchasers), none of the requirements in this Section may be waived without the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Bonds.

Section 304. Other System Indebtedness.

(a) The Authority may incur or refinance Other System Indebtedness provided that: (1) the documents relating to the Other System Indebtedness acknowledge that such debt constitutes Other System Indebtedness under this Indenture and is subject to the applicable terms and conditions hereof, specify the amounts and due dates of Annual Debt Service with respect to the Other System Indebtedness, (2) the requirements of Sections 303(h) or 303(i), as appropriate, have been met as if the Other System Indebtedness was an additional Series of Bonds, (3) the Trustee receives written notice of the issuance of the Other System Indebtedness and the material terms and conditions thereof, and the Trustee shall register the holder as owner thereof as such on its books and records, and (4) the Trustee receives an Opinion of Counsel that the documents creating the Other System Indebtedness have been duly authorized, executed and delivered on behalf of the Authority and constitute valid, binding and enforceable obligations. In connection with the incurrence of any Other System Indebtedness, the Trustee shall enter into an intercreditor arrangement with the holder of such Other System Indebtedness, the terms of which shall be determined at the time of incurrence of such Other System Indebtedness.

(b) The Authority shall fulfill its obligations under all contracts or agreements creating Other System Indebtedness as they may exist from time to time.

Section 305. Subordinate Debt.

Notwithstanding anything in this Indenture to the contrary, the Authority may at any time issue Subordinate Debt and pledge Net Revenues thereto so long as rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of such Subordinate Debt. Subordinate Debt may not be accelerated if any Senior Debt is outstanding.

ARTICLE IV

REDEMPTION OF BONDS

Section 401. Redemption Provisions to be Fixed by Supplemental Indentures.

The Bonds of any Series shall be subject to mandatory, extraordinary or optional redemption prior to maturity on such dates and under such conditions as may be provided in the Supplemental Indenture authorizing the issuance of such Series of Bonds. The Bonds of any Series to be called for redemption shall be selected as provided in the applicable Supplemental Indenture. The Trustee shall treat each Bond of a denomination greater than the minimum denomination authorized in the applicable Supplemental Indenture as representing the number of separate Bonds of such minimum denomination as can be obtained by dividing the Bond's actual principal amount by such minimum denomination.

Section 402. Notice of Redemption.

Unless otherwise provided in the applicable Supplemental Indenture, the Trustee shall send notice of the call for redemption, identifying the Bonds or portions thereof to be redeemed, not less than 30 nor more than 60 days prior to the redemption date, (a) by registered or certified mail or overnight express delivery, to the Holder of each Bond to be redeemed at the address as it appears on the registration books kept by the Trustee, (b) by registered or certified mail or overnight express delivery, to all organizations registered with the Securities and Exchange Commission as securities depositories, and (c) to each nationally recognized municipal securities information repository designated as such by the Securities and Exchange Commission.

In preparing and delivering such notice, the Trustee shall take into account, to the extent applicable, the prevailing tax-exempt securities industry standards and any regulatory statement of any Federal or state administrative body having jurisdiction over the Authority or the tax-exempt securities industry, including Release No. 34-23856 of the Securities and Exchange Commission or any subsequent amending or superseding release. Failure to give any notice specified in (a) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond with respect to which no such failure or defect has occurred. Failure to give any notice specified in (b) or (c) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bonds with respect to which the notice specified in (a) above is correctly given.

Any notice mailed or provided herein shall conclusively be presumed to have been given whether or not actually received by any Bondholder.

Section 403. Bonds Payable on Redemption Date; Interest Ceases to Accrue.

On or before the date fixed for redemption, moneys shall be deposited with the Trustee to pay the principal of, and premium, if any, and interest accrued to the redemption date on the Bonds called for redemption. Upon the happening of the conditions of this Section, the Bonds or portions thereof thus called for redemption shall cease to bear interest from and after the redemption date, shall no longer be entitled to the benefits provided by this Indenture and shall not be deemed to be Outstanding under the provisions of this Indenture.

Section 404. Purchase of Bonds.

The Authority may purchase or cause to be purchased any Bonds of any particular Series or maturity in lieu of redemption of such Bonds (in which event any Bonds so purchased shall be cancelled and shall cease to bear interest as provided in Sections 208 and 403) or for any other purpose pursuant to written instructions given by the Authority to the Trustee. Such purchases shall be made in such manner as directed by the Authority. The Authority or the Trustee shall pay the purchase price of such Bonds together with accrued interest thereon from such funds as may be available therefor pursuant to this Master Indenture of Trust, any Supplemental Indenture, or as otherwise may be made available by the Authority.

ARTICLE V

CUSTODY AND APPLICATION OF BOND PROCEEDS, GRANTS AND PAYMENTS IN AID OF CONSTRUCTION

Section 501. Custody and Application of Bond Proceeds.

The proceeds of Bonds which are issued to pay Costs of the System shall be held in trust by the Trustee and used solely to pay Costs of the System. The proceeds of Bonds which are issued to refund any Indebtedness secured by or payable from Net Revenues, shall be held by the Trustee, an escrow agent or other party, as specifically provided in the Supplemental Indenture related to such refunding.

There is hereby established a Construction Fund to be held by the Authority. Amounts on deposit in the Construction Fund shall be used to pay Costs. The Trustee hereby establishes a Construction Account held for the benefit of the holders of the Bonds which shall be considered part of the Construction Fund. The Authority hereby establishes an EPA Grant Account and a Payments in Aid of Construction Account in the Construction Fund to be held by the Authority. The proceeds of a Series of Bonds shall be deposited in the related Series Construction Subaccount. Reimbursements from EPA Grants and similar payments shall be deposited in the EPA Grant Account. IMA Capital Payments and other payments in aid of construction shall be deposited in the Payments in Aid of Construction Account.

The Authority may establish additional Accounts and subaccounts within the Construction Fund as may be provided in a Supplemental Indenture. Deposits shall be made to the credit of the Construction Fund and any Accounts and subaccounts as provided in such Supplemental Indenture. All earnings on moneys in each Account and subaccount shall be credited to such Account and subaccount.

Payments from the Construction Account shall be made in accordance with the provisions of this Section. Before any such payment shall be made, the Chief Financial Officer shall have signed a requisition in the form attached as Exhibit B and submitted such to the Trustee on a bi-weekly or less often basis. The Trustee shall pay the costs listed in such requisition within 2 days of the receipt thereof. The Trustee shall retain copies of all such requisitions and shall pay the obligation set forth in such requisition out of money in the applicable Series Subaccount in the Construction Account. At least monthly, until all amounts in a Series Subaccount in the

Construction Account have been expended, the Chief Financial Officer shall file with the chief financial officer of the Financial Responsibility and Management Assistance Authority copies of such requisitions.

When all items of Costs have been paid or moneys have been reserved to pay all remaining unpaid Costs, the balance of any Bond proceeds remaining in excess of the amount to be reserved for payment of unpaid Costs shall be (a) deposited in the Bond Fund to be used solely to pay principal of and interest on the Series of Bonds which provided such proceeds to the extent approved by Bond Counsel, or (b) used to pay all or any portion of Costs designated by the Authority and approved by Bond Counsel.

Section 502. Costs of the System

Costs shall mean any and all reasonable expenses related to the purposes or activities of the Authority including expenses for operation and maintenance activities; expenses for preconstruction and construction, acquisition, alteration, improvement, enlargement of furnishing, fixturing and equipping, reconstruction and rehabilitation of the water distribution and wastewater and stormwater collection, treatment, and disposal systems of the Authority, including without limitation, the purchase or lease expense for all lands, structures, real or personal property, rights, rights-of-way, roads, franchises, easements, and interest acquired or used for, or in connection with the Authority; the expenses of demolishing or removing buildings or structures on land acquired by the Authority, including the expenses incurred for acquiring any lands to which the buildings may be moved or located; the expenses incurred for all utility lines, structures or equipment charges, and interest on financial obligations incurred for a period as the Authority may reasonably determine to be necessary for the effective functioning of the water distribution and wastewater and stormwater collection, treatment, and disposal systems; provisions for reserves, enlargements, additions, and improvements; expenses incurred for architecture, engineering, energy efficiency technology, design and consulting, financial and legal services, letters of credit, bond insurance, debt service or debt service reserve insurance, surety bonds or similar credit enhancement instruments, plans, specification studies, surveys, and estimates of expenses and of revenues; expenses necessary or incident to determining the feasibility of improvements to the water distribution and wastewater and stormwater collection, treatment, and disposal systems, the financing of such improvements, including a proper allowance for contingencies, and the provision of reasonable initial working capital for operating the improved systems and expenses for obtaining potable water for distribution.

ARTICLE VI

REVENUES AND FUNDS

Section 601. Rate Covenant.

