

ORDINANCE NO. 946

AN ORDINANCE OF THE CITY OF KETCHUM, IDAHO, AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF SEWER REVENUE BONDS, SERIES 2004, IN THE PRINCIPAL AMOUNT OF \$1,990,000, FOR THE PURPOSE OF FINANCING THE ACQUISITION OF IMPROVEMENTS TO THE SANITARY SEWER COLLECTION AND TREATMENT SYSTEM OF THE CITY; DESCRIBING THE BONDS; SPECIFYING THE DATE, FORM, MATURITIES, REGISTRATION, AND AUTHENTICATION OF THE BONDS; FIXING THE RATES OF INTEREST ON THE BONDS; PROVIDING FOR THE APPLICATION OF BOND PROCEEDS; ESTABLISHING FUNDS AND ACCOUNTS; PROVIDING FOR THE COLLECTION AND DISPOSITION OF REVENUES; PROVIDING COVENANTS RELATING TO THE BONDS AND TO THE TAX-EXEMPT STATUS OF THE INTEREST ON THE BONDS; PROVIDING FOR THE SALE AND DELIVERY OF THE BONDS; PROVIDING FOR A POLICY OF MUNICIPAL BOND INSURANCE TO SECURE THE PAYMENT OF THE BONDS; PROVIDING FOR RELATED MATTERS; AND PROVIDING AN EFFECTIVE DATE

WHEREAS, the City of Ketchum, Blaine County, Idaho (the "City"), is a municipal corporation organized and operating under the laws of the State of Idaho; and

WHEREAS, the City operates and maintains a sanitary sewer collection and treatment system and collects rates, fees, and charges for the use of the system; and

WHEREAS, the City is authorized by the Constitution and laws of Idaho to issue revenue bonds to finance all or part of the cost of acquisition, construction, and installation of improvements and betterments to the sewer system of the City; and

WHEREAS, the Mayor and Council of the City, by adoption of Ordinance No. 925 on December 1, 2003, ordered a special bond election to be held within the City on February 3, 2004, for the submission to the qualified electors of the City the question of whether or not the City should be authorized to issue its revenue bonds in the principal amount of \$3,720,000 in order to provide funds for certain capital improvements to its sewer system; and

WHEREAS, the requisite majority of the qualified electors of the City, at the special bond election of February 3, 2004, authorized the incurring of indebtedness and the issuance of revenue bonds in the amount of \$3,720,000; and

WHEREAS, the Mayor and Council have determined that the public health, safety, and welfare will be furthered by the sewer system improvement project described hereinafter and has further determined to issue sewer revenue bonds of the City, duly authorized by the electors of the City at the special bond election of February 3, 2004, in an aggregate principal amount of

\$1,990,000 to finance a portion of the cost of the improvements;
and

WHEREAS, the City currently has no outstanding indebtedness payable from the net revenues of its sewer utility system; and

WHEREAS, Section 50-1036, Idaho Code, authorizes the sale of sewer revenue bonds at private sale in such manner as the Mayor and Council may determine, and the Mayor and Council have received an offer from Seattle-Northwest Securities Corp. to purchase the bonds of the City; and

WHEREAS, the Mayor and Council have determined to sell its sewer revenue bonds to Seattle-Northwest Securities Corp. in accordance with such offer.

NOW, THEREFORE, BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF KETCHUM, IDAHO, as follows:

Section 1: DEFINITIONS

As used in this Ordinance, the following words shall have the following meanings:

Acquisition or Acquire includes the opening, laying out, establishment, purchase, construction, securing, installation, reconstruction, lease, gift, grant from the Federal Government, the State, any public body therein or any person or entity, the condemnation, transfer, option to purchase, other contract, or other acquirement, or any combination thereof.

Additional Bonds means any bonds or other obligations payable from Net Revenues and issued pursuant to Section 15 of this Ordinance.

Bonds means the "City of Ketchum Sewer Revenue Bonds, Series 2004," herein authorized to be issued, sold, and delivered in the principal amount \$1,990,000.

Annual Debt Service means the amount required in a given fiscal year of the City for the payment of the principal of, premium, if any, and interest on the Bonds and any Additional Bonds, except interest to be paid from the proceeds of the Additional Bonds.

Average Annual Debt Service means the average annual amount required over the term of the Bonds from the time of calculation for the payment of the principal of, premium, if any, and interest on the Bonds and any Additional Bonds (except interest to be paid from the proceeds of the Additional Bonds).

Beneficial Owner(s) means the owners of Bonds whose ownership is recorded under the Book-Entry-Only System maintained by the Depository.

Bond Fund means the "City of Ketchum Sewer Revenue Bond Fund" created by Section 12 of this Ordinance.

Bond Purchase Agreement means the agreement for the purchase of the Bonds from the City by the Underwriter.

Bond Register means the registration records of the City, maintained by the Bond Registrar, on which are maintained the names and addresses of the Registered Owners or nominees of the Registered Owners of the Bonds.

Bond Registrar or Paying Agent means U.S. Bank National Association, as bond registrar, transfer agent, and authenticating and paying agent appointed and designated in Section 6 of this Ordinance, and any successor Bond Registrar.

Book-Entry-Only System means the system of recordation of ownership of the Bonds on the books of the Depository pursuant to Section 3 of this Ordinance.

Business Day means any day, other than a Saturday or Sunday, on which banks located in the State of Idaho and in the state where the Bond Registrar's Principal Corporate Trust Office is located, are open for the purpose of conducting commercial banking business.

Cede means Cede & Co., the nominee of the Depository, and any successor nominee of Depository with respect to the Bonds.

Certificated Bond(s) means a Bond or Bonds evidenced by a printed certificate in the event that the Book-Entry-Only System is discontinued.

City means the City of Ketchum, Blaine County, Idaho.

City Clerk means the Clerk of the City, or other officer of the City who is the custodian of the seal of the City and of the records of the proceedings of the City, or his/her successor in functions, if any.

Construction Fund means the "City of Ketchum Sewer Project Construction Fund" created by Section 10 of this Ordinance.

Cost of Project or any phrase of similar import, means all or any part designated by the Council of the costs of the Project, or interest therein, which costs, at the option of the Council, may include all or any part of the incidental costs pertaining to the Project, including, without limitation:

(1) Preliminary expenses advanced by the City from funds available for the use therefor, or advanced by the Federal Government, or from any other source, with approval of the Council, or any combination thereof;

(2) The costs of making surveys, audits, preliminary plans, other plans, specifications, estimates of costs and other preliminaries;

(3) The costs of appraising, printing, estimates, advice, services of engineers, architects, financial consultants, attorneys at law, clerical help, or other agents or employees;

(4) The costs of contingencies;

(5) The costs of the issuance of the Bond;

(6) The costs of funding any short-term financing, bond anticipation notes, and other temporary loans pertaining to the Project and of the incidental expenses incurred in connection with such loans.

(7) The costs of any properties, rights, easements, or other interest in properties, or any licenses, privileges, agreements and franchises; and

(8) All other expenses necessary or desirable and pertaining to the Project, as estimated or otherwise ascertained by the Council.

Council means the City Council of the City.

Depository means The Depository Trust Company, New York, New York, or its successors and assigns.

Estimated Net Revenues means, for any year, the estimated Revenues of the System for such year less the estimated Operation and Maintenance Expenses for such year, based upon estimates prepared by the City Engineer or an independent engineer, or an independent certified public accountant. In computing Estimated Net Revenues, Revenues of the System may be adjusted as necessary to reflect any changed schedule of rates and charges.

Insurance Policy means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due, as set forth in Section 27 of this Ordinance.

Insurer or XLCA means XL Capital Assurance Inc., or any successor thereto or assignee thereof.

Maximum Annual Debt Service means an amount equal to the greatest Annual Debt Service with respect to the Bonds and any Additional Bonds for the current or any future fiscal year of the City.

Mayor means the Mayor of the City, or his/her successor in functions, if any.

Net Revenues means Revenue of the System after the deduction of Operation and Maintenance Expenses.

Operation and Maintenance Expenses or any phrase of similar import means all reasonable and necessary current expenses of the City, (except depreciation), paid or accrued, of operating, maintaining, and repairing the System or of levying, collecting, and otherwise administering the Net Revenues for the payment of the Bonds; and the term includes (except as limited by contract or otherwise limited by law) without limiting the generality of the foregoing:

- (1) Engineering, auditing, reporting, legal, and other overhead expenses of the various City departments directly relating and reasonably allocable to the administration of the System;
- (2) Fidelity bonds and property and liability insurance premiums pertaining to the System, or a reasonably allocable share of a premium of any blanket bond or policy pertaining thereto;
- (3) Payments to pension, retirement, health, and hospitalization funds and other insurance;
- (4) Any taxes, assessments, excise taxes, or other charges which may be lawfully imposed on the City, the System, revenues therefrom, or any privilege in connection with their operation;
- (5) The reasonable charges of the bond registrar, fiscal or paying agent, commercial bank, trust bank, or other depository bank pertaining to the Bonds issued by the City or pertaining to the Project, if any;
- (6) Contractual services, professional services, salaries, other administrative expenses, and the cost of materials, supplies, repairs, and labor, pertaining to the issuance of the Bond and to the ordinary operation of the System; and

(7) All other administrative, general, and commercial expenses.

Ordinance means this Ordinance No. 946, adopted on December 16, 2004.

Outstanding, when used with reference to the Bonds, as of any particular date, means Bonds, the principal of and interest on which have not been paid pursuant to this Ordinance or which have not been replaced pursuant to Section 6 of this Ordinance.

Participants means those broker-dealers, banks, and other financial institutions for which the Depository holds Bonds as securities depository.

Principal Corporate Trust Office means, with respect to the Bond Registrar, the office of the Bond Registrar at Salt Lake City, Utah; provided, however, that with respect to payments on the Bonds and any exchange, transfer, or surrender of the Bonds, Principal Corporate Trust Office shall mean the office of the Bond Registrar at U.S. Bank Trust National Association, 60 Livingston Avenue, St. Paul, MN 55107 or such other or additional offices as may be specified by the Bond Registrar

Payment Date means any scheduled interest payment date or principal payment date on the Bonds.

Policy Payments Account means the special trust account by that name held by the Bond Registrar pursuant to Section 27 of this Ordinance.

Project means the sewer system improvement project described in Section 2 of this Ordinance.

Representation Letter means the representation letter from the City to the Depository, as authorized in Section 3 of this Ordinance.

Registered Owner(s) means the person or persons in whose name or names the Bonds shall be registered in the Bond Register maintained by the Bond Registrar.

Reserve Fund means the "City of Ketchum Sewer Revenue Bonds Debt Service Reserve Fund" created by Section 13 of this Ordinance.

Reserve Policy means the policy of insurance issued by the Insurer to fund the Reserve Fund pursuant to Section 13(E) of this Ordinance.

Reserve Requirement means the lesser of (i) the Maximum Annual Debt Service on the Bonds and any Additional Bonds or (ii)

125% of the Average Annual Debt Service on the Bonds and any Additional Bonds, not to exceed 10% of the proceeds of the Bonds and any Additional Bonds as provided in Section 148(d) of the Internal Revenue Code of 1986, as amended.

Revenue Fund means the "City of Ketchum Wastewater Fund" referred to in Section 11 of this Ordinance.

Revenue of the System means all revenues received by the City from its System and may include, at the discretion of the City, moneys derived from one, all, or any combination of revenue sources appertaining to the System, including, without limitation, rates, charges, rents, fees, and any other income derived from the operation or ownership of, the use of services of, or the availability of or services pertaining to, or otherwise derived in connection with, the System or all or any part of any property pertaining to the System.

System, for purposes of this Ordinance, means the sanitary sewer collection and treatment system of the City, as the same now exists, including its assets, real and personal, tangible and intangible, and as it may later be added to, extended, and improved, and shall include buildings, structures, utilities, or other income producing sewer facilities from the operation of or in connection with which the revenues of the payment of the Bonds to be issued hereunder will be derived, and the lands pertaining thereto.

Treasurer means the Treasurer of the City, or his/her successor in functions, if any.

Underwriter means Seattle-Northwest Securities Corporation.

Section 2: THE PROJECT

A. Project Description. The sewer system improvement project consists of the acquisition, construction, and installation of improvements and betterments to the City's sanitary sewer collection system (the "Project"), consisting generally of, but not limited to, electrical controls upgrade, new aeration basins, ultra-violet disinfection system, and filtration system improvements, together with the costs of engineering, legal, accounting, and other necessary professional services, costs of bond issuance, interest on borrowed funds during construction, and related improvements and costs incidental thereto.

B. Project Changes. The Council may make changes in the Project prior to or in the course of actual construction, provided such changes are found necessary and desirable by the Council and that such changes do not substantially affect or alter the plans or the cost of the Project.

C. Costs. \$1,990,000 of the cost and expenses of construction and installation of the Project will be paid from the issuance and sale of the Bonds, hereinafter defined, authorized to be issued at a special election held within the City on February 3, 2004. Any balance will be realized from other legally available funds, including state or federal grant and loan funds.

Section 3: THE BONDS

A. Authorization. Fully registered sewer revenue bonds of the City, designated "City of Ketchum Sewer Revenue Bonds, Series 2004" (the "Bonds"), in the aggregate principal amount of \$1,990,000, are hereby authorized to be issued, sold, and delivered pursuant to the Idaho Revenue Bond Act.

B. Description of the Bonds. The Bonds shall be issued in accordance with the Book-Entry-Only System described in this Section 3, shall be dated December 15, 2004, shall be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof (provided that no Bond shall represent more than one maturity), shall mature in the years 2005 through 2024, and shall bear interest from their date, or from the most recent date to which interest has been paid or duly provided, at the rates set forth below, payable commencing June 1, 2005, and semiannually thereafter on each December 1 and June 1 until their respective dates of maturity or prior redemption, and shall mature on December 1 in the following years and principal amounts:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
December 1, 2005	\$ 65,000	3.000%
December 1, 2006	75,000	3.000
December 1, 2007	75,000	2.500
December 1, 2008	80,000	3.000
December 1, 2009	80,000	3.250
December 1, 2010	85,000	3.250
December 1, 2011	85,000	3.500
December 1, 2012	90,000	3.500
December 1, 2013	90,000	3.500
December 1, 2014	95,000	3.450
December 1, 2015	100,000	3.550
December 1, 2016	100,000	3.700
December 1, 2017	105,000	3.700
December 1, 2018	110,000	3.750
December 1, 2019	115,000	3.800
December 1, 2020	120,000	3.900
December 1, 2021	125,000	4.000
December 1, 2022	125,000	4.050
December 1, 2023	130,000	4.125
December 1, 2024	140,000	4.150

Interest shall be computed on the basis of a twelve-month, 360-day year.

The Bonds shall be numbered separately in the manner and with any additional designation as the Bond Registrar shall deem necessary for the purposes of identification. After execution, as hereinafter provided, the Bonds shall be authenticated by the Bond Registrar.

C. The Book-Entry-Only System. The Bonds shall be issued in book-entry-only form, with no Bonds being made available to Beneficial Owners thereof unless the Book-Entry-Only System is discontinued. So long as the Bonds are issued in book-entry-only form, the City and the Bond Registrar shall recognize the Depository or its nominee as the Registered Owner of the Bonds for all purposes. Beneficial ownership interests in the Bonds will be available to Beneficial Owners in book-entry-only form, in accordance with the book-entry-only practices of the Depository.

The Bonds shall be issued in the form of one Bond representing each maturity of the Bonds, in conformance with the book-entry-only practices of the Depository. Each Bond shall be substantially in the form set forth in Exhibit "A" attached hereto and incorporated herein by reference. Each Bond shall be executed by the manual signatures of the Mayor and Treasurer and attested by the manual signature of the Clerk, shall have the official seal of the City impressed thereon, and shall be manually authenticated by the Bond Registrar. Each Bond shall be registered in the name of Cede & Co. as nominee of the Depository and shall be lodged with the Depository until maturity of the Bonds. The Bond Registrar shall remit each payment of interest, or principal and interest, and redemption premium, if applicable, directly to the Depository for distribution to the Beneficial Owners by recorded entry on the books of the Depository in accordance with the book-entry-only practices of the Depository, and the City and the Bond Registrar shall have no liability therefor. Such payment shall be valid and effective fully to satisfy and discharge the City's obligation to each Beneficial Owner with respect to the payment thereof to the extent of the sums so paid.

With respect to the Bonds registered in the name of Cede & Co. as nominee for the Depository, neither the City nor the Bond Registrar shall have any responsibility to any Beneficial Owner with respect to:

- (i) the sending of transaction statements, or maintenance, supervision, or review of records of the Depository;

(ii) the accuracy of the records of the Depository or its nominee with respect to any ownership interest in the Bonds;

(iii) the payment to any Beneficial Owner, or any other person other than the Depository, of any amount with respect to principal of, interest on, or redemption premium, if any, on the Bonds;

(iv) any consent given or other action taken by the Depository or its nominee as owner of the Bonds.

In the event that either the City or the Depository shall determine to discontinue the Book-Entry-Only System as to the Bonds, and the City elects not to designate a substitute depository, then the City will cause its Certificated Bonds to be issued to the Beneficial Owners in accordance with Section 5 of this Ordinance.

