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FEB 29 1984
WATER RESOURCES DEPT.
SALEM, OREGON

LOAN AGREEMENT

BETWEEN

THE STATE OF OREGON,
ACTING BY THE DIRECTOR OF
THE DEPARTMENT OF WATER RESOURCES

AND

DATED AS OF February 15, 1984 FOR AND RELATING
TO BONDS ISSUED UNDER SERIES 1982-A SOLD ON
October 5, 1982 AND DATED October 15, 1982

Loan Number 1982 A-11 (Sub A-9)

DisLnAgree - 2/84

AFTER RECEIVING RETURN TO:
Water Resources Department
Water Resources Loan Program
Mt. Creek Falls, Ore.
555 Third Street NW
Salem, Oregon 97310

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LOAN AGREEMENT

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THIS AGREEMENT, dated February 15, 1984 for and relating to bonds issued under Series 1982-A sold on October 5, 1982 and dated October 15, 1982, between the STATE OF OREGON, acting through the Director, DEPARTMENT OF WATER RESOURCES (the "State"), and Pine Grove Irrigation District, a municipal corporation of the State of Oregon (the "Borrower"),

W I T N E S S E T H :

WHEREAS, the State is duly authorized by law to cause bonds to be sold and issued to provide financial assistance to Water Developers for the construction of Water Development Projects;

WHEREAS, the Borrower has duly filed its written application with the State for financial assistance to construct a Water Development Project; and

WHEREAS, the Director of the Department of Water Resources after due investigation and deliberation has approved the application and authorized the lending of financial assistance to the Borrower for the construction of a Water Development Project.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter contained and other good and valuable consideration, the parties hereto agree as follows:

SECTION 1

DEFINITIONS

Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this Agreement have the meanings herein specified. The following definitions are equally applicable to both the singular and plural forms of any of the terms herein defined:

"Act" means Oregon Revised Statutes Chapters 541.700 through 541.855.

"Agreement" or "Loan Agreement" means this Loan Agreement and any amendments or supplements thereto.

"Bonds" means the series of the State of Oregon Water Resources Bonds to be issued by the State under the Indenture to finance this Project.

"Bond Sinking Fund" means the Bond Sinking Fund established pursuant to Section 5.04 of the Indenture.

"Borrower" means the signator hereto.

"Costs of Issuance" shall mean items of expense payable or reimbursable directly or indirectly by the State and related to the authorization, sale and issuance of Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the State Treasurer, Director and Executive Director and any paying agents, bond discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, costs of insurance premiums for Bonds, fees and charges for execution, transportation and safekeeping of Bonds, costs and expenses of refunding and other costs, charges and fees in connection with the foregoing.

"Costs of the Project" means the items necessary to construct the Project, which may include but are not limited to the following items:

- (i) obligations of the Borrower incurred for labor and materials, including reimbursements payable to the Borrower and payments on contracts in the name of Borrower in connection with the acquisition, construction or installation of the Project;
- (ii) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction of the Project;
- (iii) all costs of engineering services, including the costs of the Borrower for test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project;
- (iv) all Costs of Issuance of the Bonds;
- (v) all costs which the Borrower shall be required to pay, under the terms of any contract or contracts, for the acquisition, construction or installation of the Project; and
- (vi) any sums required to reimburse the Borrower for advances made by it for any of the above items or for any other costs incurred and for work done by it which are properly chargeable to a Project.

"Executive Director" means the Director of the Executive Department of the State of Oregon.

"Indenture" means the Indenture by and between the Director, Treasurer and Director of the Executive Department of

the State of Oregon, as amended or supplemented, providing for the issuance and security of the Bonds.

"Payment Dates" means each September 1 commencing September 1, 1984.

"Person" means an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"Premises" means those certain premises described in Exhibit A attached hereto and are the respective Premises upon which the Project is to be located and constructed.

"Project" means the items of machinery, equipment, improvements and all related property set forth in Exhibit B attached hereto. The term "Project" also includes all items of machinery, equipment, improvements and related property acquired and installed at any time on the Premises in substitution for or in addition to any of said items of machinery, equipment, improvements or related property referred to in the Exhibit herein described.

"Promissory Note" means that debt instrument attached hereto as Exhibit D.

"Reserve Account" means the Reserve Account established pursuant to Section 5.03 of the Indenture.