(a) The Authority shall fix, charge and collect such rates, fees and other charges for the use of and the services furnished by the System and shall, from time to time and as often as shall appear necessary, revise such rates, fees and other charges so as to meet the following two independent requirements:

(1) Revenues, shall be sufficient in each Fiscal Year to pay (A) the actual Operating Expenses for such Fiscal Year, (B) the amount required to pay Annual Debt Service on Senior Debt in such Fiscal Year, (C) any amount necessary to be deposited in any Series Debt Service Reserve Account to restore the amount on deposit therein to the amount of the Series Debt Service Reserve Requirement, (D) the amount required to pay Annual Debt Service on Subordinate Debt in such Fiscal Year (including reserves in connection therewith and the restoration thereof), (E) any amount necessary to be deposited in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund to maintain the required balances therein, and (F) any amount necessary to make any payments in lieu of taxes in such Fiscal Year.

(2) Net Revenues shall be sufficient in each Fiscal Year to be at least equal to the sum of (A) 120% of the Annual Debt Service with respect to Senior Debt for such Fiscal Year, and (B) 100% of Annual Debt Service with respect to Subordinate Debt for such Fiscal Year.

(b) If at the end of any Fiscal Year the Authority is not in compliance with the Rate Covenant, or if the Authority fails for three consecutive months to make the deposits required by Section 604 to the Interest Account and the Principal Account (or the Sinking Fund Account, as applicable) or there is a deficiency in a Series Debt Service Reserve Account for longer than three consecutive months, the Authority shall immediately request a Qualified Independent Consultant to submit a written report and recommendations with respect to increases in the Authority's rates, fees and other charges and improvements in the operations of and the services rendered by the System and the Authority's accounting and billing procedures necessary to bring the Authority into compliance with the Rate Covenant. The report and recommendations shall be filed with the Trustee and the Authority within 120 days from the date of discovery of noncompliance with the Rate Covenant. The Authority shall promptly revise its rates, fees and charges, and alter its operations and services to conform with the report and recommendations of the Qualified Independent Consultant to the extent permitted by law.

(c) If the Authority promptly revises its rates, fees, charges, operations, services and procedures in conformity with the report and recommendations of the Qualified Independent Consultant and otherwise follows such recommendations to the extent permitted by law so that the Authority is expected to be, when its actions become fully effective, in compliance with the Rate Covenant, then any failure to meet the Rate Covenant will not constitute an Event of Default under this Indenture so long as no other Event of Default has occurred and is continuing.

Section 602. Annual Budget.

(a) Before the beginning of each Fiscal Year, the Authority shall adopt a budget for the operation of the System for the ensuing Fiscal Year, which shall be called the Annual Budget.

(b) The Annual Budget shall be prepared in such manner as to show in reasonable detail (1) Revenues estimated to be received during such Fiscal Year, (2) Operating Expenses expected to be incurred during such Fiscal Year, (3) the amount of principal of, premium, if any, and interest on the Bonds that will become due during such Fiscal Year, (4) the amount of principal of, premium, if any, and interest on Other System Indebtedness that will become due

during such Fiscal Year, (5) any amount necessary to be deposited in the Debt Service Reserve Fund to restore the amount on deposit in each Account therein to the amount of the applicable Series Debt Service Reserve Requirement, (6) any amount necessary to be deposited in the Operating Reserve Fund to restore the amount on deposit therein to the amount of the Operating Reserve Requirement, (7) any amount necessary to be deposited in the Renewal and Replacement Reserve Fund to restore the amount on deposit therein to the amount of the Renewal and Replacement Reserve Requirement, (8) the amount of principal of, premium, if any, and interest on the Subordinate Debt that will become due during such Fiscal Year, (9) any amount necessary to be deposited in the Subordinate debt service reserve fund to restore the amount on deposit therein to the amount of the Subordinate debt service reserve requirement, and (10) the amount of Net Revenues available during such Fiscal Year to meet the Rate Covenant. The Annual Budget shall be prepared in sufficient detail to show the amounts to be deposited in the various funds, Accounts and subaccounts created by or under this Indenture or funds and accounts otherwise required to be maintained on behalf of the System.

(c) The Authority may amend the Annual Budget at any time during the Fiscal Year.

(d) If for any reason an Annual Budget has not been adopted within the time required by subsection (a) of this Section, the last previously adopted Annual Budget shall be deemed to provide for and regulate and control expenditures during such Fiscal Year until an Annual Budget for such Fiscal Year has been adopted.

A copy of the Annual Budget and any amendments thereto shall be filed promptly with the Trustee.

Section 603. Funds and Accounts.

There are hereby established the following funds and Accounts to be held by the Authority or Trustee, as applicable:

- (a) Revenue Fund to be held by the Authority, subject to the lien of the Indenture. The Water and Sewer Enterprise Fund created pursuant to Section 43-1677 of the WASA Act shall constitute the Revenue Fund;
- (b) Operating Fund to be held by the Authority, not subject to the lien of the Indenture. The Operating and Maintenance Account created pursuant to Section 43-1677.1 of the WASA Act shall constitute the Operating Fund;
- (c) Bond Fund, in which there shall be established an Interest Account, a Principal Account and a Sinking Fund Account, and a separate subaccount in each such Account with respect to each Series of Bonds or Other System Indebtedness issued hereunder, as applicable, to be held by the Trustee, subject to the lien of the Indenture;
- (d) Debt Service Reserve Fund, in which there shall be established a Series Debt Service Reserve Account for each Series of Bonds or Other System Indebtedness issue which

has a Series Debt Service Reserve Requirement, to be held by the Trustee, subject to the lien of the Indenture;

- (e) Operating Reserve Fund to be held by the Authority, subject to the lien of the Indenture;
- (f) Renewal and Replacement Reserve Fund to be held by the Authority, subject to the lien of the Indenture;
- (g) Subordinate Bond Fund to be held by the Trustee, subject to the lien of the Indenture;
- (h) Subordinate Debt Service Reserve Fund to be held by the Trustee, subject to the lien of the Indenture;
- (i) Rate Stabilization Fund to be held by the Authority, subject to the lien of the Indenture; and
- (j) System Fund to be held by the Authority, subject to the lien of the Indenture.

Section 604. Disposition of Revenues.

All Revenues shall be deposited in the Revenue Fund to be held by the Authority; provided, however, that upon an Event of Default, the Authority will transfer all amounts in all Authority held funds to the Trustee, and the Trustee shall hold such moneys in trust for the beneficiaries hereunder. From and after the occurrence of such Event of Default, the Authority shall deliver all Revenues to the Trustee as and when received.

Prior to any such Event of Default, throughout the month but no later than the last Business Day of each month, the Authority shall transfer from the Revenue Fund to the Operating Fund an amount sufficient to pay Operating Expenses during such month. Thereafter, Net Revenues shall be disbursed on the last Business Day of each month in the following order (except that no distinction or preference shall exist in the use in an amount sufficient to make the following deposits of Net Revenues for payment into the Interest Account, the Principal Account or the Sinking Fund Account of the Bond Fund, such accounts being on a parity with each other as to payment from Net Revenues):

(a) To the Bond Fund:

- (1) to the subaccounts established for each Series of Bonds or Other System Indebtedness in the Interest Account, the amounts, if any, set forth in the applicable Supplemental Indentures with respect to each Series of Bonds or Other System Indebtedness; provided, however, that if such Other System Indebtedness is evidenced by documents other than a Supplemental Indenture, to the related interest accounts set forth therein, as applicable; and such deposits shall be adjusted to give credit for any other available money then in such interest account or subaccount or otherwise available and designated to

be used for such purpose. Moneys in the Interest Account shall be used to pay interest required to be paid on any interest payment date related to such Series of Bonds or Other System Indebtedness, as applicable.

- (2) to the subaccounts established for each Series of Bonds or Other System Indebtedness in the Principal Account and Sinking Fund Account, the amounts, if any, set forth in the applicable Supplemental Indentures with respect to each Series of Bonds or Other System Indebtedness; provided, however, that if such Other System Indebtedness is evidenced by documents other than a Supplemental Indenture, to the related principal and sinking fund accounts set forth therein, as applicable; and such deposits shall be adjusted to give credit for any other available money then in the principal or sinking fund account or subaccount or otherwise available and designated to be used for such purpose. Moneys in the Principal Account shall be used to pay principal required to be paid on any principal payment date related to such Series of Bonds or Other System Indebtedness, as applicable. Moneys in the Sinking Fund Account shall be used to pay the amount required for mandatory sinking fund redemption on the applicable redemption date related to such Series of Bonds or Other System Indebtedness, as applicable.
- (b) To the applicable Account in the Debt Service Reserve Fund with respect to each Series of Bonds the amounts, if any, necessary to restore the amount on deposit therein to the related Series Debt Service Reserve Requirement; and to the extent applicable, amounts necessary to restore the amount on deposit in the debt service reserve fund related to Other System Indebtedness to the amounts required to be on deposit therein, and such amounts shall be transferred to such fund.
- (c) To the Operating Reserve Fund the amounts, if any, necessary to restore the amounts on deposit therein to the Operating Reserve Requirement. Such amounts shall be funded within 24 months of withdrawal by depositing in such fund 1/24 of the Operating Reserve Requirement on the last Business Day of each month after such withdrawal, if necessary. Moneys in the Operating Reserve Fund shall be used to pay, to the extent necessary, Operating Expenses of the Authority. In addition, to the extent that moneys on deposit in the Bond Fund are insufficient to make the required interest and principal payments, moneys in the Operating Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund, to satisfy any such deficiencies.
- (d) To the Renewal and Replacement Reserve Fund an amount equal to the Renewal and Replacement Reserve Requirement. Such amounts shall be funded within 24 months of the Closing Date to the extent not already deposited by depositing 1/24 of the Renewal and Replacement Reserve Requirement on the last Business Day of each month in such fund. In addition, to the extent that there has been a withdrawal from such fund, the Trustee shall deposit Net Revenues to the fund, in the amounts necessary to make the amounts on the deposit therein equal to the Renewal and Replacement Reserve Requirement. Such withdrawn amounts shall be funded within 24 months by

depositing in such fund 1/24 of the Renewal and Replacement Reserve Requirement on the last Business Day of each month after such withdrawal. Moneys in the Renewal and Replacement Reserve Fund may be used to pay for any capital expenditures related to the System. In addition, to the extent that moneys on deposit in the Bond Fund and the Operating Reserve Fund are insufficient to make the required interest and principal payments, moneys in the Renewal and Replacement Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund, to satisfy any such deficiencies.