The Representation Letter in substantially the form annexed hereto as Exhibit "B" is hereby authorized for use in connection with the Bonds.

Section 4: PLACE AND MANNER OF PAYMENT

Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America to the Registered Owner thereof whose name and address appear on the Bond Register maintained by the Bond Registrar.

Payment of each installment of interest on the Bonds shall be made on its semiannual due date to the Registered Owner whose name appears on the Bond Register on the fifteenth day next preceding the interest payment date, at the address appearing on the Bond Register, and shall be paid by check or draft of the Bond Registrar mailed to such Registered Owner on the due date at such address, or at such other address as may be furnished in writing by such Registered Owner to the Bond Registrar.

Principal of the Bonds shall be payable to the Registered Owner upon presentation and surrender of the Bonds on the date of maturity or prior redemption, at the office of the Bond Registrar.

Section 5: EXECUTION OF CERTIFICATED BONDS

In the event that the Book-Entry-Only System is discontinued with respect to the Bonds, the City shall cause Certificated Bonds to be prepared, executed, authenticated, and delivered. The Certificated Bonds shall be substantially in the form set forth in Exhibit "C" which is annexed hereto and by reference made a part hereof. The Certificated Bonds shall be numbered

separately in the manner and with such additional designation as the Bond Registrar shall deem necessary for purposes of identification. The Certificated Bonds shall be lithographed or printed with engraved or lithographed borders. The Certificated Bonds shall be signed by the Mayor, countersigned by the Treasurer, and attested by the City Clerk (any of which signatures may be manual or by facsimile), and the seal of the City shall be impressed thereon or the facsimile seal of the City shall be imprinted thereon. The Certificated Bonds shall then be delivered to the Bond Registrar for authentication.

In case any of the officers who shall have signed or countersigned any of the Certificated Bonds shall cease to be such officer or officers of the City before the Certificated Bonds so signed or countersigned shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Certificated Bonds may nevertheless be authenticated, delivered, and issued and, upon such authentication, delivery, and issue, shall be as binding upon the City as though those who signed and countersigned the same had continued to be such officers of the City. Any Certificated Bond may also be signed and countersigned on behalf of the City by such persons as at the actual date of execution of such Certificated Bonds shall be the proper officers of the City although at the original date of such Certificated Bond any such person shall not have been such officer of the City.

Only such of the Certificated Bonds as shall bear thereon a certificate of authentication in the form set forth in Exhibit "C," manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Ordinance, and such certificate of authentication shall be conclusive evidence that the Certificated Bonds so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this Ordinance.

Section 6: BOND REGISTRAR

U.S. Bank National Association is hereby appointed as bond registrar, transfer agent, and authenticating and paying agent, and is herein referred to as the "Bond Registrar" or "Paying Agent." The Bond Registrar shall keep, or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the bonds transferred or exchanged in accordance with the provisions of the Bonds and this Ordinance and to carry out all of the Bond Registrar's powers and duties under this Ordinance.

The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on

the Bonds. The Bond Registrar may become the owner of the Bonds with the same rights as it would have if it were not the Bond Registrar.

The Bonds may be transferred only upon the books for the registration and transfer of bonds, upon the surrender thereof at the office of the Bond Registrar, together with a form of transfer duly executed by the Registered Owner or his attorney duly authorized in writing, substantially in the form set forth in the form of bond referred to in Section 3 hereof. Upon the transfer of any Bond, there shall be issued in the name of the transferee or transferees a new fully registered Bond or Bonds of any authorized denomination or denominations and of the same maturity and interest rate, and of the same aggregate principal amount, as the surrendered Bond. The new Bond or Bonds shall bear the same date as the date of the surrendered Bond, but shall bear interest from the immediately preceding interest payment date to which interest has been paid or fully provided for.

The Bond Registrar shall not be required to exchange or transfer any Bond within fifteen (15) days of an interest payment date or, in the case of any redemption of Bonds, within fifteen (15) days of the redemption date.

This section is intended to provide the system of registration required by Chapter 9, Title 57, Idaho Code.

Section 7: REDEMPTION PRIOR TO MATURITY; DEFEASANCE

A. Optional Redemption. Bonds maturing on or before December 1, 2014 shall not be subject to call or redemption prior to their stated dates of maturity. On any interest payment date on or after December 1, 2014, at the option of the City, the Bonds maturing on or after December 1, 2015, shall be subject to redemption, in whole or in part, at the discretion of the City (and by lot selected by the Bond Registrar within a maturity), at a price of 100% of the principal amount of the Bond being redeemed, plus accrued interest to the redemption date, upon notice as hereinafter provided.

B. Redemption Provisions Portions of any Bond of a denomination of more than \$5,000 may be redeemed. The portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or any integral multiple of \$5,000, and in selecting portions of such Bonds for redemption the Bond Registrar will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000.

Notice of redemption of any Bonds shall be given by mailing of notice by the Bond Registrar to the registered owner of any Bond being called for redemption not less than thirty nor more

than sixty days prior to the redemption date by first class mail, postage prepaid, at the address appearing on the Bond Register, or at such other address as may be furnished in writing by such registered owner to the Bond Registrar. The foregoing requirements shall be deemed to be complied with when notice is mailed as provided herein, regardless of whether or not it is actually received by the owner of such Bond. The notice shall specify the Bonds to be redeemed, the date and place of redemption, and shall provide that the Bonds so called for redemption shall cease to accrue interest on the specified redemption date, provided funds for such redemption are on deposit at the place of payment at such time, and shall not be deemed to be outstanding as of such redemption date.

C. Defeasance. In the event that money and/or government obligations, maturing or having guaranteed redemption prices at the option of the owner at such time or times and bearing interest to be earned thereon in such amounts as are sufficient (together with any resulting cash balances) to redeem and retire part or all of the Bonds in accordance with their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Bond Fund or Reserve Fund for the payment of the principal of and interest on the Bonds so provided for, and such Bonds and interest accrued thereon shall then cease to be entitled to any lien, benefit, or security of this Ordinance, except the right to receive the funds so set aside and pledged, and such Bonds and interest accrued thereon shall no longer be deemed to be outstanding hereunder.

Section 8: CHARGES AND RATE COVENANT

The City has established, may from time to time revise, and shall maintain and collect sewer rates and charges for furnishing the services of the System to its customers, which rates and charges are, and shall continue to be, uniform as to all persons or properties which are of the same class, which rates and charges shall be collected from the users thereof.

The City hereby covenants and agrees with the Registered Owners and Beneficial Owners that it will establish, revise as necessary, maintain, and collect charges sufficient, together with other revenues received, after taking into consideration anticipated delinquencies, to provide Net Revenues for each fiscal year equal to not less than 1.25 times the required Annual Debt Service payments on the Bonds and any Additional Bonds then outstanding. The City further covenants that the Revenue of the System will at all times be sufficient to pay Operation and Maintenance Expenses, to make all payments required to be made on account of the Bonds and any Additional Bonds as and when the same shall become due and payable, and all other payments which the City is obligated to make pursuant to this Ordinance, and to

pay all governmental charges lawfully imposed on the System and all other amounts which the City may now be or hereafter become obligated to pay from the Revenue of the System.

Section 9: PLEDGE OF REVENUES

The Net Revenues of the System are hereby pledged for the payment of the Bonds and shall be used and applied in the order of priority provided in Section 11 of this Ordinance.

Section 10: THE CONSTRUCTION FUND

There is hereby created a special fund known as the "City of Ketchum Wastewater Project Construction Fund" (the "Construction Fund"), into which shall be deposited all of the proceeds of the sale of the Bonds, to be used and applied for the payment of a portion of the cost and expense of the construction and installation of the Project, including the payment of the principal of and interest on all outstanding bond anticipation notes or other interim financing, if any. Any interest earnings on moneys invested from the Construction Fund shall remain in and be used for the purposes of the Construction Fund. The City's share of any liquidated damages or other moneys paid by defaulting contractors or their sureties will be deposited into the Construction Fund to assure the completion of the Project.

When the Project has been completed and all costs related thereto have been paid in full, any balance remaining in the Construction Fund shall be deposited into the Bond Fund described in Section 12 of this Ordinance.

Section 11: THE REVENUE FUND

There has heretofore been created a special fund known as the "City of Ketchum Wastewater Fund" (the "Revenue Fund"), which shall be maintained by the Treasurer and into which the Revenue of the System shall be deposited forthwith upon its receipt.

A. Use of Revenues. The Revenue of the System shall be used for payment of the following obligations in the following order of priority:

(1) First Charge and Lien: the costs of Operation and Maintenance Expenses;

(2) Second Charge and Lien: the principal of and interest on the Bonds by payment into the Bond Fund; and

(3) Third Charge and Lien: To maintain the Debt Service Reserve Fund, and to provide for any deficiency in the Debt Service Reserve Fund.

(4) To administer surplus funds.

B. Surplus Funds: Funds remaining in the Revenue Fund, after having been applied to the purposes provided in this Section, shall constitute surplus funds and may be used for the purposes set forth in Section 14 of this Ordinance.

Section 12: THE BOND FUND

There is hereby created a special fund known as the "City of Ketchum Sewer Revenue Bond Fund" (the "Bond Fund"), into which shall be deposited, from Net Revenues, the following described revenues:

A. Not later than three (3) days prior to any interest, or principal and interest, payment date, the Treasurer shall withdraw from the Revenue Fund and transfer to and deposit in the Bond Fund an amount necessary to pay the next maturing installment of interest, or principal and interest, as the case may be, on the Bonds.

B. If the City for any reason shall fail to make such required deposit from the Revenue Fund, then an amount equal to the deficiency shall be deposited into the Bond Fund out of the Reserve Fund.

C. On the third business day immediately preceding each maturity date or interest payment date of the Bonds, the Treasurer shall pay out of the Bond Fund, to the Bond Registrar, the amount required for the interest, or principal and interest, as the case may be, payable on such due date. From the amounts so paid into the Bond Fund, the Bond Registrar shall pay (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; and (ii) on or before any redemption date for the Bonds, the amount required for the payment of principal of and interest on the Bonds then to be redeemed.

D. Interest earnings on deposits in the Bond Fund shall remain in the Bond Fund to be used for the purposes of the Bond Fund.

Section 13: DEBT SERVICE RESERVE FUND

A. Deposits. There is hereby created a separate fund, known as the "City of Ketchum Sewer Revenue Bonds Debt Service Reserve Fund" (the "Reserve Fund"), which shall be maintained by the Treasurer. Simultaneously with the issuance of the Bonds, there shall be transferred from the proceeds of the Bonds and from other lawfully available moneys of the City to the Reserve Fund an amount equal to the Reserve Requirement, which sum shall be maintained as a debt service reserve fund for the Bonds until

the Bonds have been paid in full. Moneys in the Reserve Fund may be applied by the City to the payment of the final maturity of principal of and interest on the Bonds. So long as the amount on deposit in the Reserve Fund equals the Reserve Requirement, earnings on amounts in the Reserve Fund shall be deposited as received into the Revenue Fund. In no event shall the amount accumulated in the Reserve Fund exceed the Reserve Requirement.

B. Deficiencies or Withdrawals. Whenever any moneys are withdrawn from the Reserve Fund to pay the principal of or interest on the Bonds, or if a deficiency exists in such Fund, the amount so withdrawn or the amount of such deficiency shall be restored within one (1) year from the date the withdrawal or deficiency occurs by equal monthly deposits from Net Revenues until there has been restored therein the gross amount provided heretofore in subdivision A of this Section.

C. Refunding. In the event Refunding Bonds are ever issued, the amount set aside into the Reserve Fund to secure the payment of the Bonds may be used to retire bonds or may be held in the Reserve Fund to secure payment of the refunding bonds issued, to refund the outstanding refunding bonds, or may be held in the Reserve Fund to secure the payment of any other issue or series of bonds payable out of the Bond Fund and issued on a parity with the Bonds.

D. Investments. All moneys in the Reserve Fund may be kept in cash or deposited in institutions permitted by law in an amount in each institution not greater than the amount insured by any department or agency of the United States Government, or may be invested and reinvested in any legal investment permitted for City moneys maturing not later than two years from the date of such investment and in any event not later than the last maturity date of any outstanding Bonds. Interest earned on any such investment shall be deposited, directly as earned, into the Revenue Fund.

E. Excess Funds. Any amounts in the Reserve Fund in excess of the Reserve Requirement shall be transferred, not less often than annually, to the Revenue Fund. Upon final payment of all principal of and interest on the Bonds, the amount in the Reserve Fund attributable to the Bonds may be withdrawn by the City from the Reserve Fund and utilized for any purpose of the City authorized under Section 14 of this Ordinance.

F. Reserve Policy. The City may, at its option, fund the Reserve Fund with an insurance policy issued by the Insurer (the "Reserve Policy") in an amount which equals the Reserve Fund requirement specified in Paragraph A hereinabove in which event the City shall execute a Financial Guaranty Agreement substantially in the form annexed hereto as Exhibit "F" and by

reference made a part hereof, which Financial Guaranty Agreement is hereby approved.

Section 14: SURPLUS FUNDS

Funds remaining in the Revenue Fund after having been applied to or designated funds for the purposes provided in Section 11A of this Ordinance shall constitute surplus funds and may be used for any of the following purposes:

A. To pay the costs of unusual or extraordinary maintenance of or repair to the System;

B. To pay the principal of and interest on any subordinate lien obligations which may have been issued to provide sewer facilities in or for the City;

C. To improve, extend, enlarge, or replace any sewer facilities;

D. To acquire or construct additional sewer facilities in or for the City;

E. To prepay the principal, interest, and any costs of the Bonds; and

F. For any other lawful purpose.

Section 15: ADDITIONAL BONDS OR OTHER OBLIGATIONS

A. Limitation Upon Issuance of Parity Obligations. Nothing contained in this Ordinance shall be construed in such a manner as to prevent the issuance by the City of Additional Bonds or other additional obligations payable from the Net Revenues on a parity with, but neither prior nor superior to, the lien of the Bonds herein authorized; provided, however, that before any such Additional Bonds or other additional parity obligations are authorized or actually issued:

(1) The City is not, and has not been, in default as to any payments required by the provisions of this Ordinance for a period of not less than twelve (12) months immediately preceding the issuance of such Additional Bonds or other additional parity obligations, and there is no deficiency in the Bond Fund or Reserve Fund.

(2) The principal of and interest on the Additional Bonds shall be payable from the Bond Fund and further secured by the Reserve Fund, and the Reserve Requirement shall be increased in proportion to the Additional Bonds being issued.

(3) Prior to the delivery of any Additional Bonds, the City shall have on file at the office of the City Clerk a certificate of a licensed professional engineer, who may be the City Engineer, or a certificate of an independent certified public accountant, dated prior to the authorization of such Additional Bonds, showing that the Estimated Net Revenues, determined and adjusted as hereafter provided, for each fiscal year after the issuance of such Additional Bonds, will equal at least 1.25 times the amount required for the payment of the average annual principal of and interest on the Bonds and any Additional Bonds then outstanding, plus the Additional Bonds proposed to be issued.

(4) In determining Estimated Net Revenues, the Net Revenues for the past twelve (12) consecutive months immediately preceding the year of the proposed Additional Bonds shall be adjusted by such engineer or accountant to take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after delivery of the Additional Bonds for so long as the Bond and any Additional Bonds, including the Additional Bonds to be issued, shall be outstanding:

- a. any increase or decrease in Net Revenues which would result if any change in rates or charges adopted prior to the date of such certificate and subsequent to the beginning of such twelve (12) month period had been in force during the full twelve (12) month period;
- b. any increase or decrease in Net Revenues estimated by such engineer or accountant to result from any additions, betterments, and improvements to and extension of any facilities of the System which (i) become fully operational during such twelve (12) month period, (ii) were under construction at the time of such certificate, or (iii) will be constructed from the proceeds of the Additional Bonds to be issued; and/or
- c. the additional Net Revenue which would have been received if any customers added to the System prior to the date of such certificate and subsequent to the beginning of such twelve (12) month period were customers for the entire period.

(5) The foregoing limitations, or any of them, may be waived or modified by the written consent of the Registered Owners of the Bonds.

Such engineer or accountant shall base his or her certificate upon, and his certificate shall have attached thereto, audited financial statements of the System (unless such an audit is not available within such twelve-month period) showing income and expenses for the period upon which the same is based.

B. Parity Bonds to Complete Project. In the event grant funds, plus the proceeds of the Bonds provided for in this Ordinance, are insufficient to complete the Project, then parity bonds may be issued to complete the Project, and the restrictions set forth in this Section pertaining to the issuance of parity bonds shall not apply. The restrictions of this section shall not apply to any Additional Bonds issued by the City pursuant to the authority of the special revenue bond election held and conducted by the City on February 3, 2004.

C. Subordinate Lien Bonds. No provision of this Ordinance or of any instrument pertaining thereto shall be deemed to limit or restrict the power of the City to issue bonds, notes or warrants, or to make pledges of the revenues which shall be subordinate as to the lien of the Bonds and which shall provide for compliance with the current provisions hereof prior to the application of any funds to said subordinate purpose.

D. Refunding. The restrictions with respect to the issuance of parity obligations shall not apply if such additional parity bonds proposed to be issued are for the sole purpose of refunding outstanding sewer revenue bonds.

Section 16: INVESTMENTS

Surplus funds in any of the Funds set forth in this Ordinance may be invested in securities as permitted by law.

Section 17: GENERAL COVENANTS

For the protection and security of the Bonds, it is covenanted and agreed to and with the Registered Owner of the Bonds from time to time, that the City will perform the following covenants:

A. Maintain Corporate Status. The City will maintain its identity as a municipal corporation and will make no attempt to cause its corporate status to be abolished.

B. Budget Laws. The City will comply with applicable state budget laws in preparing its annual budget and in keeping accounts and records.

C. Complete Project. It will complete the construction of the Project with all practical dispatch and in a sound and economical manner.

D. Operate System. It will operate the System in an efficient and economical manner and prescribe, revise, and collect such charges in connection therewith so that the services, facilities, and properties of the System may be furnished at the lowest possible cost consistent with sound economy and prudent management.

E. Good Repair. It will operate, maintain, preserve, and keep the System and every part hereof in good repair, working order, and condition.

F. Preserve Security. It will preserve and protect the security of the Bonds and the rights of the Registered Owners thereof.

G. Collect Revenues. It will collect and hold in trust the revenues and other funds pledged to the payment of the Bonds and apply such revenue or other funds only as provided in this Ordinance.

H. Service Bonds. It will pay and cause to be paid punctually the principal of the Bonds and the interest thereon on the date or dates and at the place or places and in the manner mentioned in the Bonds, and in accordance with this Ordinance.

I. Pay Claims. It will pay and discharge any and all lawful claims for labor, materials, and supplies which, if unpaid, might by law become a lien or charge upon the Revenue of the System, or any part of said Revenue of the System, or any funds in the hands of the Treasurer, prior or superior to the lien of the Bonds or which might impair the security of the Bonds, to the end that the priority and security of the Bonds shall be fully preserved and protected.

J. Encumbrances. It will not mortgage or otherwise encumber, sell, lease, or dispose of the System or any part thereof, nor enter into any lease or agreement which would impair or impede the operation of the System or any part thereof necessary to secure adequate revenues for the payment of the principal of and interest on the Bonds, nor which would otherwise impair or impede the rights of the Registered Owner of the Bonds with respect to such revenues of the operation of the System without provisions for the retirement of the Bonds then outstanding from the proceeds thereof.

K. Insurance. It will procure and keep in force insurance upon all buildings and structures of the System and the machinery and equipment therein, which are usually insured by entities operating like property, in good and responsible insurance companies. The amount of the insurance shall be not less than the full replacement cost thereof and shall be such as may be

required to adequately protect it and the Registered Owners of the Bonds from loss due to any casualty, and in the event of any such loss, the proceeds shall be used to repair or restore the System or for the payment of the Bonds issued under this Ordinance.

L. Fidelity Bonds. It will procure suitable fidelity bonds covering all of its officers and other employees charged with the collection and disbursement of revenues from the System.

M. Engineers. It will employ consulting engineers of acknowledged reputation, skill, and experience in the improvement and operation of the System for any unusual or extraordinary items of maintenance, repair, or betterments as shall be required from time to time, all reports, estimates, and recommendations of such consulting engineers to be filed with the Clerk and furnished to the Registered Owner of the Bond issued hereunder, upon request.

N. Accounts. It will establish and maintain proper methods of accounting and bookkeeping, keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and furnish complete operating and income statements to the Registered Owner upon request.

O. Delinquencies. It will not furnish sewer service to any customer whatsoever free of charge, and it shall not later than sixty (60) days after the end of each calendar year, take such legal action as may be reasonable to enforce collection of all collectible delinquent accounts.

Section 18: SPECIAL COVENANTS

The City further covenants and agrees:

A. In accordance with Section 149(a) of the Internal Revenue Code of 1986, as amended (the "Code"), the Bonds shall be issued and remain in fully registered form in order that interest thereon be excluded from gross income of the Registered Owners for federal income tax purposes. The City covenants and agrees that it will take no action to permit the Bonds to be issued in or converted to bearer or coupon form.

B. The Bonds are hereby designated as qualified tax-exempt obligations within the meaning and for the purposes of Section 265(b)(3) of the Code, and the City does not reasonably anticipate that it will designate more than \$10,000,000, including the Bonds, as qualified tax-exempt obligations during the calendar year 2004 (or during such other year as the Bonds may be issued).

C. None of the proceeds of the Bonds will be used directly or indirectly (i) to make or finance loans to persons or (ii) in any trade or business carried on by any person (other than use as a member of the general public). For purposes of the preceding sentence, the term "person" does not include a government unit other than the United States or any agency or instrumentality thereof, and the term "trade or business" means any activity carried on by a person other than a natural person. The City further covenants and agrees to take no action which would cause the Bonds to be "private activity bonds," nor will it omit to take any action necessary to prevent the Bonds from becoming "private activity bonds," within the meaning of Section 141 of the Code.

D. The City has general taxing powers. The Bonds are not "private activity bonds" within the meaning of Section 141 of the Code. 95% or more of the net proceeds of the Bonds are to be used for the local governmental activities of the City. The City has no subordinate entities. The City has not issued, and does not reasonably anticipate that it will issue, tax-exempt obligations in the calendar year 2004 in a face amount which exceeds \$5,000,000. Accordingly, under Section 148(f)(4)(D) of the Code, the City is not required to pay rebates to the United States under Section 148(f) of the Code.

E. The Mayor, Clerk, and Treasurer, and other appropriate officials of the City, or any one or more of such officials, as may be appropriate, are each hereby authorized and directed to execute, on behalf of the City, such certificate or certificates as shall be necessary to establish that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code and the Treasury Regulations promulgated thereunder, and to establish that interest on the Bonds is not and will not become includable in the gross income of the owners of the Bonds under the Code and applicable regulations. The City covenants and agrees that no use will be made of the proceeds of the Bonds, or any funds of the City which may, pursuant to Section 148 of the Code and applicable regulations, be deemed to be proceeds of the Bonds, which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The City further covenants to comply throughout the term of the Bonds with the requirements of Section 148 of the Code and the regulations promulgated thereunder in order to prevent the Bonds from becoming "arbitrage bonds."

F. The City will comply with the information reporting requirements of Section 149(e) of the Code.

G. None of the proceeds of the Bond will be used to reimburse the City for capital expenditures made prior to the date of delivery of the Bond unless the City, not later than 60 days after the payment of such expenditure, shall have adopted an

official intent resolution as provided by Section 1.150-2 of the Treasury Regulations.

H. The City will comply with the requirements of SEC Rule 15c2-12(b)5 with respect to the continuous disclosure of financial information and operating data and of certain material events with respect to the Bonds. U.S. Bank National Association, or its successor entity, is hereby designated as agent of the City for purposes of Rule 15c2-12(b)5.

Section 19: SALE OF BONDS

The sale of the Bonds to, and the execution of a Bond Purchase Agreement for the purchase of the Bonds by, Seattle-Northwest Securities Corporation, as Underwriter, are hereby approved, and the Mayor and City Clerk are authorized to execute said contract on behalf of the City. Said bond purchase agreement shall be substantially in the form annexed hereto as Exhibit "E".

Section 20: AMENDMENTS

A. The City from time to time and at any time may adopt an ordinance or ordinances supplemental hereto, which ordinance or ordinances thereafter shall become a part of this Ordinance, for any one or more of all of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance, other covenants and agreements thereafter to be observed, which shall not adversely affect the interest of the Registered Owners of the Bonds, or to surrender any right or power herein reserved.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting, or supplementing any defective provisions contained in this Ordinance, or any ordinance authorizing future bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect, in any material respect, the interest of the Registered Owners of the Bonds.

Any such supplemental ordinance may be adopted without the consent of the Registered Owners of the Bonds at any time outstanding, notwithstanding any of the provisions of subsection B of this Section.

B. With the consent of the Registered Owners of not less than 75% in aggregate principal amount of the Bonds at the time outstanding, the Council may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to

or changing in any manner or eliminating any of the provisions of this Ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

(1) Extend the fixed maturities of the Bonds, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, if applicable, without the consent of the Registered Owners of the Bonds so affected; or

(2) Reduce the aforesaid percentage of the Registered Owners required to approve any such supplemental ordinance, without the consent of the Registered Owners of the Bonds then outstanding.

It shall not be necessary for the consent of the Registered Owners under this subsection B to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

C. Upon the adoption of any supplemental ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties, and obligations of the City under this Ordinance and the Registered Owners of the Bonds outstanding hereunder shall thereafter be determined, exercised, and enforced thereunder, subject in all respects to such modification and amendments, and all terms and conditions of any such supplemental ordinance shall be deemed to be part of the terms and conditions of this Ordinance for any and all purposes.

D. Any Bonds executed and delivered after the execution of any supplemental ordinance adopted pursuant to the provisions of this Section may have a notation as to any matter provided for in such supplemental ordinance, and if such supplemental ordinance shall so provide, new bonds so modified as to conform, in the opinion of the Council, to any modification of this Ordinance contained in any such supplemental ordinance, may be prepared and delivered without cost to the Registered Owners of any affected Bonds then outstanding, upon surrender for cancellation of such Bonds.

Section 21: VALIDITY OF ISSUANCE

The Bonds are issued pursuant to the Idaho Revenue Bond Act, being Idaho Code Sections 50-1027 through 50-1042. This recital is conclusive evidence of the validity of the Bonds and the regularity of their issuance.

Section 22: REGISTERED OWNER'S REMEDIES - RECEIVER

By action or suit in equity, the Registered Owners or subsequent owners of the Bonds may, in the event of a material violation of any of the foregoing covenants, cause the appointment of a receiver, which receiver may enter and take possession of the System and any Net Revenues for the payment of the Bonds, prescribe fees to be derived from the System, and collect, receive, and apply all Net Revenues of other moneys pledged for the payment of the Bonds in the same manner as the City might do in accordance with the obligations of the City, all as provided in Section 50-1037, Idaho Code.

Section 23: ORDINANCE A CONTRACT

The provisions of this Ordinance shall constitute a contract between the City and the Registered Owners and Beneficial Owners so long as the Bonds hereby authorized remain unpaid.

Section 24: DETERMINATION

The Council does hereby find, determine, and declare that it is essential to the public interest, welfare, and convenience of the City and the inhabitants thereof to undertake the Project and to construct the improvements, with said Project being paid for in part by the issuance of the Bonds in conformity with the Idaho Code.

Section 25: SEVERABILITY

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

Section 26: REPEALER

All prior ordinances inconsistent herewith are to the extent of such inconsistency, hereby repealed and shall, to the extent of such inconsistency, have no further force or effect.

1. Cash.
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - (SLGs)).
3. Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself.
4. Resolution Funding Corp. ("REFCORP"). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (*i.e.*, there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.
6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
 - a. *U.S. Export-Import Bank (Eximbank)*
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. *Farmers Home Administration (FmHA)*
 - c. *Federal Financing Bank*
 - d. *General Services Administration*
Participation Certificates
 - e. *U.S. Maritime Administration*
Guaranteed Title XI financing
 - f. *U.S. Department of Housing and Urban Development (HUD)*
Project Notes
Local Authority Bonds
New Communities Debentures -
U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds -
U.S. government guaranteed public housing notes and bonds

G. Agents:

1. In transactions where there is an agent/enhancer (other than XLCA), the paying agent, tender agent (if any), and paying agent (if any) must be commercial banks with trust powers.
2. The remarketing agent (if any) must have trust powers if they are responsible for holding moneys or receiving bonds. As an alternative, the documents may provide that if the remarketing agent is removed, resigns or is unable to perform its duties, the paying agent must assume the responsibilities of remarketing agent until a substitute acceptable to XLCA is appointed.

H. XLCA as Third Party Beneficiary. XLCA must be explicitly recognized as being a third-party beneficiary under the financing documents with the power to enforce any right, remedy or claim conferred, given or granted under such financing documents.

I. Subrogation. If principal and/or interest due on the Obligations shall be paid by XLCA, the Obligations shall remain outstanding under the indenture, resolution or any similar document for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the issuer to the owners shall continue to exist and shall run to the benefit of XLCA, and XLCA shall be subrogated to the rights of such owners.

2. PAYMENTS UNDER THE POLICY

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date"), there is not on deposit with [the Issuer] under the Resolution, after making all transfers and deposits required under the Resolution, moneys sufficient to pay the principal of, and interest on, Insured Bonds due on such Payment Date, [the Issuer] shall give notice to XLCA and to its designated agent (if any) (the "Insurer's Fiscal Agent"), by telephone or telecopy, of the amount of such deficiency by 10:00 a.m., New York City time, on such Business Day. If, on the Business Day prior to the related Payment Date, there is not on deposit with the Paying Agent moneys sufficient to pay the principal of, and interest on, the Insured Bonds due on such Payment Date, the Paying Agent shall make a claim under the Insurance Policy and give notice to XLCA and XLCA's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed

in writing to the related Insurer and XLCA's Fiscal Agent by 10:00 a.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate.

For the purposes of the preceding paragraph, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Paying Agent to XLCA, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment. "Nonpayment" means the failure of [the Issuer] to have provided sufficient funds to the Paying Agent for payment in full of all principal of, and interest on, the XLCA Insured Bonds that are Due for Payment. "Due for Payment", when referring to the principal of Insured bonds, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments, acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on Insured Bonds, means when the stated date for payment of interest has been reached. "Certificate" means a certificate in form and substance satisfactory to XLCA as to the Paying Agent's right to receive payment under the Insurance Policy.

The Paying Agent shall designate any portion of payment of principal on Insured Bonds paid by XLCA at maturity on its books as a reduction in the principal amount of Insured Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Bond to XLCA, registered in the name of XLCA, as the case may be, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent's failure to so designate any payment or issue any replacement Insured Bond shall have no effect on the amount of principal or interest payable by [the Issuer] on any Insured Bond or the subrogation rights of XLCA.

The Paying Agent shall keep a complete and accurate record of all funds deposited by XLCA into the Policy Payments Account (as hereinafter defined) and the allocation of such funds to payment of interest on and principal paid with respect to any Insured Bond. XLCA shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent.

Upon payment of a claim under the Insurance Policy, the Paying Agent shall establish a separate special purpose trust account for the benefit of holders of Insured Bonds referred to herein as the "Policy Payments Account" and over which the Paying

Agent shall have exclusive control and sole right of withdrawal. The Paying Agent shall receive any amount paid under Insurance Policy in trust on behalf of holders of Insured Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent to holders of Insured Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections hereof regarding payment of Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Paying Agent and may not be applied to satisfy any costs, expenses or liabilities of the Paying Agent.

Any funds remaining in the Policy Payments Account following an Insured Bond payment date shall promptly be remitted to XLCA.

3. PERMISSIBLE INVESTMENTS

- A. 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, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - 1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - 2. Farmers Home Administration (FmHA)
Certificates of Beneficial Ownership
 - 3. Federal Financing Bank
 - 4. Federal Housing Administration Debentures (FHA)
 - 5. General Services Administration
Participation Certificates

6. Government National Mortgage Association (GNMA or Ginnie Mae)
 - GNMA - guaranteed mortgage-backed bonds
 - GNMA - guaranteed pass-through obligations
(these obligations are not acceptable for certain cash-flow sensitive issues)
 7. U.S. Maritime Administration
Guaranteed Title XI financing
 8. U.S. Department of Housing and Urban Development (HUD)
 - Project Notes
 - Local Authority Bonds
 - New Communities Debentures - U.S. government guaranteed debentures
 - U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds
- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
1. Federal Home Loan Bank System
Senior debt obligations
 2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
Participation Certificate
Senior debt obligations
 3. Federal National Mortgage Association (FNMA or Fannie Mae)
Mortgage-backed securities and senior debt obligations
 4. Student Loan Marketing Association (SLMA or Sallie Mae)
Senior debt obligations
 5. Resolution Funding Corp. (REFCORP) obligations
 6. Farm Credit System
Consolidated systemwide bonds and notes
- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to XLCA.
- H. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.
- I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such rating agencies.
- J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.
- K. Repurchase Agreements ("Repos") for 30 days or less must follow the following criteria. Repos which exceed 30 days must be acceptable to XLCA (criteria available upon request).

Repos provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity 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 municipal entity in exchange for the securities at a specified date.

- 1. Repos must be between the municipal entity and a dealer bank or securities firm.
 - a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and A2 or better by Moody's, or
 - b. Banks rated "A" or better by S&P and A2 or better by Moody's.

2. The written repurchase agreement must include the following:

- a. Securities which are acceptable for transfer are:
 - (1) Direct obligations of the United States of America referred to in Section A above, or
 - (2) Obligations of federal agencies referred to in Section B above
 - (3) Obligations of FNMA and FHLMC
- b. The term of the Repos may be up to 30 days.
- c. The collateral must be delivered to the municipal entity, paying agent (if paying agent is not supplying the collateral) or third party acting as agent for the paying agent is (if the paying agent is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
- d. Valuation of Collateral.
 - (1) the securities must be valued weekly, marked-to-market at current market price plus accrued interest.
 - (2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipal entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion which must be delivered to the municipal entity that states that the Repo meets guidelines under state law for legal investment of public funds.