- (e) To the Subordinate Bond Fund, the amount equal to the deposits to such funds and Accounts required by the related Supplemental Indenture or other documents evidencing such debt. To the extent that the Subordinate Debt is issued pursuant to Subordinate Debt documents, applicable amounts shall be transferred to the respective Subordinate Debt trustee.
- (f) To the applicable Account in the Subordinate debt service reserve fund with respect to each Subordinate Debt issue the amounts, if any, necessary to restore the amount on deposit therein to the related Subordinate debt service reserve requirement. To the extent that the Subordinate Debt is issued pursuant to Subordinate Debt Documents, applicable amounts shall be transferred to the respective Subordinate Debt trustee.
- (g) To the System Fund, any moneys remaining in the Revenue Fund after all deposits and transfers required by subsections (a) through (f) of this Section have been made. Moneys in the System Fund may be used for any authorized purpose. On the following dates, moneys on deposit in the System Fund shall be used to make the following payments:
 - (1) On each May 15, commencing May 15, 1998, and quarterly thereafter, to the District to make the payment in lieu of taxes required by the District MOU relating to the PILOT;
 - (2) On September 1, 1998, an amount retained by the Authority in the System Fund necessary to satisfy the Cash Reserve Requirement; and
 - (3) On each September 1, commencing September 1, 1999:
 - (a) An amount to the District to make those certain principal and interest prepayments related to the District General Obligation Bonds pursuant to the District MOU relating to the Payment of General Obligation Debt; and
 - (b) An amount retained by the Authority in the System Fund necessary to satisfy the Cash Reserve Requirement; and
 - (4) At any time to the Rate Stabilization Fund, the amount that the General Manager may determine, in his discretion to transfer to the Rate Stabilization Fund.

With respect to the prepayments to the District set forth in Section 604(g)(3)(a) above, if the Authority does not have Net Revenues sufficient to make such payment on September 1 of such fiscal year, the Authority must make such payment no later than November 1 of such fiscal year. The failure to make such payment prior to November 1 of such fiscal year shall not constitute an Event of Default under this Indenture.

The Authority shall provide the Trustee with a monthly certificate which certifies that the transfers required by subsections (c), (d) and (g) have been made and the respective balances of such funds. If the Authority fails to make the transfers required by subsections (a) through (g) of this Section, the Trustee shall give notice of such failure to the Authority within 10 days of such failure. Notwithstanding anything in this Indenture to the contrary, at any time that the Authority is required to make transfers pursuant to subsections (a) through (g) of this Section, and there are insufficient Net Revenues to make all required transfers pursuant to such subsections, the Authority shall make the transfers in the order set forth above first from Net Revenues, then from any other legally available monies.

In the event the balance on deposit in the Principal Account, Sinking Fund Account or the Interest Account is insufficient for the purposes thereof, the Authority shall transfer to the Trustee for deposit in such Accounts such amounts as may be necessary therefor first from the Operating Reserve Fund, second from the Renewal and Replacement Fund, and then from the applicable Series Debt Service Reserve account pursuant to Section 606.

The Trustee shall provide for a mandatory sinking fund redemption of any Term Bonds in accordance with the schedules set forth in the Supplemental Indenture for such Bonds; provided, however, that on or before the 70th day next preceding any such sinking fund payment date, the Authority may:

- (1) deliver to the Trustee for cancellation Term Bonds of the maturity required to be redeemed on such sinking fund payment date in any aggregate principal amount desired; or
- (2) instruct the Trustee to apply a credit against the Authority's next sinking fund redemption obligation for any such Term Bonds that previously have been redeemed (other than through the operation of the sinking fund) and canceled but not theretofore applied as a credit against any sinking fund redemption obligation.

Upon the occurrence of any of the events described in the subsections (1) or (2) of this Section, the Trustee shall credit against the Authority's sinking fund redemption obligation on the next sinking fund payment date the amount of such Term Bonds so delivered or previously redeemed. Any principal amount of such Term Bonds in excess of the principal amount required to be redeemed on such sinking fund payment date shall be similarly credited in such order as may be determined by the Authority against future payments to the Sinking Fund Account and shall similarly reduce the principal amount of the Term Bonds of the applicable Series to be redeemed on the next sinking fund payment date. Within seven days of receipt of such Term Bonds or instructions to apply as a credit, any amounts remaining in the Sinking Fund Account in excess of the amount required to fulfill the remaining required sinking fund redemption

obligation on the next sinking fund payment date shall be used in such manner as determined at the direction of the Authority.

In the event the amount on deposit in the Interest Account on any interest payment date shall exceed the amount required to pay interest on the Senior Debt on the next interest payment date, the Authority shall, if the amount on deposit in any Series Debt Service Reserve Account is less than the applicable Series Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to any Series Debt Service Reserve Account to the extent of such deficiency, and otherwise retain any remaining excess in the Interest Account or instruct the Trustee to transfer any remaining excess to the related Principal Account to be credited against subsequent required deposits thereto, as determined by the Authority.

In the event the amount on deposit in the Principal Account or Sinking Fund Account on any principal or mandatory redemption payment date shall exceed the amount required on such date to pay Bonds at maturity or to redeem Term Bonds pursuant to mandatory sinking fund requirements, the Authority shall, if the amount on deposit in any Series Debt Service Reserve Account is less than the applicable Series Debt Service Reserve Requirement, instruct the Trustee to transfer such excess to the Series Debt Service Reserve Account to the extent of such deficiency, and otherwise retain such excess in the Principal Account or instruct the Trustee to transfer such excess to the Interest Account to be credited against subsequent required deposits thereto, as determined by the Authority.

Section 605. Rate Stabilization Fund.

The Rate Stabilization Fund authorized by Section 603 shall be held by the Authority in an Account separate and apart from all other funds and Accounts of the Authority and payments therefrom shall be made as hereinafter provided. Moneys may be transferred by the Authority to the Rate Stabilization Fund from the System Fund as provided in Section 604 as determined by the Authority. At any time the Authority shall transfer from the Rate Stabilization Fund to the Revenue Fund the amount determined by the Authority to be transferred from the Rate Stabilization Fund.

Section 606. Debt Service Reserve Fund.

(a) Each Supplemental Indenture shall establish an Account in the Debt Service Reserve Fund related to each Series of Bonds which shall be funded pursuant to the terms of a Supplemental Indenture. The Series Debt Service Reserve Requirement shall be deposited in the Account related to such Series. Amounts in each Account in the Debt Service Reserve Fund shall be used to pay debt service on the related Series of Bonds on the date such debt service is due when insufficient funds for that purpose are available in the Bond Fund; provided, however, that all amounts in an Account in the Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment of the related Series of Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Debt Service Reserve Fund shall be pledged to Holders of Bonds of the related Series.

(b) In lieu of or in addition to cash or investments, at any time the Authority may cause to be deposited to the credit of any Series Debt Service Reserve Account any form of credit facility, including a surety bond, in the amount of all or a portion of the Series Debt Service Reserve Requirement, irrevocably payable to the Trustee as beneficiary for the Holders of the respective Series of Bonds, provided that the Trustee has received evidence satisfactory to it that (a) the provider of the credit facility has a credit rating in one of the two highest credit rating categories by two Rating Agencies, (b) the obligation of the Authority to pay the fees of and to reimburse the provider of the credit facility is subordinate to its obligation to pay debt service on the respective Series of Bonds, (c) the term of the credit facility is at least 36 months, (d) the only condition to a drawing under the credit facility is insufficient amounts in the applicable funds and Accounts held by the Trustee with respect to such Series of Bonds when needed to pay debt service on such Series or the expiration of the credit facility, and (e) the provider of the credit facility shall notify the Authority and the Trustee at least 24 months prior to the expiration of the credit facility. If (1) the Authority receives such expiration notice and the provider of such credit facility does not extend its expiration date, (2) the Authority receives notice of the termination of the credit facility, or (3) the Authority receives notice that the provider of such credit facility no longer has a credit rating in one of the two highest credit rating categories by two Rating Agencies, the Authority immediately shall (A) provide a substitute credit facility that meets the requirements set forth in the foregoing sentences, (B) deposit the Series Debt Service Reserve Requirement to the respective Series Debt Service Reserve Account (i) in equal monthly installments over the next succeeding 24 months in the case of receipt of an expiration notice, (ii) prior to the termination date in the case of receipt of a termination notice, or (iii) immediately in the case of such reduction in credit rating, or (C) instruct the Trustee to draw on such credit facility in the amount of the Series Debt Service Reserve Requirement (i) 12 months prior to expiration of the credit facility in the case of receipt of an expiration notice, (ii) prior to the termination date in the case of receipt of a termination notice, or (iii) immediately in the case of such reduction in credit rating and deposit such drawing to the Series Debt Service Reserve Account.