Additional Notes

- (i) There is no list of permitted investments for non-indentured funds.

(ii) Any state administered pool investment fund in which the issuer is statutorily permitted or required to invest will be deemed a permitted investment.

(iii) DSRF investments shall be valued at fair market value and marked to market at least once per year. DSRF investments may not have maturities extending beyond 5 years, except for Investment Agreements or Repurchase Agreements approved by the XLCA.

Section 28: FURTHER AUTHORIZATION

The Mayor, Clerk, and Treasurer, or any one of such officers, as may be appropriate, are hereby authorized to execute, on behalf of the City, all such additional certificates and other documents as may be necessary or appropriate to effect the sale and delivery of the Bonds in accordance with this Ordinance.

Section 29: PUBLICATION

This Ordinance, or a summary thereof in compliance with Section 50-901A, Idaho Code, substantially in the form annexed hereto as Exhibit "E," shall be published once in the official newspaper of the City, and shall take effect immediately upon its passage, approval, and publication.

DATED this 16th day of December, 2004.

CITY OF KETCHUM
Blaine County, Idaho

By _____
Mayor

ATTEST:

Janice E. Cooney
City Clerk

(S E A L)





U

U

[Form of Global Bond]

CUSIP:

Number
R- _____

Dollars
\$ _____

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

UNITED STATES OF AMERICA
STATE OF IDAHO
COUNTY OF BLAINE

CITY OF KETCHUM
SEWER REVENUE BOND, SERIES 2004

The CITY OF KETCHUM, Blaine County, Idaho (the "City"), for value received, promises to pay from the "City of Ketchum Sewer Revenue Bond Fund" (the "Bond Fund"), created by Ordinance No. 946, adopted on December 16, 2004 (the "Bond Ordinance"), to CEDE & CO. or registered assigns, on December 1, _____, the principal sum of

DOLLARS

and to pay interest thereon from the aforesaid Bond Fund from December 15, 2004, or the most recent date to which interest has been paid or duly provided for, at the rate of _____ percent (___%) per annum, payable on June 1, 2005, and semi-annually on each December first and June first thereafter, until the date of maturity or prior redemption of this Bond. Interest shall be computed on the basis of a 12-month, 360-day year.

Both principal of and interest on this Bond are payable in lawful money of the United States of America to the registered owner hereof whose name and address shall appear on the registration books of the City maintained by U.S. Bank National Association (the "Bond Registrar"). Interest shall be paid to the registered owner whose name appears on the Bond Register on the fifteenth day next preceding the interest payment date, at

the address appearing on the Bond Register, and shall be paid by check or draft of the Bond Registrar mailed to such registered owner on the due date at the address appearing on the Bond Register, or at such other address as may be furnished in writing by such registered owner to the Bond Registrar. Principal shall be paid to the registered owner upon presentation and surrender of this Bond at the principal corporate trust office of the Bond Registrar, on or after the date of maturity or prior redemption.

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

This Bond is one of a duly authorized issue of Bonds of like date, tenor, and effect, except for variations required to state numbers, denominations, rates of interest, and dates of maturity, aggregating \$1,990,000 in principal amount. The Bonds are issued pursuant to and in full compliance with the Constitution and statutes of the State of Idaho, particularly Sections 50-1027 through 50-1042, Idaho Code, and proceedings duly adopted and authorized by the City Council of the City acting for and on behalf of the City, more particularly the Bond Ordinance, and also pursuant to the legal authorization of a special election duly noticed, held, and conducted within the City on February 3, 2004.

Bonds maturing on or before December 1, 2014, are not subject to call or redemption prior to their stated dates of maturity. The City has reserved the right to redeem any Bonds maturing on or after December 1, 2015, on any interest payment date on or after December 1, 2014, in whole or in part, at the discretion of the City (and by lot selected by the Bond Registrar within a maturity), at par plus accrued interest to the redemption date.

Notice of any intended redemption shall be given by mailing of notice to the registered owner of any Bond being called for redemption not less than thirty nor more than sixty days prior to the redemption date by first class mail, postage prepaid, at the address appearing on the Bond Register. The requirements of the Bond Ordinance shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the owner of such Bond. Interest on all of such Bonds so called for redemption shall cease to accrue on the specified redemption date unless such Bond or Bonds so called for redemption are not redeemed upon presentation made pursuant to such call.

Portions of any Bond in a denomination in excess of \$5,000 may also be redeemed, and, in such case, upon the surrender of the Bond, there shall be issued to the registered owner thereof,

without charge therefor, for the unredeemed balance of the principal amount of the Bond, fully registered Bonds of any authorized denominations (at the option of the registered owner). In selecting portions of any Bond which is of a denomination of more than \$5,000 for redemption, the Bond Registrar will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000.

This Bond and the Bonds of this issue are issued for the purpose of providing funds to pay the costs of capital improvements to the sewer collection facilities of the City, as more fully described in the Bond Ordinance.

This Bond creates a first lien and charge upon the Net Revenues of the System (as said terms are defined in the Bond Ordinance), and any additional bonds or other obligations which may hereafter be issued on a parity with the Bonds of this issue in accordance with the provisions of the Bond Ordinance, and superior to all other charges of any kind or nature. This Bond is a limited obligation of the City and is payable as to principal and interest solely from a special fund created by the Bond Ordinance and designated "City of Ketchum Sewer Revenue Bond Fund" (the "Bond Fund"). For a more particular description of said Bond Fund, the revenues to be deposited therein, and the nature and extent of the security afforded thereby, reference is made to the provisions of the Bond Ordinance pursuant to which this Bond is issued, and such Bond Fund will be maintained.

This Bond is transferable by the registered owner hereof in person, or by his attorney duly authorized in writing, upon presentation and surrender of this Bond at the principal corporate trust office of the Bond Registrar. Upon such transfer, a new Bond, of the same denomination, maturity, and interest rate, will be issued to the transferee, in exchange therefor.

Reference is hereby made to the Bond Ordinance for the covenants and declarations of the City and other terms and conditions under which this Bond and the Bonds of this issue have been issued. The covenants contained herein and in the Bond Ordinance may be discharged by making provision, at any time, for the payment of the principal of and interest on this Bond in the manner provided in the Bond Ordinance.

The City and the Bond Registrar may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payments of principal hereof and interest due hereon and for all other purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED AND DECLARED that all acts, conditions, and things required by the Constitution and statutes of the State of Idaho to exist, to have happened, been done, and performed precedent to and in the issuance of this Bond have happened, been done, and performed, and that the issuance of this Bond and the Bonds of this issue does not violate any Constitutional, statutory, or other limitation upon the amount of bonded indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Ketchum, Blaine County, Idaho, has caused this Bond to be executed by its Mayor, countersigned by its Treasurer, and attested by the its City Clerk, and the seal of the City to be impressed hereon, as of this fifteenth day of December, 2004.

CITY OF KETCHUM
Blaine County, Idaho

Mayor

COUNTERSIGNED:

Treasurer

ATTEST:

City Clerk

[SEAL]

CERTIFICATION OF AUTHENTICATION

Date of Authentication:

This Bond is one of the City of Ketchum Sewer Revenue Bonds, Series 2004, dated as of December 15, 2004, described in the within-mentioned Bond Ordinance.

U.S. BANK NATIONAL ASSOCIATION
as Bond Registrar

By: _____
Authorized Signature

STATEMENT OF INSURANCE

XL Capital Assurance Inc. ("XLCA"), New York, New York, has delivered its municipal bond insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, Salt Lake City, Utah, or its successor, as paying agent (the "Paying Agent") for the City of Ketchum, Blaine County, Idaho, Sewer Revenue Bonds, Series 2004. Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from XLCA or the Paying Agent.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

Name of Transferee: _____

Address: _____

Tax Identification No. _____

the within Bond and hereby irrevocably constitutes and appoints

of _____,

to transfer said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Registered Owner

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

SIGNATURE GUARANTEED:

Bank, Trust Company or Member
Firm of the New York Stock
Exchange

Authorized Officer

The Depository Trust Company

A subsidiary of The Depository Trust & Clearing Corporation

BLANKET ISSUER LETTER OF REPRESENTATIONS

[To be Completed by Issuer]

CITY OF KETCHUM
Blaine County, Idaho

[Name of Issuer]

December 15, 2004

[Date]

[For Municipal Issues:
Underwriting Department—Eligibility; 50th Floor]

[For Corporate Issues:
General Counsel's Office; 49th Floor]

The Depository Trust Company
55 Water Street
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Received and Accepted:
THE DEPOSITORY TRUST COMPANY

By: _____



**The Depository Trust &
Clearing Corporation**

Very truly yours,

City of Ketchum

(Issuer)

By: _____
(Authorized Officer's Signature)

Edward Simon, Mayor

(Print Name)

480 East Ave. North

(Street Address)

Ketchum, Idaho 83440

(City) (State) (Country)

(Zip Code)

(208) 726-3841

(Phone Number)

(E-mail Address)

[2/02]

EXHIBIT "B"

(To Blanket Issuer Letter of Representations)

**SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE****(Prepared by DTC—bracketed material may be applicable only to certain issues)**

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity

of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Reference is hereby made to additional provisions of this Bond set forth on the reverse side hereof, and such additional provisions shall for all purposes have the same effect as if set forth in this space.

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

IT IS HEREBY CERTIFIED AND DECLARED that all acts, conditions, and things required by the Constitution and statutes of the State of Idaho to exist, to have happened, been done, and performed precedent to and in the issuance of this Bond have happened, been done, and performed, and that the issuance of this Bond and the Bonds of this issue does not violate any Constitutional, statutory, or other limitation upon the amount of bonded indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Ketchum, Blaine County, Idaho, has caused this Bond to be executed by the facsimile signature of its Mayor, countersigned by the facsimile signature of its Treasurer, and attested by the facsimile signature of its City Clerk, and a facsimile of the seal of the City to be imprinted hereon, as of this fifteenth day of December, 2004.

CITY OF KETCHUM
Blaine County, Idaho

[facsimile signature]
Mayor

COUNTERSIGNED:

[facsimile signature]
Treasurer

ATTEST:

[facsimile signature]
City Clerk

[FACSIMILE SEAL]

CERTIFICATION OF AUTHENTICATION

Date of Authentication:

This Bond is one of the City of Ketchum Sewer Revenue Bonds, Series 2004, dated as of December 15, 2004, described in the within-mentioned Bond Ordinance.

U.S. BANK NATIONAL ASSOCIATION
as Bond Registrar

By: _____
Authorized Signature

[Reverse Side of Bond]

ADDITIONAL BOND PROVISIONS

This Bond is one of a duly authorized issue of Bonds of like date, tenor, and effect, except for variations required to state numbers, denominations, rates of interest, and dates of maturity, aggregating \$1,990,000 in principal amount. The Bonds are issued pursuant to and in full compliance with the Constitution and statutes of the State of Idaho, particularly Sections 50-1027 through 50-1042, Idaho Code, and proceedings duly adopted and authorized by the Mayor and Council of the City acting for and on behalf of the City, more particularly the Bond Ordinance, and also pursuant to the legal authorization of a special election duly noticed, held, and conducted within said City on May 22, 2001.

Bonds maturing on or before December 1, 2014, are not subject to call or redemption prior to their stated dates of maturity. The City has reserved the right to redeem any Bonds maturing on or after December 1, 2015, on any interest payment date on or after December 1, 2014, in whole or in part, at the discretion of the City (and by lot selected by the Bond Registrar within a maturity), at par plus accrued interest to the redemption date.

Notice of any intended redemption shall be given by mailing of notice to the registered owner of any Bond being called for redemption not less than thirty nor more than sixty days prior to the redemption date by first class mail, postage prepaid, at the address appearing on the Bond Register. The requirements of the Bond Ordinance shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the owner of such Bond. Interest on all of

such Bonds so called for redemption shall cease to accrue on the specified redemption date unless such Bond or Bonds so called for redemption are not redeemed upon presentation made pursuant to such call.

Portions of any Bond of a denomination of more than \$5,000 may be redeemed. The portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or any integral multiple of \$5,000, and in selecting portions of such Bonds for redemption the Bond Registrar will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000.

Notice of any intended redemption shall be given by mailing of notice to the registered owner of any Bond being called for redemption not less than thirty nor more than sixty days prior to the redemption date by first class mail, postage prepaid, at the address appearing on the Bond Register. The requirements of the Bond Ordinance shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the owner of such Bond. Interest on all of such Bonds so called for redemption shall cease to accrue on the specified redemption date unless such Bond or Bonds so called for redemption are not redeemed upon presentation made pursuant to such call.

This Bond and the Bonds of this issue are issued for the purpose of providing funds to pay the costs of capital improvements to the sewer treatment system of the City, as more fully described in the Bond Ordinance.

This Bond creates a first lien and charge upon the Net Revenues of the System (as said terms are defined in the Bond Ordinance), and any additional bonds or other obligations which may hereafter be issued on a parity with the Bonds of this issue in accordance with the provisions of the Bond Ordinance, and superior to all other charges of any kind or nature. This Bond is a limited obligation of the City and is payable as to principal and interest solely from a special fund created by the Bond Ordinance and designated "City of Ketchum Sewer Revenue Bond Fund" (the "Bond Fund"). For a more particular description of said Bond Fund, the revenues to be deposited therein, and the nature and extent of the security afforded thereby, reference is made to the provisions of the Bond Ordinance pursuant to which this Bond is issued, and such Bond Fund will be maintained.

This Bond is transferable by the registered owner hereof in person, or by his attorney duly authorized in writing, upon presentation and surrender of this Bond at the principal corporate trust office of the Bond Registrar. Upon such transfer, a new Bond, of the same denomination, maturity, and

interest rate, will be issued to the transferee, in exchange therefor.

Reference is hereby made to the Bond Ordinance for the covenants and declarations of the City and other terms and conditions under which this Bond and the Bonds of this issue have been issued. The covenants contained herein and in the Bond Ordinance may be discharged by making provision, at any time, for the payment of the principal of and interest on this Bond in the manner provided in the Bond Ordinance.

The City and the Bond Registrar may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payments of principal hereof and interest due hereon and for all other purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary.

LEGAL OPINION

It is hereby certified that the following is a true and complete copy of the legal opinion of Moore Smith Buxton & Turcke, Chartered, of Boise, Idaho, which opinion was dated the date of delivery of and payment for the Bonds described therein, an original of which was delivered to me on said date, and is a part of the permanent records of the City of Ketchum, Idaho.

CITY OF Ketchum
Blaine County, Idaho

[facsimile signature]
Clerk

[INSERT LEGAL OPINION OF MOORE SMITH BUXTON & TURCKE, CHARTERED]

STATEMENT OF INSURANCE

XL Capital Assurance Inc. ("XLCA"), New York, New York, has delivered its municipal bond insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, Salt Lake City, Utah, or its successor, as paying agent (the "Paying Agent") for the City of Ketchum, Blaine County, Idaho, Sewer Revenue Bonds, Series 2004. Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from XLCA or the Paying Agent.

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

TEN COM -- as tenants in common	UNIF TRFS MIN ACT..... (Cust) (Minor)
TEN ENT -- as tenants by the entireties	under Uniform Transfer to Minors Act..... (State)
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	

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

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

Name of Transferee: _____

Address: _____

Tax Identification No. _____

the within Bond and hereby irrevocably constitutes and appoints

of _____,

to transfer said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Registered Owner

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

SIGNATURE GUARANTEED:

Bank, Trust Company or Member
Firm of the New York Stock
Exchange

Authorized Officer

SUMMARY OF

ORDINANCE NO. 946

AN ORDINANCE OF THE CITY OF KETCHUM, IDAHO, AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF SEWER REVENUE BONDS, SERIES 2004, IN THE PRINCIPAL AMOUNT OF \$1,990,000, FOR THE PURPOSE OF FINANCING THE ACQUISITION OF IMPROVEMENTS TO THE SANITARY SEWER COLLECTION AND TREATMENT SYSTEM OF THE CITY; DESCRIBING THE BONDS; SPECIFYING THE DATE, FORM, MATURITIES, REGISTRATION, AND AUTHENTICATION OF THE BONDS; FIXING THE RATES OF INTEREST ON THE BONDS; PROVIDING FOR THE APPLICATION OF BOND PROCEEDS; ESTABLISHING FUNDS AND ACCOUNTS; PROVIDING FOR THE COLLECTION AND DISPOSITION OF REVENUES; PROVIDING COVENANTS RELATING TO THE BONDS AND TO THE TAX-EXEMPT STATUS OF THE INTEREST ON THE BONDS; PROVIDING FOR THE SALE AND DELIVERY OF THE BONDS; PROVIDING FOR A POLICY OF MUNICIPAL BOND INSURANCE TO SECURE THE PAYMENT OF THE BONDS; PROVIDING FOR RELATED MATTERS; AND PROVIDING AN EFFECTIVE DATE

A summary of the principal provisions of Ordinance No. 946 of the City of Ketchum, Blaine County, Idaho, adopted on December 16, 2004, is as follows:

Section 1: Defines the terms and phrases used in said Ordinance.

Section 2: Describes the sanitary sewer improvement project to be constructed with the proceeds of the Bonds authorized by the Ordinance, and states that \$1,990,000 of the cost thereof is to be paid from the sale of the Bonds authorized at a special election held on February 3, 2004.

Section 3: Describes the City of Ketchum Sewer Revenue Bonds, Series 2004 (the "Bonds"), and provides for the Book-Entry-Only System for the Bonds.

Section 4: Provides for the place and manner of payment of the Bonds.

Section 5: Provides for the manner and method of execution of Certificated Bonds.

Section 6: Appoints U.S. Bank National Association as Bond Registrar, and describes the system of registration of the Bonds.

Section 7: Provides for redemption and defeasance of the Bonds.

Section 8: Provides for sewer rates and charges, and provides that the City shall establish and collect rates and

charges sufficient to provide Net Revenues equal to not less than 1.25 times the annual debt service on the Bonds and any Additional Bonds.

Section 9: Pledges the Net Revenues of the sewer system for the payment of the Bonds.

Section 10: Establishes the "City of Ketchum Wastewater Project Construction Fund."

Section 11: Establishes the "City of Ketchum Wastewater Fund."

Section 12: Establishes the "City of Ketchum Sewer Revenue Bond Fund."

Section 13: Establishes the "City of Ketchum Sewer Revenue Bonds Debt Service Reserve Fund."

Section 14: Provides for the disposition of surplus funds.

Section 15: Establishes the conditions of and limitations on the issuance of additional bonds or parity obligations.

Section 16: Provides for the investment of funds.

Section 17: Provides certain general covenants of the City with the registered owners of the Bonds.

Section 18: Provides certain special covenants of the City with respect to the tax-exempt status of interest on the Bonds.

Section 19: Authorizes the sale of the Bonds to Seattle-Northwest Securities Corp.

Section 20: Provides for manner of amending this Ordinance and provides that the City may adopt supplemental ordinances.

Section 21: Recites that the Bonds are issued pursuant to the Idaho Revenue Bond Act.

Section 22: Provides for remedies in case of default.

Section 23: States that the Ordinance constitutes a contract with the registered owners and beneficial owners of the Bonds.

Section 24: Declares that the project is essential to the public interest, welfare, and convenience.

Section 25: Provides for severability.

Section 26: Repeals prior inconsistent ordinances, to the extent of any inconsistency.

Section 27: Provides for a policy of bond insurance to secure the payment of the principal of and interest on the Bonds.

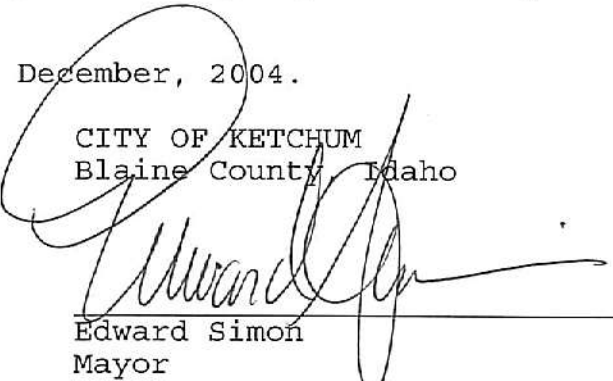
Section 28: Authorizes the Mayor, Clerk, and Treasurer to execute any additional documents necessary to sell and deliver the Bonds.

Section 29: Provides for the publication of the Ordinance or a summary thereof and the effective date of the Ordinance.

The full text of Ordinance No. 946 is available at City Hall and will be provided to any citizen upon personal request during normal office hours.


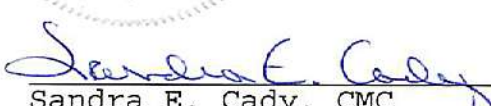
DATED the 16th day of December, 2004.

CITY OF KETCHUM
Blaine County, Idaho



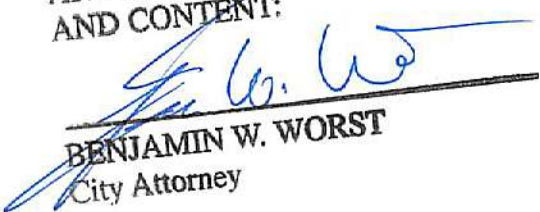
Edward Simon
Mayor

ATTEST:

Sandra E. Cady, CMC
City Clerk

APPROVED AS TO FORM
AND CONTENT:



BENJAMIN W. WORST
City Attorney

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Handwritten signature or scribble in the center of the page.

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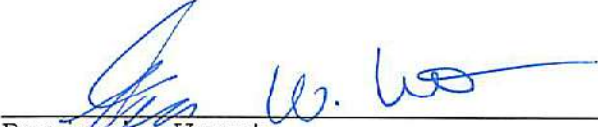
Official stamps and signatures at the bottom of the page, including a signature and a stamp that appears to say 'RECEIVED'.

* * * * *

CERTIFICATION OF CITY ATTORNEY

I, the undersigned City Attorney for and legal advisor to the City of Ketchum, Idaho, hereby certify that I have read the attached summary of Ordinance No. 946 of the City of Ketchum and that the same is true and complete and provides adequate notice to the public of the contents of said Ordinance.

DATED as of the 16th day of December, 2004.



Benjamin Worst
City Attorney
City of Ketchum

December 16, 2004

Honorable Mayor and City Council
City of Ketchum
480 East Ave., North
PO Box 2315
Ketchum, Idaho 83340

Re: City of Ketchum, Blaine County, Idaho
\$1,990,000 Sewer Revenue Bonds, Series 2004

Ladies and Gentlemen:

Seattle-Northwest Securities Corporation (the "Underwriter") offers to enter into this bond purchase agreement (the "Purchase Agreement") with the City of Ketchum, Blaine County, Idaho (the "Issuer").

The offer made hereby is subject to and contingent upon (i) receipt by the Underwriter of the documents and letters required in Paragraph 5 hereof to be delivered as soon as reasonably practicable after the Issuer's acceptance of this Purchase Agreement and (ii) acceptance by the Issuer by execution and delivery of this Purchase Agreement to the Underwriter at or prior to 10:00 p.m. on the date above. If not so accepted, this offer will be subject to withdrawal by the Underwriter upon notice delivered to the Issuer at any time prior to the acceptance hereof by the Issuer. Upon acceptance of this offer in accordance with the terms hereof, this Purchase Agreement will constitute a binding agreement between the Issuer and the Underwriter.

Capitalized terms in this Purchase Agreement that are not otherwise defined shall have the meanings given to such terms in the Ordinance described below:

1. Purchase and Sale

Upon the terms and conditions and upon the basis of the representations, warranties, covenants and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the Issuer for offering to the public and the Issuer hereby agrees to sell to the Underwriter for such purpose all (but not less than all) of the \$1,990,000 aggregate principal amount of Sewer Revenue Bonds, Series 2004 (the "Bonds"). The Bonds shall be dated, shall mature on the dates and in the principal amounts, shall bear interest at the rates, shall be payable on the dates and shall be subject to redemption prior to maturity on the dates and at the prices all as set forth in Exhibit A attached hereto. The Underwriter's purchase price for the Bonds is set forth in Exhibit A.

EXHIBIT "E"

2. Bond Authorization; Fiscal Agent; Enhancement

- a) The Bonds shall be issued under an ordinance (the "Ordinance") enacted by the City Council of the Issuer on December 16, 2004, which is incorporated herein by reference.
- b) U.S. Bank National Association shall be the fiscal agent for the Bonds, serving as registrar and paying agent (the "Fiscal Agent"). The Bonds shall be payable and, if applicable, shall be secured as provided in the Ordinance and as described in the Preliminary Official Statement hereinafter mentioned and shall have such other terms as are set forth in Exhibit A.
- c) Payment when due of the regularly scheduled principal of and interest on the Bonds shall be insured by a financial guaranty policy (the "Policy") issued by XL Capital Corporation (the "Insurer").

3. Offering

It shall be a condition to the Issuer's obligations to sell and to deliver the Bonds to the Underwriter and to the Underwriter's obligations to purchase, to accept delivery of and to pay for the Bonds that the entire aggregate principal amount of the Bonds referred to in Paragraph 1 shall be issued, sold and delivered by the Issuer and purchased, accepted and paid for by the Underwriter at the Closing hereinafter defined. The Underwriter agrees to make a *bona fide* public offering of all the Bonds, at prices not in excess of the initial public offering prices set forth in the Final Official Statement.

4. Official Statement

The Underwriter acted on behalf of and at the direction of the Issuer as scrivener of the Preliminary Official Statement dated December 3, 2004 with respect to the Bonds (including any Appendices thereto, any documents incorporated therein by reference and any supplements or amendments thereto prior to the date hereof, the "Preliminary Official Statement"). The Issuer provided the Underwriter with a letter dated December 3, 2004 that "deemed final" the Preliminary Official Statement for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), among other things. Upon the Issuer's acceptance of this offer, the Issuer hereby ratifies its action of deeming the Preliminary Official Statement final for purposes of the Rule, and confirms the use by the Underwriter of the Preliminary Official Statement in connection with the public offering and sale of the Bonds by the Underwriter. As soon as reasonably practicable after the Issuer's acceptance of this Purchase Agreement, the Issuer shall cause to be delivered to the Underwriter one copy of the official statement of the Issuer with respect to the Bonds, substantially in the form of the Preliminary Official Statement with only such changes as shall have been reviewed by the Underwriter (such official statement, with such changes, if any and including the appendices thereto, any documents incorporated therein by reference and any supplements or amendments thereto on or prior to the date of the

Closing being referred to herein as the "Final Official Statement") and approved for distribution by the authorized representative of the Issuer. The Issuer shall cause to be provided to the Underwriters, within seven business days after the date hereof and in any event in sufficient time to accompany any confirmation that requests payment from the Underwriter's customer and in sufficient time to permit the Underwriter to comply with the provisions of the Rule hereinafter mentioned and with all applicable rules of the Municipal Securities Rulemaking Board (the "MSRB"), copies of the Final Official Statement in the quantities reasonably requested by the Underwriter. The Underwriter agrees to deliver two copies of the Final Official Statement to the MSRB and one copy of the Final Official Statement to each of the nationally recognized municipal securities information repositories on the business day after the Final Official Statement is delivered to the Underwriter and in any event no later than ten business days after the date of this Purchase Agreement.

5. Documents

The Ordinance, the Undertaking, defined herein, the Blanket Issuer Letter of Representation, and any other documents necessary to issue and sell the Bonds are collectively referred to herein as the "Documents".

6. Representations, Warranties and Covenants

The Issuer represents, warrants and covenants to the Underwriter that as of the date hereof and as of the date of the Closing:

- a) The Issuer is a municipal corporation duly organized and validly existing under the laws and Constitution of the State of Idaho (the "State") and has full right, legal power and authority to enter into this Purchase Agreement, to adopt the Ordinance, to authorize and to execute and deliver and to perform its obligations under each of the Documents and to prepare, approve, deem final and authorize or ratify the distribution of the Preliminary Official Statement and to approve and authorize the distribution of the Final Official Statement;
- b) The Issuer has, or by the date of Closing shall have, duly adopted the Ordinance in form and substance approved by the Underwriter, at a meeting or meetings duly noticed, called and held; shall have performed all acts necessary to authorize, issue, sell and deliver the Bonds to the Underwriter and to authorize the execution and delivery of and the performance by the Issuer of its obligations under each of the Documents; and that the Ordinance shall be in full force and effect and shall have been neither superseded nor rescinded nor amended except as heretofore approved by the Underwriter;
- c) The Issuer will apply or cause to be applied the proceeds of the Bonds as described in the Preliminary Official Statement and in accordance with the Ordinance, and the Issuer has all necessary power and authority to (i) acquire,

construct, own, operate, maintain, improve and finance the Issuer's Sanitary Sewer System and to carry on its business as currently being conducted and as described in the Preliminary Official Statement and (ii) charge, collect, assign, pledge, grant a security interest in/lien on and pledge the Revenues as provided in the Ordinance;

- d) The execution and delivery of, and the performance by the Issuer of its obligations under, this Purchase Agreement, the Bonds and each of the other Documents and the use of proceeds as described in the Preliminary Official Statement do not and will not conflict with or constitute or create a breach or default under any applicable existing constitutional provision, law, regulation, order, administrative regulation, judgment, court decree, loan agreement, indenture, bond, note, ordinance or other material agreement or instrument to which the Issuer is party or to which the Issuer or any of its properties or assets is otherwise subject or by which it or any of its properties is bound;
- e) No governmental approvals or authorizations that have not been obtained prior to the time of Closing are necessary in connection with authorization, execution, sale and delivery of the Bonds to the Underwriter or the execution and delivery by the Issuer of, and the performance by the Issuer of its obligations under, the Documents. No filing or registration of the Ordinance or other instrument or financing statement that has not been made is required to be made to create, protect or preserve the rights of the parties hereto, including the pledge and assignment of Revenues and the liens and charges thereon, or is required for the validity and enforceability of the Documents (other than, in each case, approvals that may be required by "blue sky" laws, about which the Issuer makes no representation). As of the Closing (as defined in Section 8), the Bonds and each of the Documents will be legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms and in full force and effect;
- f) Except as described in the Preliminary Official Statement, the Issuer is not in violation of or in default or breach under any applicable constitutional provision, law administrative regulation, judgment, court decree, loan agreement, indenture, bond, note, ordinance or other material agreement or instrument to which the Issuer is a party or to which the Issuer or any of its properties or assets is otherwise subject;
- g) Except as described in the Preliminary Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or threatened against the Issuer, to the knowledge of the Issuer, after due review and inquiry, wherein an unfavorable decision, ruling, or finding would have a material adverse effect on the operation of the Issuer, the financial condition of the Issuer or the transactions contemplated by this Purchase Agreement, and the Preliminary Official Statement, or would have an adverse effect on the validity or enforceability of the

Bonds, or the Ordinance or which would in any material way adversely affect the existence or any power of the Issuer or the titles of its officers to their respective positions or which would in any way adversely affect the exclusion from gross income federal income tax purposes of interest on the Bonds;

- h) The Preliminary Official Statement (except for the omission of information permitted to be omitted in accordance with paragraph (b)(1) of the Rule) has been deemed final as of its date pursuant to Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended and as may be changed from time-to-time (the "Rule"); and as of the date hereof the Preliminary Official Statement does not, and as of the date of Closing, the Final Official Statement will not, contain any untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, *provided, however*, that no representation is made with respect to information in the Preliminary Official Statement relating to DTC, the book-entry system, the Insurer, and the Fiscal Agent;

If, between the date of this Purchase Agreement and the earlier of (i) 90 days after the "end of the underwriting period" (as defined in subparagraph (e)(2) of the Rule) and (ii) the time when the Final Official Statement is available to any person from a nationally recognized municipal securities information repository, but in no case less than 25 days following the end of the underwriting period, any event occurs or any pre-existing fact or condition becomes known that might or would cause the Final Official Statement as then supplemented or amended to contain an untrue statement of a material fact or to omit a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Issuer will notify the Underwriter thereof and provide to the Underwriter such information as the Underwriter reasonably requests; and if such event requires an amendment or supplement to the Final Official Statement, the Issuer will, at its expense, amend or supplement the Final Official Statement and will provide a reasonable number of copies of such amendment or supplement to the Underwriter. For purposes of this paragraph, the term "end of the underwriting period" shall mean the date of Closing unless the Underwriter notifies the Issuer in writing on or prior to the date of the Closing that there exists an unsold balance of the Bonds, in which case the end of the underwriting period shall be deemed to be extended for additional periods of 30 days each, upon receipt of written notification from the Underwriter or another Underwriter that there exists an unsold balance of the Bonds;

- i) The Issuer will furnish such information, execute such instruments and take such other action not inconsistent with law as may be requested by the Underwriter to (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of

America as may be designated by the Underwriter and (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and will take such reasonable action as may be requested by the Underwriter to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Issuer shall not be required to pay the cost or expense of any such qualification, continuation of qualification or determination or to execute a general or special consent to service of process or qualify to do business in connection with any such qualification, continuation or determination in any jurisdiction;

- j) Under the Rule, the Issuer agrees to enter into a written agreement or contract, constituting an undertaking (the "Undertaking") to provide certain limited disclosure, upon request, and to provide notices upon the occurrence of certain events, if material, in the form of the Continuing Disclosure Certificate contained in the Preliminary Official Statement and to be contained in the Final Official Statement as Appendix E thereto; and
- k) The Issuer has never failed to comply with any prior undertaking under the Rule since July 3, 1995, the date on which the Rule became effective.