If a disbursement is made pursuant to any credit facility, the Authority shall either (a) reinstate the maximum limits of such credit facility, or (b) deposit to the credit of the applicable Series Debt Service Reserve Account moneys in the amount of the disbursement made under such credit facility from available Net Revenues. To the extent such moneys are still insufficient, then the Authority shall transfer to the Trustee from any legally available moneys the amount of such deficiency as soon as practicable and in any event within 24 months by depositing one-twenty-fourth of the required amount each month.

Amounts, if any, released from any Series Debt Service Reserve Account upon deposit to the credit of such Account of a credit facility shall, upon designation by an Authorized Representative of the Authority, accompanied by an Opinion of Bond Counsel that such use will not adversely affect the exclusion from gross income of interest on the respective Series of Bonds, be transferred (a) to the subaccount of the Principal Account with respect to such Series of Bonds and used to pay principal of or to redeem such Bonds, or (b) to the Authority to be used to pay all or any portion of the Costs designated by the Authority and approved by Bond Counsel.

(c) On or within five days after each Reserve Determination Date, the Trustee shall determine if the balance on deposit in each Series Debt Service Reserve Account was, as of the Reserve Determination Date, at least equal to the applicable Series Debt Service Reserve Requirement. In making such determination, any obligations in the Series Debt Service Reserve Account shall be valued in accordance with Section 701.

In the event the amount on deposit in a Series Debt Service Reserve Account exceeds the applicable Series Debt Service Reserve Requirement, the Trustee shall (a) transfer such excess to the Bond Fund to be deposited in the related Series subaccount in the Interest Account and the related Series subaccount in the Principal Account to the extent amounts in such subaccounts are less than the amounts required to be paid on the next interest payment date and principal payment date, respectively, (b) thereafter transfer such excess to the Bond Fund to be deposited, as directed by an Authorized Representative of the Authority, in the Interest Account or the Principal Account to the extent amounts in such accounts are less than the amounts required to be paid on the next interest payment date and principal payment date, respectively, and (c) transfer such excess to the Authority to be used to pay all or any portion of Costs designated by the Authority and approved by Bond Counsel; provided, however, that if an Authorized Representative of the Authority calls for a Reserve Determination Date in connection with the refunding and/or defeasance of a Series of Bonds, then the Trustee is authorized to take such refunding and/or defeasance into account in valuing the Series Debt Service Reserve Account securing such Series of Bonds and is further authorized to apply the amount of any surplus arising from such valuation to reduce the amount of the refunding bonds and/or to provide for the defeasance of the Series of Bonds Debt in such manner as the Authorized Representative of the Authority may direct.

Section 607. Payments in Aid of Construction.

The Authority shall use any payments made to the Authority by any persons as payment for constructing water, wastewater or stormwater facilities at the request of such persons, whether such payments are made prior to or after such construction, only to pay the cost of such construction. After completion of such construction, the Authority may use any moneys remaining after such construction is completed to pay all or any portion of Costs designated by the Authority and approved by Bond Counsel.

Section 608. Other Funds and Accounts.

The Authority may establish in each Supplemental Indenture such other funds and Accounts within funds as the Authority may determine to be desirable.

Section 609. Pledge of Net Revenues and Certain Funds and Accounts.

Net Revenues are hereby pledged equally and ratably to the payment of principal of and interest on all Senior Debt, subject only to the right of the Authority to make application thereof to other purposes as provided herein. All funds created hereunder other than the Operating Fund shall be trust funds and are hereby pledged (except as provided in the next sentence hereof) equally and ratably to the payment of the principal of and interest on all Senior Debt, subject

only to the right of the Authority to make application thereof, or to direct the Trustee to make application thereof, to other purposes as provided herein. The lien and trust hereby created are for the benefit of the Holders of Senior Debt and for their additional security until all the Senior Debt has been paid; provided, however, that the moneys in each Series Debt Service Reserve Account and each Series Construction Subaccount shall only secure the applicable Series of Bonds that provided such moneys, and moneys in any account of the Bond Fund relating to a particular Senior Debt shall only secure such Senior Debt.

Notwithstanding the foregoing and anything else in the Indenture to the contrary, pursuant to the terms of the Water Sales Agreement, to the extent that the United States of America, acting through the Secretary of the Army, requires that the Authority establish a special fund consisting of separately identifiable fees, charges, rents and rates (the "Special Revenues") assessed by the Authority on its retail customers after the effective date of this Indenture in order to pay for the principal and interest due on the Treasury Loans, the Department of the Treasury shall have a security interest in such Special Revenues only and the Treasury Loans shall no longer be secured by the remaining Net Revenues nor be considered Indebtedness for the purposes of this Indenture. The holder of the Treasury Loans shall have an interest senior to the interest of holders of Indebtedness in such Special Revenues. All further terms and conditions of such Special Fund shall be set forth in a Supplemental Indenture related thereto.

Section 610. Disposition of Balances in Funds after Payment of Indebtedness.

After the principal of and premium, if any, and interest on all of the Indebtedness, any amounts required to be paid pursuant to the terms of this Indenture or any Supplemental Indenture and all expenses and charges herein required have been paid or provision therefor has been made, the Trustee shall pay to the Authority any balance remaining in any fund then held by it.

ARTICLE VII

INVESTMENT OF FUNDS

Section 701. Investment of Fund.

(a) Any moneys held as part of the Construction Account shall be invested or reinvested by the Trustee to the extent such investments are permitted by law in Permitted Investments. Prior to the filing of the certificate of completion related to improvements of the System which are financed, all earnings on moneys held in the Construction Account shall be retained in such fund. Subsequent to the filing of the certificate of completion, the Trustee shall deposit any moneys remaining in a Construction Account in the Construction Fund to the related subaccount of the Interest Account of the Bond Fund. The Authority shall direct the investment of amounts held in the Construction Account, and such investments shall have maturities consonant with the need for funds as estimated by the Authority.

(b) Any moneys held as part of the Bond Fund and not immediately required for the purposes of such respective fund, as the case may be, shall be invested or reinvested by the

Trustee (through its bond department or otherwise) as directed by the Authority in Permitted Investments. The Authority shall give written directions to the Trustee, specify the maturity date, interest rate (if any), principal amount and nature of such investments and if such direction is not timely received by the Trustee, the Trustee shall invest such funds in Government Obligations with maturities not longer than thirty (30) days. Earnings on moneys held in the Series Account in the Bond Fund shall be transferred to the related subaccount of the Interest Account of the Bond Fund.

(c) Any moneys held as part of the Revenue Fund, Operating Reserve Fund, EPA Grant Account and the Payments in Aid of Construction Account of the Construction Fund, Renewal and Replacement Reserve Fund, the System Fund and the Rate Stabilization Fund and not immediately required for the purposes of such respective fund, as the case may be, shall be invested and reinvested by the Authority in Permitted Investments.

(d) Any moneys held as part of the Debt Service Reserve Fund shall be invested or reinvested by the Trustee (through its bond department or otherwise) as directed by the Authority in Permitted Investments for a period not later than five years from the date of acquisition of the investment or the final maturity of the applicable Series of Bonds.

(e) Any moneys held as part of the Subordinate Bond Fund and Subordinate Debt Service Reserve Fund not immediately required for the purposes thereof, as the case may be, shall be invested or reinvested by the Trustee (through its bond department or otherwise) as directed by the Authority in Permitted Investments. The Authority shall give written directions to the Trustee, specifying the maturity date, interest rate (if any), principal amount and nature of such investments and if such direction is not timely received by the Trustee, the Trustee shall invest such funds in Government Obligations with maturities not longer than thirty (30) days.

(f) In computing the amount in any fund or Account created by this Indenture, except for the Debt Service Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at cost or fair market value thereof, whichever is lower, plus accrued interest. Investments in the Debt Service Reserve Fund shall be valued at least semiannually at the fair market value at least semiannually at the fair market value thereof, plus accrued interest. Such valuations for each such fund or Account, other than the Debt Service Reserve Fund, shall be made by the party holding each such fund or Account at least annually not later than the end of each Fiscal Year and at such other times as the Authority may deem appropriate.

(g) For the purposes of this Section, investment agreements shall be deemed to mature on the date on which amounts deposited thereunder may be withdrawn without penalty in accordance with the terms of such agreements.