7. Cancellation

The Underwriter may terminate its obligation under this Purchase Agreement, without liability therefor, by notifying the Issuer of its election to do so if, after the execution of this Purchase Agreement and prior to the Closing any of the following shall occur:

- a) A material disruption in commercial banking or securities settlement or clearance services shall have occurred, which in the reasonable opinion of the Underwriter would make the marketing or sale of bonds generally impractical or would materially adversely affect the marketability of the Bonds or the price or yields of the Bonds as set forth in the Exhibit A or the Underwriter's ability to enforce contracts for the sale of the Bonds; or
- b) A decision by a court of the United States or the United States Tax Court shall be rendered or a ruling, or a regulation (final, temporary, or proposed, or any press release or notice issued), by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be issued and in the case of any such regulation, published in the Federal Register, or legislation or proposed legislation shall have been introduced in, enacted by or favorably reported to or presented for consideration to either the House of Representatives or the Senate of the United States, with respect to federal taxation upon interest received on obligations of the type and character of the Bonds which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or the price or yields of the Bonds as set forth in

Exhibit A or the Underwriter's ability to enforce contracts for the sale of the Bonds; or

- c) The United States shall have become engaged in hostilities or existing hostilities shall have escalated or a national emergency or other national or international calamity, including but not limited to terrorist attack(s) or other event shall have occurred or accelerated to such an extent as, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or the price or yield of the Bonds as set forth in Exhibit A or the Underwriter's ability to enforce contracts for the sale of the Bonds; or
- d) There shall have occurred a general suspension of trading or other material restrictions not in force as of the date of this Purchase Agreement on the New York Stock Exchange or other national securities exchange; or
- e) A general banking moratorium shall have been declared by the United States, New York State or the State authorities, which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or the price or yields of the Bonds as set forth in Exhibit A, or the Underwriter's ability to enforce contracts for the sale of the Bonds; or
- f) Legislation shall hereafter be enacted, or actively considered for enactment, or a decision by a court of the United States shall hereafter be rendered, or a ruling or regulation by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall hereafter be made, the effect of which is or would be that the offering and sale of the Bonds would be illegal or that:
 - i) The Bonds are not exempt from the registration, qualification or similar requirements of the Securities Act of 1933, as amended and as then in effect (the "33 Act") or distribution of the Bonds is not exempt from the registration, qualification or other requirements of the 33 Act, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and then in effect (the "34 Act"); or
 - ii) The Ordinance is not exempt from the registration, qualification or other requirements of the Trust Indenture Act of 1939, as amended and as then in effect (the "39 Act"); or
 - iii) This Purchase Agreement is subject to the Investment Company Act of 1940, as amended (the "Investment Company Act") or require any registration under the Investment Company Act; or
 - iv) The marketability of the Bonds, or the price or yields of the Bonds as set forth in Exhibit A, or the general character of the Bonds, or the ability of

the Underwriter to enforce contracts for the purchase of the Bonds is or will be materially and adversely affected, all as determined in the reasonable opinion of the Underwriter; or

- g) There shall have been a material adverse change in the affairs of the Issuer that, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or the price or yields of the Bonds as set forth in Exhibit A, or the Underwriter's ability to enforce contracts for the sale of the Bonds;
- h) A stop order, ruling or regulation by the Securities and Exchange Commission shall hereafter be issued or made, the effect of which is that the issuance, offering or sale of the Bonds, as contemplated herein or in the Final Official Statement, is in violation of or would require registration under any provision of the 33 Act, the 34 Act, the 39 Act or the Investment Company Act or in each case the rules or regulations promulgated thereunder as then in effect; or
- i) Any litigation shall be instituted or pending at Closing to restrain or enjoin the authorization, issuance, execution, sale or delivery of the Bonds or the execution and delivery of any of the Documents, or in any way contesting or affecting any authority for or the validity or enforceability of the Bonds, the Ordinance or any of the other Documents, any moneys or securities provided for the payment of the Bonds or the existence or powers of the Issuer, if such litigation, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or the price or yields of the Bonds as set forth in Exhibit A, or the Underwriter's ability to enforce contracts for the sale of the Bonds; or
- j) Any legislation, ordinance, rule or regulation shall be introduced in or enacted by any governmental body, board, department or agency of the State or of the United States, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered affecting the Issuer that in the reasonable opinion of the Underwriter will materially adversely affect the marketability of the Bonds or the market price of the Bonds as set forth in Exhibit A or the Underwriter's ability to enforce contracts for the sale of the Bonds; or
- k) There shall have been established any new restrictions on transactions in securities materially affecting the free market for securities or the extension of credit by, or the charge to the net capital requirements of the Underwriter, including without limitation, the fixing of minimum or maximum prices for trading or maximum ranges of prices, by any exchange, the Securities and Exchange Commission, any other federal or state agency or the Congress of the United States, or by Executive Order; or
- l) There shall exist any event that either (a) makes untrue or incorrect in any material respect any statement or information contained in the Final Official

Statement or (b) is not reflected in the Final Official Statement but should be reflected therein to make the statements and information contained therein under the circumstances in which made not misleading in any material respect; or

- m) The withdrawal or downgrading of any rating of the Bonds by a national rating agency.

8. Closing; Conditions of Closing

On such date and at such time as is set forth in Exhibit A, or on such other date or at such other time as shall have been mutually agreed upon by the Issuer and the Underwriter, the Issuer will deliver or cause to be delivered to the Fiscal Agent on behalf of The Depository Trust Company ("DTC") the Bonds in definitive form duly executed by the Issuer and registered in the name of Cede & Co. or in such other name as may be requested by an authorized representative of DTC, as nominee of DTC, and will deliver or cause to be delivered to the Underwriter the other Documents; and subject to the terms of this Purchase Agreement, the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Exhibit A hereof in same day funds.

Payment for the Bonds as aforesaid and delivery of the Documents, certificates and other items shall be made as set forth in Exhibit A or at such other place as shall have been mutually agreed upon by the Issuer and the Underwriter. Such payment for the Bonds, delivery of the Documents, certificates and other items and the delivery of the Bonds to the Fiscal Agent as described in the preceding paragraph is herein called the "Closing." Bond Counsel shall cause the applicable CUSIP identification numbers to be printed on the Bonds of each maturity, but neither the failure to print such number on any such Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriter to accept delivery of and to pay for the Bonds in accordance with the terms of this Purchase Agreement. The Bonds shall be prepared and delivered to the Fiscal Agent at or prior to the date of the Closing.

9. Issuer's Closing Documents

At Closing, the Issuer shall provide copies of the Documents to the Underwriter. In addition to the other requirements of this Purchase Agreement, the Underwriter's obligations hereunder are subject to the condition that at or prior to the date of the Closing, the Issuer will deliver or make available to the Underwriter all of the following:

- a) The approving opinion of Bond Counsel dated as of the Closing date and addressed to the Issuer, substantially in the form set forth in Appendix F to the Final Official Statement and a letter addressed to the Insurer and the Underwriter to the effect that the Insurer and the Underwriter may rely upon such opinion as if it were addressed to the Insurer and the Underwriter;

- b) The supplemental opinion of Bond Counsel dated as of the Closing date and addressed to the Underwriter, substantially in the form attached hereto as Exhibit C;
- c) Evidence that Moody's Investors Service has assigned its (i) underlying rating of "A3" to the Bonds and that such rating is in full force and effect on and as of the date of Closing, and (ii) insured rating of "Aaa", based upon the Issuer's purchase of a bond insurance policy issued by the Insurer and evidence of the Issuer's purchase of such insurance, including a copy of the Policy and an opinion of counsel to the Insurer in form and substance satisfactory to the Underwriter;
- d) Evidence of a favorable bond election approving issuance of the Bonds;
- e) A copy of the Undertaking, referred to in Section 6 above, stating that the Issuer is not an obligated person with respect to more than \$10 million in aggregate principal amount of outstanding municipal securities, including the Bonds, and in which the Issuer has contractually obligated itself to provide to any owner of Bonds, upon written request, a copy of its most recently prepared and publicly available audited financial reports and notices of certain events, as described in the Preliminary Official Statement and Final Official Statement;
- f) A Tax Certificate setting forth the facts, estimates, and circumstances in existence on the date of Closing which establish that it is not expected that the proceeds of the Bonds will be used in a manner that could cause the Bonds to be "arbitrage bonds," within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;
- g) A copy of completed Form 8038-G with respect to the Bonds executed by the Issuer;
- h) A copy of the Ordinance and all of the resolutions or ordinances of the Issuer adopted with respect to the authorization, issuance, sale, and delivery of the Bonds;
- i) Copies of the general agreement of the Fiscal Agent authorizing its performance of functions as paying agent and registrar for the Bonds; and
- j) The following certifications, which may be combined, executed by an authorized officer of the Issuer and dated as of the date of the Closing, to the effect that:
 - i) The representations, warranties and covenants of the Issuer contained herein and in the Ordinance are true and correct in all material respects on and as of the date of Closing with the same effect as if made on the date of Closing;

- ii) No litigation or other proceedings are pending or, to the knowledge of the Issuer, after inquiry with local counsel, threatened in any court in any way (a) affecting the position or title of the authorized officer of the Issuer, or (b) seeking to restrain or to enjoin the authorization, issuance, sale or delivery of, or security for, any of the Bonds, or (c) contesting or affecting the validity or enforceability of the Bonds, the Ordinance, this Purchase Agreement, or (d) contesting the completeness or accuracy of the Preliminary Official Statement or the Final Official Statement, or (e) contesting the powers of the Issuer or its authority with respect to the Bonds, the Ordinance, or this Purchase Agreement, the Fiscal Agent Agreement, the Undertaking and the Blanket Issuer Letter of Representation or (f) materially affecting the finances of the Issuer. For the purpose of this subparagraph, the Issuer may rely upon a certificate of the Issuer's legal counsel with respect to the legal matters set forth therein;
- iii) No event affecting the Issuer has occurred since the date of the Final Official Statement which should be disclosed in the Final Official Statement for the purposes for which it is to be used or which is necessary to disclose therein in order to make the statements therein not misleading, and the Final Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;
- iv) The proceeds from the sale of the Bonds shall be used solely as set forth in the Ordinance;
- v) The Issuer has complied in all material respects with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the date of the Closing;
- vi) The representations of the Issuer contained in this Purchase Agreement were true and correct when made and are true and correct as of the date of the Closing;
- vii) The Issuer has complied with applicable provisions of any applicable budget law with respect to the issuance of the Bonds;
- viii) Designation of the Bonds as "qualified tax-exempt bonds" for banks, thrift institutions and other financial institutions, as defined in Section 265 of the Internal Revenue Code of 1986, as amended; and
- k) Such additional certificates, instruments or opinions or other evidence as the Underwriter or the Bond Counsel may deem reasonably necessary or desirable to evidence the due authorization, issuance, execution, authentication and delivery of

the Bonds, the truth and accuracy as of the time of the Closing of the representations and warranties contained in this Purchase Agreement, and the conformity of the Bonds and Ordinance with the terms thereof as summarized in the Preliminary Official Statement and the Final Official Statement, and to cover such other matters as the Underwriter or the Bond Counsel reasonably requests.

10. Underwriter's Closing Document

At Closing, the Underwriter shall deliver or cause to be delivered to the Issuer a receipt for the Bonds.

11. Fees and Expenses

The Issuer will pay the costs of preparing, printing and executing the Bonds, the fees and disbursements of the Bond Counsel, bond ratings fees, insurance premiums, Fiscal Agent fees, Bond registration fees, and the costs of printing and distributing the Preliminary Official Statement and Final Official Statement.

12. Miscellaneous

- a) The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State.
- b) This Purchase Agreement is intended to benefit only the parties hereto, and the Issuer's representations and warranties shall survive any investigation made by or for the Underwriter, delivery and payment for the Bonds and the termination of this Purchase Agreement. Should the Issuer fail to satisfy any of the foregoing conditions or covenants, or if the Underwriter's obligations are terminated for any reason permitted under this Purchase Agreement, then neither the Underwriter nor the Issuer shall have any further obligations under this Purchase Agreement, except that any expenses incurred shall be borne in accordance with the Fees and Expenses Section hereof.
- c) Any notice or other communication to be given to the Issuer under this Purchase Agreement (other than acceptance hereof as specified in Paragraph 1) may be given by delivering the same in writing to the City Administrator, City of Ketchum, PO Box 2315, Ketchum, Idaho 83340; and any notice of other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same to the Manager of Public Finance Operations, Seattle-Northwest Securities Corporation, 1000 SW Broadway, Suite 1800, Portland, Oregon 97205.
- d) This Purchase Agreement may be executed by manual signature in any number of counterparts, all of which shall be one and the same instrument, and any party hereto may execute this Purchase Agreement by signing any such counterpart.

Honorable Mayor and City Council
City of Ketchum, Blaine County, Idaho
December 16, 2004
Page 13

- e) This Purchase Agreement shall constitute the entire agreement between and among the Issuer and the Underwriter and is solely for the benefit of the Issuer and the Underwriter (including any successors and assigns thereof but not any holder of any Bonds). No other person shall acquire or have any rights hereunder or by virtue hereof.

- f) All representations and warranties and agreements of the Issuer in this Purchase Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of the Underwriter, (ii) delivery of and payment for the Bonds hereunder, or (iii) any termination of this Purchase Agreement.

Respectfully submitted,

SEATTLE-NORTHWEST SECURITIES CORPORATION

By: _____
Eric Heringer, Vice President

Accepted December 16, 2005

CITY OF KETCHUM
BLAINE COUNTY, IDAHO

By: _____

Title: _____

EXHIBIT A
CITY OF KETCHUM, IDAHO
DESCRIPTION OF THE BONDS

- (a) Principal Amount: \$1,990,000
- (b) Purchase Price: \$1,967,691.80 (\$98.878985 per \$100), representing a net original issue discount of \$2,408.20 and an underwriter's discount of \$19,900.00, plus accrued interest from December 15, 2004 to December 28, 2004.
- (c) Denominations: \$5,000, or integral multiples thereof
- (d) Form: Registered; Book-entry only
- (e) Interest Payment Dates: June 1 and December 1, commencing June 1, 2005.
- (f) Maturity and Interest Rates: The Bonds shall mature on December 1 of each year and bear interest as follows:

Due Dec. 1	Amounts	Interest Rates	Yields	CUSIP No. 492646	Due Dec. 1	Amounts	Interest Rates	Yields	CUSIP No. 492646
2005	\$ 65,000	3.000%	2.05%	BP8	2015	\$ 100,000	3.550%	3.63%	BZ6
2006	75,000	3.000%	2.19%	BQ6	2016	100,000	3.700%	3.71%	CA0
2007	75,000	2.500%	2.29%	BR4	2017	105,000	3.700%	3.79%	CB8
2008	80,000	3.000%	2.45%	BS2	2018	110,000	3.750%	3.86%	CC6
2009	80,000	3.250%	2.71%	BT0	2019	115,000	3.800%	3.93%	CD4
2010	85,000	3.250%	2.95%	BU7	2020	120,000	3.900%	4.00%	CE2
2011	85,000	3.500%	3.13%	BV5	2021	125,000	4.000%	4.08%	CF9
2012	90,000	3.500%	3.29%	BW3	2022	125,000	4.050%	4.15%	CG7
2013	90,000	3.500%	3.43%	BX1	2023	130,000	4.125%	4.21%	CH5
2014	95,000	3.450%	3.53%	BY9	2024	140,000	4.150%	4.27%	CJ1

- (g) Optional Redemption: Bonds maturing on or before December 1, 2014 are not subject to call or redemption prior to their stated dates of maturity. On any interest payment date on or after December 1, 2014, at the option of the Issuer, the Bonds maturing on or after December 1, 2015, will be subject to redemption, in whole or in part, at the discretion of the Issuer (and by lot selected by the Bond Registrar within a maturity), at a price of 100 percent of the principal amount of the Bond being redeemed, plus accrued interest to the redemption date.

- (h) Dated Date: December 15, 2004
- (i) Offer Expires: 5:00 p.m., December 16, 2005.
- (j) Bond Counsel: Moore Smith Buxton & Turcke, Chartered
- (k) Closing: At the offices of Bond Counsel, in Boise, Idaho, on December 28, 2004, at 9:00 a.m.
- (l) Delivery: To the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer.
- (m) Bond Insurance: Payment of the principal of and interest on the Bonds, when due, will be insured by a municipal bond insurance policy to be issued by XL Capital Corporation simultaneously with the delivery of the Bonds.
- (n) Ratings: Moody's Investors Service will assign its rating of "Aaa" to the Bonds based on the Issuer's purchase of the municipal bond insurance policy described above. Further, Moody's has assigned its underlying ratings of "A3" to the Bonds.