The Trustee may sell or redeem any obligation in which moneys shall have been invested as provided in this Article to the extent necessary to provide cash in the respective funds or accounts, to make any payments required to be made therefrom or to facilitate the transfers of money between various funds and accounts as may be required or permitted from time to time pursuant to the provisions of this Article.

In computing the value of the assets of any fund or account established hereunder, investments and accrued interest thereon shall be deemed a part thereof.

Notwithstanding provisions herein for transfer to or holding in particular funds and accounts amounts received or held by the Trustee hereunder, for purposes of making, holding and disposing of investments, investments (except amounts held in any arbitrage rebate fund) in any and all funds and accounts created by this Indenture may be commingled (except amounts held in any arbitrage rebate fund), provided that, notwithstanding any such commingling, the Trustee shall at all times account for such investments in the funds and accounts to which they are credited and otherwise as provided in this Indenture.

Neither the Trustee shall be liable for any depreciation in the value of any investments in which moneys in the funds or accounts created by this Indenture shall be invested, or for any loss arising from any investment permitted hereby. The investments authorized by this Article shall at all times be subject to the provisions of applicable law, as amended from time to time. In the event that the Authority, upon the written opinion of Bond Counsel, addressed to the Trustee and the Authority, is of the opinion that it is necessary to restrict or limit the yield on the investment of any money or securities held in any fund in order to avoid the Bonds being considered "arbitrage bonds" within the meaning of section 148 of the Code, the Authority may issue to the Trustee written instructions to take whatever action is necessary to properly restrict or limit the yield on the investment in accordance with such instructions, in which event the Trustee shall follow those instructions. If the Trustee has not received direction from the Authority on how to invest any of the funds and accounts established hereunder, the Trustee shall invest in Government Obligations.

ARTICLE VIII

PARTICULAR COVENANTS

Section 801. Payment of Indebtedness; Limited Obligations.

The Authority shall promptly pay or cause to be paid when due the principal of (whether at maturity, by acceleration, call for redemption or otherwise) premium, if any, and interest on the Indebtedness at the places, on the dates and in the manner provided herein and in the Indebtedness according to the true intent and meaning thereof; provided, however, that such obligations are not general obligations of the Authority but are limited obligations payable solely from Net Revenues, except to the extent payable from the proceeds of Indebtedness, the income, if any, derived from the investment thereof, certain reserves, proceeds of credit enhancement, income from investments pursuant to this Indenture or proceeds of insurance, which Net Revenues and other moneys are hereby specifically pledged to such purposes in the manner and to the extent provided herein. The Series 1998 Bonds are special obligations of the District. The Bonds shall be without recourse to the District. The bonds shall not be general obligations of the District, shall not be a pledge of or involve the faith and credit or the taxing power of the District, and shall not constitute lending of the public credit for private undertakings.

Section 802. Limitations on Indebtedness.

The Authority shall not issue any bonds, notes or other obligations that shall be secured by a pledge of Net Revenues (a) senior to the pledge of Net Revenues securing the Senior Debt, (b) except in compliance with Section 303 or Section 304, on a parity with the pledge of Net Revenues securing the Senior Debt, or (c) except in compliance with Section 305, subordinate to the pledge of Net Revenues securing the Senior Debt. The Authority shall not issue Bonds, Other System Indebtedness or Subordinate Debt unless the Authority complies with the provisions of Sections 303, 304 or 305, as applicable.

Section 803. Covenants and Representations of Authority.

The Authority shall faithfully observe and perform all covenants, conditions and agreements on its part contained in this Indenture, in every issue of Indebtedness issued hereunder and in all proceedings of the Authority pertaining thereto. The Authority represents that it is duly authorized under the WASA Act to issue the Indebtedness, to execute this Indenture, and to pledge Net Revenues in the manner and to the extent herein set forth. The Authority covenants that it will take all action necessary for issuance of the Indebtedness and the execution of this Indenture, and that upon issuance the Indebtedness will be valid and enforceable obligations of the Authority according to the import thereof.

Section 804. Covenants with Credit Banks, Insurers, etc.

The Authority may make such covenants and agreements in a Supplemental Indenture as it may determine to be appropriate with any insurer, credit bank or other financial institution that agrees to insure or to provide credit or liquidity support to enhance the security or the value of any Indebtedness. Such covenants and agreements may be set forth in the applicable Supplemental Indenture and shall be binding on the Authority and all the holders of Indebtedness the same as if such covenants were set forth in full in this Indenture.

Section 805. Operation and Maintenance.

The Authority shall establish and enforce reasonable rules and regulations governing the use of and the services furnished by the System, shall maintain and operate the System in an efficient and economical manner, shall maintain the same in good repair and sound operating condition and shall make all necessary repairs, replacements and renewals. All compensation, salaries, fees and wages paid by the Authority in connection with the operation and maintenance of the System shall be reasonable. The Authority shall observe and perform all of the terms and conditions contained in the WASA Act and the Water Sales Agreement, and comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the System or the Authority.

Section 806. Free Service, Competing Service, Billing and Enforcement of Charges.

(a) The Authority shall not permit connections to or use of the System or provide any services of the System without making a charge therefor in accordance with the Authority's schedule of rates, fees and charges for the System other than those connections, use or services already in existence; provided, however, the Authority may accept proffers and other forms of

payment in lieu of cash payments that the Authority deems are in its best interest to accept, provided that such proffers do not cause a violation of the rate covenant set forth in Section 601.

(b) The Authority shall not provide, grant any franchise to provide or give consent for anyone else to provide any services which would compete with the System unless the Authority determines that such franchise or provision of services would provide services that the Authority has determined are not in its best interest to provide and would not materially impair the interests of the holders of Indebtedness.

(c) The Authority shall bill customers for the services of the System no less frequently than quarterly.

(d) If any rates, fees or other charges for the use of or for the services furnished by the System shall not be paid within 60 days after the same shall become due and payable, or within such shorter time as may be determined by the Authority, the Authority shall at the expiration of such period, to the extent permitted by applicable laws and regulations, disconnect the premises from the System or otherwise suspend service to such premises until such delinquent rates, fees or other charges and any interest, penalties or charges for reconnection of service to such delinquent customer shall have been paid in accordance with the policies of the Authority, or a payment plan with respect to such amounts has become effective.

(e) The Authority shall take all such action as may be necessary to perfect liens upon real estate for the amount of any unpaid rates, fees or other charges described in subsection (d) of this Section or any unpaid connection charges or other charges so that such liens will be binding upon subsequent bona fide purchasers for valuable consideration without actual notice thereof.

Section 807. Sale or Encumbrance of System.

(a) Neither the System nor any integral part thereof shall be leased, sold, mortgaged or otherwise disposed of without an Independent Consulting Engineer's certification that such disposition will not have a negative impact on the overall viability of the System unless the proceeds of such disposition, together with any other legally available moneys, are sufficient to pay the principal of, premium, if any, and interest on all Indebtedness then Outstanding and the proceeds are used for such purpose; provided, that the Authority may from time to time sell, exchange or otherwise dispose of any equipment, motor vehicles, machinery, fixtures, apparatus, tools, instruments or other movable property if it determines that such articles are no longer needed or are no longer useful in connection with the System, and the proceeds thereof may be used for any lawful purpose determined by the Authority. The Authority shall not create or suffer to be created any lien or charge upon the System or any part thereof or any lien or charge upon Net Revenues and other moneys pledged herein ranking equally with, prior to, or subordinate to the lien and charge of the Indebtedness, except as provided herein. Notwithstanding anything in this Indenture to the contrary, the Authority may acquire items of personal property constituting part of the System under lease purchase agreements or similar financing arrangements entered into in the ordinary course of business which may be subject to purchase money security interests or other liens in an aggregate amount not to exceed five percent (5%) of the net amount of plant, property and equipment.

(b) Notwithstanding the provisions of subsection (a) of this Section, the Authority may sell, transfer or otherwise dispose of all or substantially all of the System for purposes of consolidating the System with or merging the System into one or more regional water, wastewater or stormwater systems of which the Authority is a participating member jurisdiction if: (1) the successor entity assumes in writing all of the Indebtedness then Outstanding, (2) the successor entity covenants in writing to comply with the Rate Covenant, (3) the Authority obtains an opinion of Bond Counsel, subject to the customary exceptions and qualifications, substantially to the effect that the assumption by the successor entity of all of the Indebtedness then Outstanding shall not have an adverse effect on the tax-exempt status of the interest on any such Indebtedness the interest on which was excludable from gross income for purposes of Federal income taxation when issued, and (4) the ratings on the Indebtedness then Outstanding will not adversely be affected by such assumption.

(c) Notwithstanding the provisions of subsection (a) of this Section, the Authority may lease or sell the Blue Plains Wastewater Treatment Plant if: (1) the lessor or purchaser entity assumes in writing all of the Indebtedness then Outstanding relating to the plant, (2) the successor entity covenants in writing to comply with the Rate Covenant, as applicable, (3) the Authority obtains an opinion of Bond Counsel, subject to the customary exceptions and qualifications, substantially to the effect that the assumption by the lessor or purchaser entity of all of the Indebtedness then Outstanding shall not have an adverse effect on the tax-exempt status of the interest on any such Indebtedness the interest on which was excludable from gross income for purposes of Federal income taxation when issued, and (4) the ratings on such Indebtedness then Outstanding will not adversely be affected by such assumption.

Section 808. Insurance.

The Authority shall continuously maintain insurance with recognized responsible commercial insurance companies against such risks and in such amounts as are customary for public bodies owning and operating similar systems, including (a) insurance against loss or damage to the System, (b) public liability insurance against liability for bodily injury, including death resulting therefrom, and for damage to property, including loss of use thereof, arising out of the ownership or operation of the System, and (c) workers' compensation insurance with respect to the System.

In lieu of insurance written by commercial insurance companies, the Authority may maintain a program of self-insurance or participate in group risk financing programs, including sponsored insurance programs, risk pools, risk retention groups, purchasing groups and captive insurance companies, and in state or Federal insurance programs; provided, however, that the Authority shall obtain and maintain on file a tri-annual favorable written opinion of a Qualified Independent Consultant that such alternative is reasonably acceptable with respect to the coverages under all the circumstances.

Section 809. Damage, Destruction, Condemnation and Loss of Title.

If all or any part of the System is destroyed or damaged by fire or other casualty, condemned or lost by failure of title, the Authority shall restore promptly the property destroyed or damaged to substantially the same condition as before such destruction, damage, condemnation or loss of title with such alterations and additions as the Authority may determine and which will not impair the capacity or character of the System for the purpose for which it is then being used or is intended to be used. The Authority shall apply so much as may be necessary of such Net Proceeds received on account of any such destruction, damage, condemnation or loss of title to payment of the cost of such restoration, either on completion or as the work progresses. If such Net Proceeds are not sufficient to pay in full the cost of such restoration, the Authority shall pay so much of the cost as may be in excess of such Net Proceeds from any legally available moneys. Any balance of such Net Proceeds remaining after payment of the cost of such restoration shall be deposited in the Bond Fund.

Section 810. Records and Accounts; Inspections and Reports.

(a) The Authority shall keep proper books of records and accounts, separate from any of its other records and accounts, showing complete and correct entries of all transactions relating to the System, and the Trustee shall have the right at all reasonable times to inspect the System and all records, accounts and data relating thereto. The Authority shall also cause a certified audit of its records and accounts to be made in accordance with generally accepted accounting principles by an independent certified public accountant at the end of each Fiscal Year which shall reflect in reasonable detail the financial condition and results of operation of the System and whether the Authority has complied with the Rate Covenant and to deliver such report to the Trustee.

The Authority shall cause an Independent Consulting Engineer at least once every five years to inspect the System and make a written report thereof which shall include such Independent Engineer's findings and recommendations as to the maintenance of the System and the construction of additions, extensions and improvements to the System and capital replacements thereof. Such report shall be completed in sufficient time so that the Authority may take into account any recommendations thereof in preparing its next Annual Budget.

Section 811. Capital Budget.

(a) The Authority shall annually adopt a multiyear financial plan for capital expenses encompassing at least the forthcoming 5 fiscal years.

Section 812. Service Contracts.

(a) The Authority may enter into Service Contracts for the benefit of the System, provided that the Authority specifies in writing the items payable as the Debt Service Component, Operating Component or Remaining Component of the Cost of Contracted Services and provided, further, that the Authority shall not enter into any Service Contracts that would

create Debt Service Components that constitute Other System Indebtedness unless the Authority satisfies the test set forth in Section 303(h)(2).

(b) The Authority shall faithfully fulfill all lawful requirements of all Service Contracts and shall require all other parties thereto to fulfill their lawful obligations thereunder.

(c) The Authority shall determine in writing on or before the effective date of any Service Contract the amounts and due dates of any Debt Service Component and the interest and principal portions of such components.

ARTICLE IX

DEFAULTS AND REMEDIES

Section 901. Events of Default.

Each of the following events shall be an Event of Default:

(a) Default in the due and punctual payment of the principal of or premium, if any, on any Bond (whether at maturity, call for redemption or otherwise);

(b) Default in the due and punctual payment of the interest on any Bond;

(c) Failure of the Authority to fully fund the deposits referred to in Section 604(g)(3)(A) on or before November 1 of the applicable year;

(d) Subject to the remedial provisions of Section 601, failure of the Authority to observe and perform any of its other covenants, conditions or agreements under this Indenture or in the Bonds for a period of 60 days after written notice either from the Trustee or Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding (unless the Trustee agrees in writing to an extension of such time prior to its expiration), specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 60 day period, failure of the Authority to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence within 60 days thereafter; provided, however, any such cure period shall not exceed an aggregate of 120 days after such written notice from the Trustee or the Holders without the prior written consent of Financial Security Assurance, Inc., as long as the Authority's \$266,120,000 Public Utility Revenue Bonds, Series 1998 are outstanding.

(e) The Authority shall fail to make any required payment with respect to any Other System Indebtedness, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture, or instrument under which there may be issued, or by which there may be secured or evidenced any Other System Indebtedness, shall occur, which event of default shall not have been waived by the holder of such mortgage, indenture or

instrument; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Other System Indebtedness is commenced, the Authority in good faith shall commence proceedings to contest the obligation to pay or the existence of such Other System Indebtedness.

(f) (1) commencement by the Authority of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or similar law, (2) consent by the Authority to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the Authority, the System or any substantial part of the Authority's property, or to the taking possession by any such official of the System or any substantial part of the Authority's property, (3) making by the Authority of any assignment for the benefit of creditors, or (4) taking corporate action by the Authority in furtherance of any of the foregoing;

(g) The entry of any (1) decree or order for relief by a court having jurisdiction over the Authority or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Authority, the System or any substantial part of the Authority's property, or (3) order for the termination or liquidation of the Authority or its affairs; or

(h) Failure of the Authority within 60 days after the commencement of any proceedings against it under the Federal bankruptcy laws, or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

Section 902. Notice to Holders of Senior Debt of Certain Default.

If the Trustee is required to draw moneys from the Debt Service Reserve Fund to pay principal or interest on the Bonds and the Authority fails to begin replenishing the Debt Service Reserve Fund within 60 days in accordance with the replenishment requirements of Section 606 or fails to make any deposit required by Section 606, then the Trustee shall send a notice to the Holders of Senior Debt that have related Debt Service Reserve Accounts notifying them of the Authority's failure to replenish such draws.

Section 903. Acceleration.

Upon the occurrence and continuation of an Event of Default, the Trustee may (and if requested by the holders of not less than 25% in aggregate principal amount of Bonds then Outstanding shall) by written notice to the Authority, declare the entire unpaid principal of the Bonds due and payable and, thereupon, the entire unpaid principal of the Bonds shall forthwith become due and payable. Upon any such declaration the Authority shall forthwith pay to the holders of the Bonds the entire unpaid principal of, premium, if any, and accrued interest on the Bonds, but only from Net Revenues and other moneys herein specifically pledged for payments of Bondholders. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the

completion of the enforcement of any other remedy under this Indenture, the principal of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Trustee may, by written notice to the Authority, rescind or annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon. Subordinate Debt may not be accelerated if any Senior Debt is outstanding.

Section 904. Other Remedies; Rights of Bondholders.

Upon the occurrence and continuation of an Event of Default, the Trustee may (and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding of Bonds and if indemnified in accordance with prevailing industry standards shall) proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any covenant or agreement herein contained.

No remedy conferred by this Indenture upon or reserved to the Trustee and Bondholders is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee and holders of Bonds hereunder or now or hereafter existing at law, in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder by the Trustee or Bondholders shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 905. Right of Bondholders to Direct Proceedings.

Anything in this Indenture to the contrary notwithstanding, the holders of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or any other proceedings hereunder; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

Section 906. Application of Moneys.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or

made by the Trustee and its fees and the expenses of the Authority in carrying out this Indenture, be deposited in the Bond Fund and applied as follows and for no other purpose:

(a) Unless the principal of all of Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied:

First - To the payment to the persons entitled thereto of all installments of interest then due on the Senior Debt, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Debt; and

Second - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Senior Debt which shall have become due (other than Senior Debt called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Senior Debt due on any particular date, and then to the payment of such principal and premium, if any, ratably, according to the amount of such principal due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Senior Debt, including, to the extent permitted by law, interest on overdue installments of interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Debt over any other Senior Debt, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Debt.

(c) If the principal of all the Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of subsection (b) of this Section in the event that the principal of all the Senior Debt shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) of this Section.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) on which such application is to be made and on such date interest on the amounts of principal to be paid and on such dates shall cease to accrue. The

Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

Whenever there are moneys remaining after application to the Bond Fund for the payment of Senior Debt, the Trustee shall apply such remaining moneys, allocated in a similar manner as provided above, to the payment of Subordinate Debt.

Whenever the principal of and premium, if any, and interest on all Indebtedness have been paid under the provisions of this Section, all payments required by the terms of any Supplemental Indenture have been paid and all expenses and charges of the Trustee have been paid, any balance remaining in the several funds created by this Indenture shall be paid to the Authority as provided in Section 610.