**EXHIBIT B
CITY OF KETCHUM, IDAHO
FINAL PRICING NUMBERS**



**SEATTLE-NORTHWEST
SECURITIES CORPORATION**

*The Region's Premier Investment
Banking Firm Since 1970*

101 South Capitol Boulevard
Suite 603
Boise, Idaho 83702

CITY OF KETCHUM, IDAHO

**SEWER REVENUE BONDS, 2004
FINAL PRICING NUMBERS**

DECEMBER 14, 2004

BOND DEBT SERVICE

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
*** Final Numbers ***

Dated Date 12/15/2004
 Delivery Date 12/28/2004

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/28/2004					
06/01/2005			33,170.03	33,170.03	
12/01/2005	65,000	3.000%	35,967.50	100,967.50	134,137.53
06/01/2006			34,992.50	34,992.50	
12/01/2006	75,000	3.000%	34,992.50	109,992.50	144,985.00
06/01/2007			33,867.50	33,867.50	
12/01/2007	75,000	2.500%	33,867.50	108,867.50	142,735.00
06/01/2008			32,930.00	32,930.00	
12/01/2008	80,000	3.000%	32,930.00	112,930.00	145,860.00
06/01/2009			31,730.00	31,730.00	
12/01/2009	80,000	3.250%	31,730.00	111,730.00	143,460.00
06/01/2010			30,430.00	30,430.00	
12/01/2010	85,000	3.250%	30,430.00	115,430.00	145,860.00
06/01/2011			29,048.75	29,048.75	
12/01/2011	85,000	3.500%	29,048.75	114,048.75	143,097.50
06/01/2012			27,561.25	27,561.25	
12/01/2012	90,000	3.500%	27,561.25	117,561.25	145,122.50
06/01/2013			25,986.25	25,986.25	
12/01/2013	90,000	3.500%	25,986.25	115,986.25	141,972.50
06/01/2014			24,411.25	24,411.25	
12/01/2014	95,000	3.450%	24,411.25	119,411.25	143,822.50
06/01/2015			22,772.50	22,772.50	
12/01/2015	100,000	3.550%	22,772.50	122,772.50	145,545.00
06/01/2016			20,997.50	20,997.50	
12/01/2016	100,000	3.700%	20,997.50	120,997.50	141,995.00
06/01/2017			19,147.50	19,147.50	
12/01/2017	105,000	3.700%	19,147.50	124,147.50	143,295.00
06/01/2018			17,205.00	17,205.00	
12/01/2018	110,000	3.750%	17,205.00	127,205.00	144,410.00
06/01/2019			15,142.50	15,142.50	
12/01/2019	115,000	3.800%	15,142.50	130,142.50	145,285.00
06/01/2020			12,957.50	12,957.50	
12/01/2020	120,000	3.900%	12,957.50	132,957.50	145,915.00
06/01/2021			10,617.50	10,617.50	
12/01/2021	125,000	4.000%	10,617.50	135,617.50	146,235.00
06/01/2022			8,117.50	8,117.50	
12/01/2022	125,000	4.050%	8,117.50	133,117.50	141,235.00
06/01/2023			5,586.25	5,586.25	
12/01/2023	130,000	4.125%	5,586.25	135,586.25	141,172.50
06/01/2024			2,905.00	2,905.00	
12/01/2024	140,000	4.150%	2,905.00	142,905.00	145,810.00
	1,990,000		881,950.03	2,871,950.03	2,871,950.03

SOURCES AND USES OF FUNDS

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
* Final Numbers *

Dated Date 12/15/2004
Delivery Date 12/28/2004

Sources:

Bond Proceeds:	
Par Amount	1,990,000.00
Accrued Interest	2,597.65
Original Issue Discount	-13,266.70
Premium	10,858.50

1,990,189.45

Uses:

Project Fund Deposits:	
Project Fund	1,937,641.80

Other Fund Deposits:	
Accrued Interest	2,597.65

Delivery Date Expenses:	
Cost of Issuance	17,050.00
Underwriter's Discount	19,900.00
Bond Insurance (XL @ \$8,000)	8,000.00
Surety Policy (XL @ \$5,000)	5,000.00

49,950.00

1,990,189.45

BOND PRICING

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
*** Final Numbers ***

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Premium (-Discount)
Serial Bonds:						
	12/01/2005	65,000	3.000%	2.050%	100.865	562.25
	12/01/2006	75,000	3.000%	2.190%	101.517	1,137.75
	12/01/2007	75,000	2.500%	2.290%	100.589	441.75
	12/01/2008	80,000	3.000%	2.450%	102.045	1,636.00
	12/01/2009	80,000	3.250%	2.710%	102.472	1,977.60
	12/01/2010	85,000	3.250%	2.950%	101.618	1,375.30
	12/01/2011	85,000	3.500%	3.130%	102.285	1,942.25
	12/01/2012	90,000	3.500%	3.290%	101.452	1,306.80
	12/01/2013	90,000	3.500%	3.430%	100.532	478.80
	12/01/2014	95,000	3.450%	3.530%	99.333	-633.65
	12/01/2015	100,000	3.550%	3.630%	99.281	-719.00
	12/01/2016	100,000	3.700%	3.710%	99.902	-98.00
	12/01/2017	105,000	3.700%	3.790%	99.084	-961.80
	12/01/2018	110,000	3.750%	3.860%	98.821	-1,296.90
	12/01/2019	115,000	3.800%	3.930%	98.540	-1,679.00
	12/01/2020	120,000	3.900%	4.000%	98.828	-1,406.40
	12/01/2021	125,000	4.000%	4.080%	99.026	-1,217.50
	12/01/2022	125,000	4.050%	4.150%	98.741	-1,573.75
	12/01/2023	130,000	4.125%	4.210%	98.895	-1,436.50
	12/01/2024	140,000	4.150%	4.270%	98.397	-2,244.20
		1,990,000				-2,408.20

Dated Date	12/15/2004	
Delivery Date	12/28/2004	
First Coupon	06/01/2005	
Par Amount	1,990,000.00	
Original Issue Discount	-2,408.20	
Production	1,987,591.80	99.878985%
Underwriter's Discount	-19,900.00	-1.000000%
Purchase Price	1,967,691.80	98.878985%
Accrued Interest	2,597.65	
Net Proceeds	1,970,289.45	

BOND SUMMARY STATISTICS

CITY OF KETCHUM, IDAHO

Sewer Revenue Bonds, 2004

* Final Numbers *

Dated Date	12/15/2004
Delivery Date	12/28/2004
Last Maturity	12/01/2024
Arbitrage Yield	3.842225%
True Interest Cost (TIC)	3.983982%
Net Interest Cost (NIC)	3.903956%
All-In TIC	4.082565%
Average Coupon	3.807645%
Average Life (years)	11.603
Duration of Issue (years)	9.010
Par Amount	1,990,000.00
Bond Proceeds	1,990,189.45
Total Interest	881,950.03
Net Interest	904,258.23
Total Debt Service	2,871,950.03
Maximum Annual Debt Service	146,235.00
Average Annual Debt Service	144,007.65
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	10.000000
Total Underwriter's Discount	10.000000
Bid Price	98.878985

Bond Component	Par Value	Price	Average Coupon	Average Life
Serial Bonds	1,990,000.00	99.879	3.808%	11.603
	1,990,000.00			11.603

	TIC	All-In TIC	Arbitrage Yield
Par Value	1,990,000.00	1,990,000.00	1,990,000.00
+ Accrued Interest	2,597.65	2,597.65	2,597.65
+ Premium (Discount)	-2,408.20	-2,408.20	-2,408.20
- Underwriter's Discount	-19,900.00	-19,900.00	
- Cost of Issuance Expense		-17,050.00	
- Other Amounts	-13,000.00	-13,000.00	-8,000.00
Target Value	1,957,289.45	1,940,239.45	1,982,189.45
Target Date	12/28/2004	12/28/2004	12/28/2004
Yield	3.983982%	4.082565%	3.842225%

BOND DEBT SERVICE

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
* Final Numbers *

Dated Date 12/15/2004
Delivery Date 12/28/2004

Period Ending	Principal	Coupon	Interest	Debt Service
12/01/2005	65,000	3.000%	69,137.53	134,137.53
12/01/2006	75,000	3.000%	69,985.00	144,985.00
12/01/2007	75,000	2.500%	67,735.00	142,735.00
12/01/2008	80,000	3.000%	65,860.00	145,860.00
12/01/2009	80,000	3.250%	63,460.00	143,460.00
12/01/2010	85,000	3.250%	60,860.00	145,860.00
12/01/2011	85,000	3.500%	58,097.50	143,097.50
12/01/2012	90,000	3.500%	55,122.50	145,122.50
12/01/2013	90,000	3.500%	51,972.50	141,972.50
12/01/2014	95,000	3.450%	48,822.50	143,822.50
12/01/2015	100,000	3.550%	45,545.00	145,545.00
12/01/2016	100,000	3.700%	41,995.00	141,995.00
12/01/2017	105,000	3.700%	38,295.00	143,295.00
12/01/2018	110,000	3.750%	34,410.00	144,410.00
12/01/2019	115,000	3.800%	30,285.00	145,285.00
12/01/2020	120,000	3.900%	25,915.00	145,915.00
12/01/2021	125,000	4.000%	21,235.00	146,235.00
12/01/2022	125,000	4.050%	16,235.00	141,235.00
12/01/2023	130,000	4.125%	11,172.50	141,172.50
12/01/2024	140,000	4.150%	5,810.00	145,810.00
	1,990,000		881,950.03	2,871,950.03

FORM 8038 STATISTICS

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
* Final Numbers *

Dated Date 12/15/2004
Delivery Date 12/28/2004

Bond Component	Date	Principal	Coupon	Price	Issue Price	Redemption at Maturity
Serial Bonds:						
	12/01/2005	65,000.00	3.000%	100.865	65,562.25	65,000.00
	12/01/2006	75,000.00	3.000%	101.517	76,137.75	75,000.00
	12/01/2007	75,000.00	2.500%	100.589	75,441.75	75,000.00
	12/01/2008	80,000.00	3.000%	102.045	81,636.00	80,000.00
	12/01/2009	80,000.00	3.250%	102.472	81,977.60	80,000.00
	12/01/2010	85,000.00	3.250%	101.618	86,375.30	85,000.00
	12/01/2011	85,000.00	3.500%	102.285	86,942.25	85,000.00
	12/01/2012	90,000.00	3.500%	101.452	91,306.80	90,000.00
	12/01/2013	90,000.00	3.500%	100.532	90,478.80	90,000.00
	12/01/2014	95,000.00	3.450%	99.333	94,366.35	95,000.00
	12/01/2015	100,000.00	3.550%	99.281	99,281.00	100,000.00
	12/01/2016	100,000.00	3.700%	99.902	99,902.00	100,000.00
	12/01/2017	105,000.00	3.700%	99.084	104,038.20	105,000.00
	12/01/2018	110,000.00	3.750%	98.821	108,703.10	110,000.00
	12/01/2019	115,000.00	3.800%	98.540	113,321.00	115,000.00
	12/01/2020	120,000.00	3.900%	98.828	118,593.60	120,000.00
	12/01/2021	125,000.00	4.000%	99.026	123,782.50	125,000.00
	12/01/2022	125,000.00	4.050%	98.741	123,426.25	125,000.00
	12/01/2023	130,000.00	4.125%	98.895	128,563.50	130,000.00
	12/01/2024	140,000.00	4.150%	98.397	137,755.80	140,000.00
		1,990,000.00			1,987,591.80	1,990,000.00

	Maturity Date	Interest Rate	Issue Price	Stated Redemption at Maturity	Weighted Average Maturity	Yield	Net Interest Cost
Final Maturity	12/01/2024	4.150%	137,755.80	140,000.00			
Entire Issue			1,987,591.80	1,990,000.00	11.5382	3.8422%	3.8449%

Proceeds used for accrued interest 2,597.65
 Proceeds used for bond issuance costs (including underwriters' discount) 36,950.00
 Proceeds used for credit enhancement 8,000.00
 Proceeds allocated to reasonably required reserve or replacement fund 0.00

PROOF OF ARBITRAGE YIELD

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
* Final Numbers *

Date	Debt Service	Present Value to 12/28/2004 @ 3.8422255%
06/01/2005	33,170.03	32,637.83
12/01/2005	100,967.50	97,474.93
06/01/2006	34,992.50	33,145.31
12/01/2006	109,992.50	102,222.40
06/01/2007	33,867.50	30,881.76
12/01/2007	108,867.50	97,398.65
06/01/2008	32,930.00	28,905.62
12/01/2008	112,930.00	97,260.32
06/01/2009	31,730.00	26,812.19
12/01/2009	111,730.00	92,633.45
06/01/2010	30,430.00	24,753.46
12/01/2010	115,430.00	92,127.32
06/01/2011	29,048.75	22,747.47
12/01/2011	114,048.75	87,625.79
06/01/2012	27,561.25	20,776.68
12/01/2012	117,561.25	86,951.55
06/01/2013	25,986.25	18,857.87
12/01/2013	115,986.25	82,583.13
06/01/2014	24,411.25	17,053.39
12/01/2014	119,411.25	81,846.81
06/01/2015	22,772.50	15,314.51
12/01/2015	122,772.50	81,008.26
06/01/2016	20,997.50	13,593.51
12/01/2016	120,997.50	76,855.73
06/01/2017	19,147.50	11,932.95
12/01/2017	124,147.50	75,911.84
06/01/2018	17,205.00	10,321.96
12/01/2018	127,205.00	74,876.83
06/01/2019	15,142.50	8,745.34
12/01/2019	130,142.50	73,745.25
06/01/2020	12,957.50	7,203.97
12/01/2020	132,957.50	72,526.96
06/01/2021	10,617.50	5,682.57
12/01/2021	135,617.50	71,215.42
06/01/2022	8,117.50	4,182.31
12/01/2022	133,117.50	67,292.26
06/01/2023	5,586.25	2,770.68
12/01/2023	135,586.25	65,980.76
06/01/2024	2,905.00	1,387.02
12/01/2024	142,905.00	66,945.41
	2,871,950.03	1,982,189.45

PROOF OF ARBITRAGE YIELD

CITY OF KETCHUM, IDAHO
Sewer Revenue Bonds, 2004
* Final Numbers *

Proceeds Summary

Delivery date	12/28/2004
Par Value	1,990,000.00
Accrued interest	2,597.65
Premium (Discount)	-2,408.20
Arbitrage expenses	-8,000.00
	<hr/>
Target for yield calculation	1,982,189.45

EXHIBIT C
CITY OF KETCHUM, IDAHO
FORM OF BOND COUNSEL SUPPLEMENTAL OPINION

MOORE SMITH BUXTON & TURCKE, CHARTERED

ATTORNEYS AND COUNSELORS AT LAW

225 NORTH 9TH STREET, SUITE 420
BOISE, ID 83702
TELEPHONE: (208) 331-1800 FAX: (208) 331-1202

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TAMMY A. ZOKAN*

Washington

TODD M. LAKEY
Of Counsel

JOHN J. MCFADDEN*
Of Counsel

* Also admitted in Oregon
‡ Also admitted in

† Also admitted in South Dakota
* Also admitted in New Mexico

December 28, 2004

Seattle-Northwest Securities Corporation
101 S. Capitol Blvd., Suite 603
Boise, Idaho 83702

Re: City of Ketchum, Blaine County, Idaho Sewer Revenue
Bonds, Series 2004, in the Principal Amount of
\$1,990,000

Ladies and Gentlemen:

This opinion is rendered to you in connection with the purchase by you of the above captioned bonds (the "Bonds") pursuant to a Purchase Agreement dated December 16, 2004 (the "Purchase Agreement"), by and between you and the City of Ketchum, Blaine County, Idaho (the "Issuer"). All terms used in this opinion and not otherwise defined herein shall have the respective meanings assigned thereto in the Purchase Agreement or the Ordinance (as defined in the Purchase Agreement). In our capacity as Bond Counsel with respect to the authorization, issuance, sale and delivery of the Bonds, we have examined the official statement dated _____, 2004, relating to the Bonds (the "Final Official Statement"). We have also examined originals, or copies certified or otherwise identified to our satisfaction as being true copies of the originals, of such proceedings of the Issuer, certificates of officials of the Issuer and others and such other documents as we have deemed necessary for purposes of this opinion.

Based on our review of the foregoing, we are of the opinion that:

1. The statements in the Final Official Statement under the headings "Description of the Bonds" (except for the subsection "Book-Entry Bonds" thereunder), "Purpose and Use of Proceeds -- Purpose," "Security for the Bonds," "The Initiative and Referendum Process," "Tax Exemption," "Continuing Disclosure," "Appendix A - Form of Bond Counsel Opinion," and "Appendix D - Information Reporting Agreement" (together with specific references thereto contained in the Final Official Statement), insofar as such statements purport to summarize the provisions of the Bonds or other matters discussed or presented therein (other than any financial or statistical data contained in such sections as to which we express no opinion) present a fair summary of the relevant provisions of the Bonds and the matters discussed or presented therein.
2. Based upon our participation in the review of the Final Official Statement as Bond Counsel but without having undertaken to determine independently the accuracy or completeness of, and without assuming any responsibility for the statements contained in the Final Official Statement, except to the limited extent noted immediately above, nothing has come to our attention that would lead us to believe that the statements contained in the Final Official Statement, as of the date of the Final Official Statement (except for the financial and statistical data included therein, as to which we express no opinion), contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.
3. The Purchase Agreement has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding agreement of the Issuer, which is enforceable in accordance with its terms, except to the extent that enforceability may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the Issuer.
4. The Ordinance creates a valid pledge of the Revenues of the Wastewater System of the Issuer and the funds and accounts

of the Issuer described in the Ordinance on a parity of lien basis with the City's loan from the Idaho Department of Environmental Quality.

5. We have reviewed the undertaking of the Issuer regarding secondary market disclosure as further described in the Preliminary Official Statement and the Final Official Statement. In our opinion, such undertaking is valid and binding, is in full force and effect as of the date of Closing.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations or exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on the opinions expressed.

We express no opinion as to the creditworthiness of the Issuer, the investment quality of the Bonds, or the adequacy of the security for the Bonds. We are furnishing this letter to you pursuant to the Purchase Agreement solely for your benefit. This letter is not to be used, circulated, quoted or otherwise referred to in connection with the marketing of the Bonds nor is it to be relied upon by any person without prior written permission; provided that reference may be made to it in any list or transcript of closing documents pertaining to the Bonds. We expressly disclaim any duty to advise you of any matters arising after the date hereof.