Section 907. Remedies Vested in Trustee.

All rights of action (including the right to file proof of claims) under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Bondholders, and any recovery of judgment shall be for the equal benefit of the Bondholders.

Section 908. Limitation on Suits.

Except to enforce the rights given under Sections 904 and 905, no Bondholder shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of this Indenture or for the execution of any trust thereof or any other remedy hereunder, unless (a) a default has occurred and is continuing of which the Trustee has been notified as provided in Section 1101(h), or of which by such Section it is deemed to have notice, (b) such default has become an Event of Default and the holders of 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) such requesting Bondholders have offered to the Trustee indemnity as provided in Section 1101(l), (d) the Trustee has thereafter failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, own name, (e) no direction inconsistent with such written request has been given to the Trustee by the holders of a majority in aggregate principal amount of Bonds then Outstanding, and (f) notice of such action, suit or proceeding is given to the Trustee; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice this Indenture by its or their action or to enforce any rights hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of the holders of all Bonds then Outstanding. The notification, request and offer of indemnity set forth above, at the option of the Trustee, shall be conditions precedent to the execution of the powers and trusts of this Indenture and to any action or cause of action for the enforcement of this Indenture or for any other remedy hereunder.

Section 909. Termination of Proceedings.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Section 910. Waivers of Events of Default.

The Trustee may in its discretion waive any Event of Default hereunder or any action taken pursuant to any Event of Default and rescind any acceleration of maturity of principal of and interest on the Bonds, and shall do so at the request of the holders of (a) a majority in aggregate principal amount of Bonds then Outstanding in respect of which default in the payment of principal and/or premium, if any, and/or interest exists, or (b) a majority in aggregate principal amount of Bonds then Outstanding in the case of any other default; provided, however, that:

(1) there shall not be waived without the consent of the holders of all Bonds then Outstanding (A) any Event of Default in the payment of the principal of any Outstanding Bonds (whether at maturity or by sinking fund redemption), or (B) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission,

(i) there shall have been paid or provided for all arrears of interest with interest, to the extent permitted by law, at the rate borne by the Bonds on overdue installments of interest, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with such default, and

(ii) in case of any such waiver or rescission or in the case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any such default, the Authority, the Trustee, and the holders of Bonds shall be restored to their former positions and rights hereunder respectively; and

(2) no acceleration of maturity under Section 903 made at the request of the holders of 25% in aggregate principal amount of Bonds then Outstanding shall be rescinded unless requested by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding.

(3) any such waiver and/or rescission shall only be effective with respect to the Bonds if the holders of Other System Indebtedness shall have waived any event of default related to such Other System Indebtedness or any action taken pursuant to such event of default and/or rescinded any declaration of maturity of principal of and interest on the Other System Indebtedness.

No such waiver or rescission relating to the Bonds shall extend to any subsequent or other default or impair any right consequent thereon.

Section 911. Unconditional Right to Receive Principal, Premium and Interest.

Nothing in this Indenture shall, however, affect or impair the right of the Trustee or any Bondholder to enforce, by action at law, payment of the principal of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as herein provided, or the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner herein and in the Bonds expressed.

ARTICLE X

SUPPLEMENTAL INDENTURES

Section 1001. Supplemental Indentures Not Requiring Consent of Holders of Bonds.

The Authority and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into Supplemental Indentures as shall not be inconsistent with the intent of the terms and provisions hereof for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in this Indenture;
- (b) To grant to or confer upon the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred on the Bondholders;
- (c) To add to the covenants and agreements of the Authority in this Indenture other covenants and agreements to be observed by the Authority;
- (d) To modify, amend or supplement this Indenture in such manner as required to permit the Authority to comply with the provisions of the Code relating to the rebate to the United States of America of earnings derived from the investment of the proceeds of Bonds, provided that such modification, amendment or supplement does not materially adversely affect the holders of all Outstanding Bonds;
- (e) To modify, amend or supplement this Indenture in such manner as may be required by a Rating Agency to maintain or enhance its rating on the Senior Debt, provided that such modification, amendment or supplement does not materially adversely affect the holders of all Outstanding Bonds;
- (f) To modify, amend or supplement this Indenture to implement any covenants or agreements contemplated by Section 804;
- (g) To authorize the issuance of and to secure one or more issues of Indebtedness pursuant to Article III; and

(h) To amend any agreement with a securities depository relating to a book-entry system to be maintained with respect to any Bonds;

(i) To modify, amend or supplement this Indenture in any manner that the Trustee concludes is not materially adverse to the holders of all Outstanding Bonds.

Section 1002. Supplemental Indentures Requiring Consent of Bondholders.

Exclusive of Supplemental Indentures authorized by Section 1001 and subject to the terms and provisions contained in this Section, the holders of not less than a majority in aggregate principal amount of Outstanding Bonds shall have the right from time to time, notwithstanding anything in this Indenture to the contrary, to consent to the execution by the Authority and the Trustee of such other agreements or agreements supplemental hereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture and any Supplemental Indentures; provided, however, that nothing in this Indenture shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bonds, (b) a privilege or priority of any Senior Debt over any other Senior Debt, (c) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indentures, (d) a reduction in the principal amount of or premium, if any, on any Bonds or the rate of interest thereon, or (e) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any Bonds, without the consent of the holders of all of the Outstanding Bonds; provided, however that there shall be no modification of the Net Revenue pledge which secures the Other System Indebtedness nor of the Net Revenue pledge which secures the Subordinate Debt, if such respective modification would adversely affect the interests of the holders of such debt.

If at any time the Authority shall request the Trustee to enter into any such Supplemental Indenture, the Trustee shall cause notice of the proposed execution of such Supplemental Indenture to be sent by registered or certified mail to the registered owner of each Bond at his address as it appears on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the corporate trust office of the Trustee for inspection by all Bondholders. If, within 90 days or such longer period as shall be prescribed by the Authority following the giving of such notice, the holders of not less than a majority in aggregate principal amount of Outstanding Bonds, or in the case of (a) through (e) above, the holders of all Outstanding Bonds, shall have consented to and approved the execution thereof as herein provided, no holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation hereof, or in any manner to question the propriety thereof, or to enjoin or restrain the Trustee or the Authority from executing such Supplemental Indenture or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as in this Section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of consent or any calculation of Outstanding Bonds provided for in

this Indenture. At the time of any such calculation, the Authority shall furnish the Trustee a certificate of an Authorized Representative of the Authority upon which the Trustee may rely, describing all Bonds so to be excluded.

Notwithstanding anything in this Indenture to the contrary, the Authority and the Trustee may enter into any Supplemental Indenture upon receipt of the consent of the holders of all Outstanding Bonds.

ARTICLE XI

TRUSTEE

Section 1101. Acceptance of Trusts and Obligations.

The Trustee hereby accepts the trusts and obligations imposed upon it by this Indenture and agrees to perform such trusts and obligations, but only upon and subject to the following express terms and conditions and no implied covenants or obligations shall be read into this Indenture against the Trustee:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. Upon the occurrence and continuation of an Event of Default (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent man ordinarily would exercise and use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may act on an Opinion of Counsel and shall not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith and in reliance on such Opinion of Counsel.

(c) The Trustee shall not be responsible for any recital herein or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds) or for the recording, re-recording, filing or re-filing of any financing or continuation statement or any other document or instrument, or for insuring the System, collecting any insurance moneys, or for the validity of the execution by the Authority of this Indenture or for any supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority except as hereinafter set forth. The Trustee shall not be responsible or liable for any

loss suffered in connection with any investment of moneys made by it in accordance with Section 702.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The bank or trust company acting as Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in the Bonds and may join in any action which any holder of Bonds may be entitled to take with like effect as if such bank or trust company were not the Trustee. To the extent permitted by law, such bank or trust company may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting on any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture on the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bonds shall be conclusive and binding upon all future owners of the same Bonds and upon Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely on a certificate signed on behalf of the Authority by its Chairman and attested by the Secretary of the Authority under its seal, or such other person or persons as may be designated for such purposes by resolution of the Authority, as sufficient evidence of the facts therein contained, and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, may also accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary of the Authority under its seal to the effect that a resolution in the form therein set forth has been adopted by the Authority as conclusive evidence that such resolution has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder, except failure by the Authority to cause to be made any of the payments to the Trustee required to be made by Article VI or failure by the Authority to file with the Trustee any document required by this Indenture to be so filed, unless the Trustee shall be notified of such default by the Authority or by the holders of 25% in aggregate principal amount of Bonds then outstanding.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right, but shall not

be required, to inspect the System and all books, papers and records of the Authority pertaining to the System and the Bonds, and to make such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety with respect to the execution of its rights and obligations hereunder.

(k) Notwithstanding any other provision of this Indenture, the Trustee shall have the right, but shall not be required, to demand, as a condition of any action by the Trustee in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that required by the terms hereof.

(l) Before taking any action under this Indenture the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses to which it may be put and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful default.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust in the manner and for the purposes for which they were received but need not be segregated from other moneys except to the extent required by this Indenture or law. The Trustee shall not be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

Section 1102. Fees, Charges and Expenses of Trustee.