Respectfully submitted,

MOORE SMITH BUXTON & TURCKE,
CHARTERED

Michael C. Moore

FINANCIAL GUARANTY AGREEMENT

FINANCIAL GUARANTY AGREEMENT made as of December 28, 2004, by and between the CITY OF KETCHUM, Blaine County, Idaho (the “*Issuer*”), and XL Capital Assurance Inc. (the “*Insurer*”), a New York stock insurance company.

WITNESSETH:

WHEREAS, the Issuer has or will issue the Obligations; and

WHEREAS, pursuant to the terms of the Bond Document the Issuer agrees to make certain payments on the Obligations; and

WHEREAS, the Insurer will issue its Debt Service Reserve Policy, substantially in the form set forth in Annex A to this Agreement, guaranteeing certain payments by the Issuer subject to the terms and limitations of the Debt Service Reserve Policy; and

WHEREAS, to induce the Insurer to issue the Debt Service Reserve Policy, the Issuer has agreed to pay the premium for the Debt Service Reserve Policy and to reimburse the Insurer for all payments made by the Insurer under the Debt Service Reserve Policy, all as more fully set forth in this Agreement; and

WHEREAS, the Issuer understands that the Insurer expressly requires the delivery of this Agreement as part of the consideration for the execution by the Insurer of the Debt Service Reserve Policy; and

NOW, THEREFORE, in consideration of the premises and of the agreements herein contained and of the execution of the Debt Service Reserve Policy, the Issuer and the Insurer agree as follows:

ARTICLE I. DEFINITIONS; DEBT SERVICE RESERVE POLICY

Section 1.01 Definitions. The terms which are capitalized herein shall have the meanings specified in Annex B hereto.

Section 1.02 Debt Service Reserve Policy.

- (a) The Insurer will issue the Debt Service Reserve Policy in accordance with and subject to the terms and conditions of the Commitment.
- (b) The maximum liability of the Insurer under the Debt Service Reserve Policy and the coverage and term thereof shall be subject to and limited by the terms and conditions of the Debt Service Reserve Policy.

Section 1.03 Premium. In consideration of the Insurer agreeing to issue the Debt Service Reserve Policy hereunder, the Issuer hereby agrees to pay or cause to be paid the Premium set forth in Annex B hereto. The Premium on the Debt Service Reserve Policy is not refundable for any reason.

Section 1.04 Certain Other Expenses. The Issuer will pay all reasonable fees and expenses of the Insurer's outside counsel related to any amendment or modification of this Agreement or the Debt Service Reserve Policy.

**ARTICLE II.
REIMBURSEMENT AND INDEMNIFICATION
OBLIGATIONS OF ISSUER AND SECURITY THEREFOR**

Section 2.01 Reimbursement for Payments under the Debt Service Reserve Policy and Expenses; Indemnification.

- (a) The Issuer will reimburse the Insurer, within the Reimbursement Period, without demand or notice by the Insurer to the Issuer or any other person, to the extent of each Debt Service Reserve Policy Payment with interest on each Debt Service Reserve Policy Payment from and including the date made to the date of the reimbursement at the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law.
- (b) The Issuer also agrees to reimburse the Insurer immediately and unconditionally upon demand for all reasonable expenses (including, without limitation, the fees and expenses of the Insurer's outside counsel) incurred by the Insurer in connection with the Debt Service Reserve Policy and the enforcement by the Insurer of the Issuer's obligations under this Agreement, the Bond Document, and any other document executed in connection with the issuance of the Obligations, together with interest on all such expenses from and including the date incurred to the date of payment at the rate set forth in subsection (a) of this Section 2.01.
- (c) The Issuer agrees to indemnify the Insurer, to the extent permitted by state law, against any and all liability, claims, loss, costs, damages, fees of attorneys and other expenses which the Insurer may sustain or incur by reason of or in consequence of (i) the failure of the Issuer to perform or comply with the covenants or conditions of this Agreement or (ii) reliance by the Insurer upon representations made by the Issuer or (iii) a default by the Issuer under the terms of the Bond Document or any other documents executed in connection with the issuance of the Obligations.
- (d) The Issuer agrees that all amounts owing to the Insurer pursuant to Section 1.03 hereof and this Section 2.01 must be paid in full prior to any optional redemption or refunding of the Obligations.
- (e) Unless Insurer appoints a fiscal agent pursuant to the terms of the Debt Service Reserve Policy, all payments made to the Insurer under this Agreement shall be paid in lawful currency of the United States in

immediately available funds at the Insurer's office at 1221 Avenue of the Americas, New York, New York, 10020, Attention: Surveillance, or at such other place as shall be designated by the Insurer.

Section 2.02 Allocation of Payments. The Insurer and the Issuer hereby agree that each payment received by the Insurer from or on behalf of the Issuer as a reimbursement to the Insurer as required by Section 2.01 hereof shall be applied by the Insurer first, toward payment of any unpaid premium; second, toward repayment of the aggregate Debt Service Reserve Policy Payments made by the Insurer and not yet repaid, payment of which will reinstate all or a portion of the Debt Service Reserve Policy Coverage as set forth therein; and third, upon full reinstatement of the Debt Service Reserve Policy Coverage to the Policy Limit, toward other amounts, including, without limitation, any interest payable with respect to any Debt Service Reserve Policy Payments then due to the Insurer.

Section 2.03 Security for Payments; Instruments of Further Assurance. To the extent, but only to the extent, that the Bond Document, or any related indenture, trust agreement, ordinance, resolution, mortgage, security agreement or similar instrument, if any, pledges to the Owners or any Paying Agent therefor, or grants a security interest or lien in or on any collateral, property, revenue or other payments ("*Collateral and Revenues*") in order to secure the Obligations or provide a source of payment for the Obligations, the Issuer hereby grants to the Insurer a security interest in or lien on, as the case may be, and pledges to the Insurer all such Collateral and Revenues as security for payment of all amounts due hereunder and under the Bond Document or any other document executed in connection with the issuance of the Obligations, which security interest, lien and/or pledge created or granted under this Section 2.03 shall be secured on a parity with the interests of the Owners and any Paying Agent therefor in such Collateral and Revenues, except as otherwise provided. The Issuer agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by the Insurer for the perfection of the security interest, if any, granted under this Section 2.03 and for the preservation and protection of all rights of the Insurer under this Section 2.03.

Section 2.04 Unconditional Obligation. The obligations hereunder are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, subject to the limitations of the Bond Document, irrespective of:

- (a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Obligations, the Bond Document or any other document executed in connection with the issuance of the Obligations; or
- (b) any exchange, release or nonperfection of any security interest in property securing the Obligations or this Agreement or any obligations hereunder; or
- (c) any circumstances that might otherwise constitute a defense available to, or discharge of, the Issuer with respect to the Obligations, the Bond Document or any other document executed in connection with the issuance of the Obligations; or

- (d) whether or not such obligations are contingent or matured, disputed or undisputed, liquidated or unliquidated.

Section 2.05 Insurer's Rights. The Issuer shall repay the Insurer to the extent of payments made and expenses incurred by the Insurer in connection with the Obligations and this Agreement.

Section 2.06 Ongoing Information Obligations of Issuer.

- (a) Quarterly Reports. The Issuer will provide to the Insurer within 45 days of the close of each quarter interim financial statements covering all fund balances under the Bond Document, a statement of operations (income statement), balance sheet and changes in fund balances. These statements need not be audited by an independent certified public accountant, but if any audited statements are produced, they must be provided to the Insurer;
- (b) Annual Reports. The Issuer will provide to the Insurer annual financial statements audited by an independent certified public accountant within 90 days of the end of each fiscal year;
- (c) Access to Facilities, Books and Records. The Issuer will grant the Insurer reasonable access to the properties financed by the Obligations and will make available to the Insurer, at reasonable times and upon reasonable notice all books and records relative to the project financed by the Obligations; and
- (d) Compliance Certificate. On an annual basis the Issuer will provide to the Insurer a certificate confirming compliance with all covenants and obligations hereunder and under the Bond Document or any other document executed in connection with the issuance of the obligations.

**ARTICLE III.
AMENDMENTS TO DOCUMENT**

So long as this Agreement is in effect, the Issuer agrees that it will not agree to amend the Bond Document or any other document executed in connection with the issuance of the Obligations, without the prior written consent of the Insurer.

**ARTICLE IV.
EVENTS OF DEFAULT; REMEDIES**

Section 4.01 Events of Default. The following events shall constitute Events of Default hereunder:

- (a) The Issuer shall fail to pay to the Insurer when due any amount payable under Section 1.03; or
- (b) The Issuer shall fail to pay to the Insurer any amount payable under Sections 1.04 and 2.01 hereof and such failure shall have continued for a period in excess of the Reimbursement Period; or

- (c) Any material representation or warranty made by the Issuer under the Bond Document or hereunder or any statement in the application for the Debt Service Reserve Policy or any report, certificate, financial statement, document or other instrument provided in connection with the Commitment, the Debt Service Reserve Policy, the Obligations, or herewith shall have been materially false at the time when made; or
- (d) Except as otherwise provided in this Section 4.01, the Issuer shall fail to perform any of its other obligations under the Bond Document, or any other document executed in connection with the issuance of the Obligations, or hereunder, provided that such failure continues for more than 30 days after receipt by the Issuer or written notice of such failure to perform; or
- (e) The Issuer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, Paying Agent, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing; or
- (f) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Issuer, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, Paying Agent, custodian, sequestrator or similar official for the Issuer or for a substantial part of its property; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for 30 days.

Section 4.02 Remedies. If an Event of Default shall occur and be continuing, then the Insurer may [(a) declare the Remaining Premium Amount and all other amounts owing hereunder to be due and payable forthwith, whereupon the same shall immediately become due and payable by the Borrower and (b)] take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under this Agreement or to enforce performance of any obligation of the Issuer to the Insurer under the Bond Document or any related instrument, and any obligation, agreement or covenant of the Issuer under this Agreement. All rights and remedies of the Insurer under this Section 4.02 are cumulative and the exercise of any one remedy does not preclude the exercise of one or more of the other available remedies.

**ARTICLE V.
SETTLEMENT**

The Insurer shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against the Insurer, the Issuer or any other party on the Debt Service Reserve Policy shall or shall not be paid, compromised, resisted, defended, tried or appealed, and the Insurer's decision thereon, if made in good faith, shall be final and binding upon the Insurer, the Issuer and any other party on the Debt Service Reserve Policy. An itemized statement of payments made by the Insurer, certified by an officer of the Insurer, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Issuer, and if the Issuer fails to immediately reimburse the Insurer upon the receipt of such statement of payments, interest shall be computed on such amount from the date of any payment made by the Insurer at the rate set forth in subsection (a) of Section 2.01 hereof.

**ARTICLE VI.
MISCELLANEOUS**

Section 6.01 Interest Computations. All computations of interest due hereunder shall be made on the basis of the actual number of days elapsed over a year of 360 days.

Section 6.02 Exercise of Rights. No failure or delay on the part of the Insurer to exercise any right, power or privilege under this Agreement and no course of dealing between the Insurer and the Issuer or any other party shall operate as a waiver of any such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Insurer would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 6.03 Amendment and Waiver. Any provision of this Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the Issuer and the Insurer. The Issuer hereby agrees that upon the written request of the Paying Agent, the Insurer may make a modification to or issue a substitute for the Debt Service Reserve Policy to cure any ambiguity or formal defect or omission in the Debt Service Reserve Policy which does not materially change the terms of the Debt Service Reserve Policy nor adversely affect the rights of the Owners, and this Agreement shall apply to such substituted Debt Service Reserve Policy. The Insurer agrees to deliver to the Issuer and to the company or companies, if any, rating the Obligations, a copy of such substituted Debt Service Reserve Policy.

Section 6.04 Successors and Assigns; Descriptive Headings.

- (a) This Agreement shall bind, and the benefits thereof shall inure to, the Issuer and the Insurer and their respective successors and assigns; provided, that the Issuer may not transfer or assign any or all of its rights and obligations hereunder without the prior written consent of the Insurer.

- (b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 6.05 Other Sureties. If the Insurer shall procure any other surety to reinsure the Debt Service Reserve Policy, this Agreement shall inure to the benefit of such other surety, its successors and assigns, so as to give to it a direct right of action against the Issuer to enforce this Agreement, and "the Insurer," wherever used herein, shall be deemed to include such reinsuring surety, as its respective interests may appear.

Section 6.06 Signature on Bond. The Issuer's liability shall not be affected by its failure to sign the Debt Service Reserve Policy nor by any claim that other indemnity or security was to have been obtained nor by the release of any indemnity, nor the return or exchange of any collateral that may have been obtained.

Section 6.07 Waiver. The Issuer waives any defense that this Agreement was executed subsequent to the date of the Debt Service Reserve Policy, admitting and covenanting that such Debt Service Reserve Policy was executed pursuant to the Issuer's request and in reliance on the Issuer's promise to execute this Agreement.

Section 6.08 Notices, Requests, Demands. Except as otherwise expressly provided herein, all written notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case of telex or telecopier notice sent over a telex or a telecopier machine owned or operated by a party hereto, when sent, addressed as specified below or at such other address as any of the parties may hereafter specify in writing to the others:

If to the Issuer:

City of Ketchum
Attn: City Administrator
480 East Avenue North
Ketchum, Idaho 83340

If to the Paying Agent:

U.S. Bank National Association
15 West South Temple, Suite 200
Salt Lake City, Utah 84101

If to the Insurer:

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance
Fax: (212) 478-3587

Section 6.09 Survival of Representations and Warranties. All representations, warranties and obligations contained herein shall survive the execution and delivery of this Agreement and the Debt Service Reserve Policy.

Section 6.10 Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State.

Section 6.11 Counterparts. This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument, and all of which shall constitute but one and the same instrument. Complete counterparts of this Agreement shall be lodged with the Issuer and the Insurer.

Section 6.12 Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 6.13 Survival of Obligations. Notwithstanding anything to the contrary contained in this Agreement, the obligation of the Issuer to pay all amounts due hereunder and the rights of the Insurer to pursue all remedies shall survive the expiration, termination or substitution of the Debt Service Reserve Policy and this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

CITY OF KETCHUM
Blaine County, Idaho

By: _____
Name: Edward Simon
Title: Mayor

XL CAPITAL ASSURANCE INC.

By: _____
Name:
Title:

ANNEX A

[Form of Debt Service Reserve Policy]

ANNEX B
DEFINITIONS

For all purposes of this Agreement and the Debt Service Reserve Policy, except as otherwise expressly provided herein or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below, which shall be equally applicable to both the singular and plural forms of such terms.

"Agreement" means this Financial Guaranty Agreement.

"Bond Document" means the Ordinance.

"Closing Date" means December 28, 2004.

"Debt Service Payments" means those payments required to be made by or on behalf of the Issuer which will be applied to payment of principal of and interest on the Obligations.

"Debt Service Reserve Policy" means that policy attached hereto as Annex A and issued by the Insurer guaranteeing, subject to the terms and limitations thereof, including the Policy Limit, Debt Service Payments required to be made by the Issuer under the Bond Document.

"Debt Service Reserve Policy Coverage" means the amount available at any particular time to be paid under the terms of the Debt Service Reserve Policy, which amount shall never exceed the Policy Limit.

"Debt Service Reserve Policy Payment" means the amount of any payment by the Insurer under the Debt Service Reserve Policy.

"Event of Default" shall mean those events of default set forth in Section 4.01 of the Agreement.

"Insurer" has the same meaning as set forth in the first paragraph of this Agreement.

"Issuer" means the City of Ketchum, Blaine County, Idaho.

"Notice of Nonpayment" means the certificate submitted to the Insurer for payment under the Debt Service Reserve Policy substantially in the form attached to the Debt Service Reserve Policy as Attachment I.

"Obligations" means the City of Ketchum, Blaine County, Idaho, General Obligation Bonds, Series 2004.

"Ordinance" means Ordinance No. 946 of the Issuer, adopted on December 16, 2004.

"Owners" means the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer or any designee of the Issuer for such purpose.

"Paying Agent" means U.S. Bank National Association, Salt Lake City, Utah.

"Policy Limit" means \$_____.

"Premium" means \$_____ payable to the Insurer [on or prior to the Closing Date] [on ____ [specify dates]].

“Reimbursement Period” means, with respect to a particular Debt Service Reserve Policy Payment, the period commencing on the date of such payment and ending on the expiration of 12 months following such Debt Service Reserve Policy Payment.

“Reimbursement Rate” means Citibank’s prime rate plus three (3) percent per annum, as of the date of such Debt Service Reserve Policy Payment, said “prime rate” being the rate of interest announced from time to time by Citibank, N.A., New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year.

“Remaining Premium Amount” means, as of any date of determination, the present value, using a discount rate of ___%, of each of the [Monthly] Premiums scheduled to be paid from such date until the scheduled maturity date of the Obligations pursuant to Section 1.03 hereof, using the aggregate outstanding principal amount of the Obligations as of such date of determination in order to calculate such [Monthly] Premiums.]

“State” means Idaho.