The Trustee shall be entitled to payment of and reimbursement for reasonable fees for its services and all expenses reasonably incurred by it hereunder, including the reasonable fees and disbursements of its counsel.

Section 1103. Notice Required of Trustee.

If the Authority shall fail to collect and deposit Net Revenues to the Bond Fund and Debt Service Reserve Fund with the Trustee as provided in Article VI, the Trustee shall give notice thereof by telephone or telegram to the Authority on the next succeeding Business Day and shall confirm such notice in writing by first class registered or certified mail. In the event of (a) the continuance for 30 days of any such failure to make payment, or (b) notification to the Trustee by the holders of 25% in aggregate principal amount of the Bonds then Outstanding of any default hereunder, then the Trustee shall give notice thereof to the Bondholders then Outstanding.

Section 1104. Intervention by Trustee.

In any judicial proceeding to which the Authority is a party and which in the opinion of the Trustee has a substantial bearing on the interests of the Bondholders, the Trustee may

intervene on behalf of the Bondholders and, subject to Section 1101(l), shall do so if requested by the holders of 25% in aggregate principal amount of Bonds then outstanding.

Section 1105. Merger or Consolidation of Trustee.

Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party shall be and become successor Trustee hereunder and vested with all the trusts, powers, discretion, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, provided, however, that so long as no Event of Default has occurred and is continuing, the Authority shall have the right to appoint a successor Trustee other than corporation or association that results from such conversion, sale, merger, consolidation or transfer.

Section 1106. Resignation by Trustee.

The Trustee may at any time resign from the trusts hereby created by giving 30 days' notice to the Authority, provided that such resignation shall not take effect until the appointment of a successor or temporary Trustee by the Bondholders, the Authority or a court of competent jurisdiction.

Section 1107. Removal of Trustee.

The Trustee may be removed at any time (a) by an instrument or concurrent instruments in writing delivered to the Trustee and the Authority, and signed by the owners of a majority in aggregate principal amount of Bonds then Outstanding, or (b) by the Authority by notice in writing given by an Authorized Representative of the Authority to the Trustee 30 days before the removal date; provided, however, that the Authority shall have no right to remove the Trustee during any time when an Event of Default has occurred or is continuing or when an event has occurred and is continuing or condition exists that with the giving of notice or the passage of time, or both, would be an Event of Default. The removed Trustee shall return to the Authority the amount of the Trustee's annual fee allocable to the portion of the current year remaining after the removal date. Notwithstanding the foregoing, nothing contained in this Indenture shall relieve the Authority of its obligation to pay the Trustee's fees and expenses incurred to the date of such removal. Such removal shall take effect upon the appointment of a successor Trustee or the earlier appointment of a temporary Trustee by the Bondholders, the Authority or a court of competent jurisdiction.

Section 1108. Appointment of Successor Trustee by Bondholders; Temporary Trustee.

In case the Trustee hereunder shall resign, be removed, be dissolved, be in course of dissolution or liquidation or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers or of a receiver appointed by a court, a

successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding, by an instrument or concurrent instruments in writing signed by such owners; provided, however, that in case of such vacancy the Authority, by an instrument signed by its General Manager and attested by the Secretary of the Authority under its seal, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed by the bondholders in the manner provided above; and any such temporary Trustee so appointed by the Authority shall immediately and without further act be superseded by the Trustee so appointed by such bondholders. Every such Trustee appointed pursuant to this section shall be, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms, a bank or trust company having a combined capital, surplus and undivided profits of not less than \$50,000,000.

Section 1109. Concerning any Successor Trustee.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed of conveyance, shall become fully vested with all the properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the request of the Authority, execute and deliver an instrument transferring to such successor Trustee all the properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such successor the properties, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Section 1110. Trustee Protected in Relying on Indentures, etc.

The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the release of property and the withdrawal of cash hereunder or the taking of any other action by the Trustee as provided hereunder.

Section 1111. Successor Trustee as Paying Agent, Registrar and Custodian of Funds.

In the event of a change in the office of Trustee, the predecessor Trustee which has resigned or been removed shall cease to be paying agent and registrar for the Bonds and custodian of the funds created hereunder, and the successor Trustee shall become such paying agent, registrar and custodian.

ARTICLE XII

DISCHARGE OF INDENTURE

Section 1201. Discharge of Indenture.

If (a) (1) all Bonds and Subordinate Debt issued hereunder shall have become due and payable in accordance with their terms or otherwise as provided in this Indenture or have been duly called for redemption or irrevocable instructions to call the Bonds or Subordinate Debt issued hereunder to pay them at maturity have been given by the Authority to the Trustee, and (2) the Trustee holds for such purpose cash or obligations that are either noncallable direct obligations of the United States of America or noncallable obligations, timely payment of which is guaranteed by the United States of America, the principal of and the interest on which, as verified by a licensed independent certified public accountant (that carries errors and omissions insurance) reasonably acceptable to the Trustee and the Authority, at maturity will be sufficient (without reinvestment) (A) to redeem in accordance with the relevant Section hereof all Bonds or Subordinate Debt issued hereunder that have been called for redemption, or for which irrevocable instructions for call for redemption have been given, on the date set for such redemption, (B) to pay at maturity all Bonds or Subordinate Debt issued hereunder not irrevocably called for redemption, (C) to pay interest accruing on all Bonds or Subordinate Debt issued hereunder prior to its redemption or payment at maturity, (D) to make all payments required by the terms of any Supplemental Indenture, and (E) to pay the Trustee's fees and expenses and any other fees and expenses for which the Authority is responsible under this Indenture, including the costs and expenses of canceling and discharging this Indenture, and (b) the Trustee shall have received notification from the holders of all other Indebtedness that such Indebtedness has been paid, or payment has been provided for such Indebtedness, in accordance with the documents related thereto, then the Trustee shall, at the expense of the Authority, cancel and discharge this Indenture and execute and deliver to the Authority such instruments in writing as shall be necessary to cancel the lien hereof, and assign and deliver to the Authority any property at the time subject to this Indenture that may then be in its possession, except moneys or securities in which such moneys are invested which are held by the Trustee for the payment of principal, or premium, if any, or interest on the Bonds and Subordinate Debt issued hereunder;

Bonds for the payment or redemption of which cash or noncallable direct obligations of the United States of America the principal of and premium, if any, and interest on which will be sufficient therefor, as determined by the Trustee in reliance on a report of a licensed independent certified public accountant, shall have been deposited with the Trustee (whether upon or prior to the date of their maturity or their redemption date) shall be deemed to be paid and no longer Outstanding; provided, however, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or arrangements satisfactory to the Trustee shall have been made for the giving thereof.

ARTICLE XIII

MISCELLANEOUS

Section 1301. Consents, etc., of Bondholders.

Any consent, request, direction, approval, objection or other instrument (collectively, a "Consent") required by this Indenture to be executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be executed by such Bondholders in person or by agent appointed in writing. Proof of the execution of a Consent or of the writing appointing any such agent shall be sufficient for any of the purposes of this Indenture and shall be conclusive in favor of the Authority with regard to any action taken under the Consent if the fact and date of the execution by any person of any such writing is proved by a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

Section 1302. Limitation of Rights.

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any person other than the parties hereto and the holders of the Bonds any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and agreements herein contained since this Indenture and all of the covenants, conditions and agreements hereof are intended to be and is for the sole and exclusive benefit of the parties hereto and the holders of the Bonds as herein provided.

Section 1303. Limitation of Liability of Board of Directors of the Authority, etc.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

Section 1304. Severability.

If any provision of this Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof and this Indenture shall be construed and enforced as if such illegal provision had not been contained herein.

Section 1305. Notices.

Unless otherwise provided herein, all demands, notices, approvals, consents, requests, opinions and other communications hereunder shall be in writing and shall be deemed to have been given when delivered in person or mailed by first class registered or certified mail, postage prepaid, addressed (a) if to the Authority, at 5000 Overlook Avenue, S.W., Washington, D.C. 20032 (Attention: General Manager) or (b) if to the Trustee, at 11000 Broken Land Parkway, Columbia, MD 21044-3562 (Attention: Corporate Trust Department). The Authority and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications shall be sent or persons to whose attention the same shall be directed.

Section 1306. Successors and Assigns.

This Indenture shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 1307. Applicable Law.

This Indenture shall be governed by the applicable laws of the District of Columbia.

Section 1308. Counterparts.

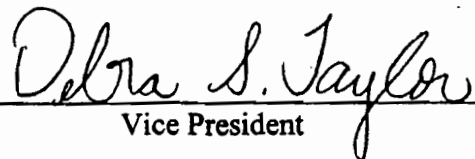
This Indenture may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority and the Trustee have caused this Indenture to be executed in their respective corporate names as of the date first above written.

**DISTRICT OF COLUMBIA WATER AND
SEWER AUTHORITY**

By 
Chairman

**NORWEST BANK MINNESOTA, N.A. ,
as Trustee**

By 
Vice President