"Resolution" means the resolution adopted or to be adopted by the State Treasurer authorizing and providing for the issuance and security of the Bonds for the purpose of providing funds for the acquisition, construction, installation and financing of the Project.

"Security Reserve Account" means the Security Reserve Account established pursuant to Section 5.05 of the Indenture.

"Treasurer" means the Treasurer of the State of Oregon.

"Water Developer" means a person or entity as defined by ORS 541.700, Section (6) of the Act.

"Water Development Fund" means the Fund established pursuant to Section 5.02 of the Indenture.

"Water Development Project" means a project as defined by ORS 541.700, Section (5) of the Act, as approved by the Director.

SECTION 2

ISSUANCE AND SALE OF BONDS; LOAN OF PROCEEDS

The Director shall request the Treasurer to issue Bonds to provide funds with which to loan money to Water Developers who have entered into Agreements with the Director. A separate

series of Bonds shall be issued for each project.

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The Director agrees to loan money to the Borrower, solely from, and contingent upon receipt of, the proceeds of the sale of Bonds, the total sum of not to exceed \$31,100.00 which includes \$25,000.00 for Costs of the Project plus a sum not to exceed \$6,100.00 for funded interest as stated in the Supplemental Indenture, Costs of Issuance, and initial funding of the Reserve Account, collectively termed the Loan Amount.

SECTION 3

PAYMENT

In consideration of the loan to be made to Borrower hereunder, and pursuant to the procedures established in the Indenture, the Borrower agrees that it will pay the following amounts to the Executive Director:

(a) The Borrower shall pay to the Director, on or before each Payment Date, a sum sufficient to repay the Loan Amount. Such payments shall continue until the principal, interest and premium, if any, on the Bonds issued for this Project are paid in full and the Indenture has been discharged. The repayment schedule is set forth in the Promissory Note attached hereto as Exhibit D.

(b) In the event the Executive Director is required to make up any deficiency in the Bond Sinking Fund from monies in the Reserve Account due to an insufficient payment as required by (a) above, the Borrower shall within ten (10) business days following notice from the Executive Director pay the full amount the Executive Director has withdrawn from the Reserve Account on account of the insufficient payment.

(c) Each installment of loan payments hereunder shall be paid in lawful money of the United States of America to the Executive Director and held and applied, disbursed or invested as in the Indenture provided. Notwithstanding any dispute between the State and the Borrower, the Borrower shall make all loan payments provided in subsection (a) and (b) hereof when due and shall not withhold any such loan payments pending the final resolution of such dispute; provided however, the Borrower may, in the event of an emergency or hardship, make written application to the Director for a reasonable extension of time in making a payment. Such application must be made not less than thirty (30) days prior to a Payment Date. The

Director shall approve or disapprove of such application for extension within fifteen (15) days of receipt.

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SECTION 4

OBLIGATIONS OF THE BORROWER UNCONDITIONAL

The obligations of the Borrower to make the loan payments required in Section 3 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional. Until such time as its obligations shall have been discharged pursuant to the Indenture and Section 20 hereof, the Borrower (i) will not suspend or discontinue any payments provided for in Section 3 hereof, (ii) will perform and observe all of its other agreements contained in this Agreement and (iii) will not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, failure to complete the Project, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the laws of the United States of America or of Oregon or any political subdivision of either or any failure of the State to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement.

SECTION 5

NET CONTRACT

This Agreement together with the supplement hereto, shall be deemed and construed to be a "net contract", and the Borrower shall pay absolutely net the loan payments and all other payments required hereunder, free of any deductions, without any abatement, diminution or set-off whatsoever.

Bids for the sale of bonds have been received and the net interest cost as a percent to be charged on the Borrower's individual bond issue will be Ten and 28/100 percent (10.28 %) and the costs will not exceed the amount shown in the Loan Agreement, and the calculated interest rate based on the consistent level debt service, repayment term, and the principal of the loan will be Ten and 28/100 percent (10.28 %). The loan repayment schedule will be as set forth in the Promissory Note between the State and the Borrower, attached hereto as Exhibit D.

SECTION 6

REPRESENTATIONS BY THE BORROWER

The Borrower makes the following representations and warranties to the State:

(a) The Borrower is a(n) Irrigation District duly formed and operating pursuant to Chapter 545 Oregon Revised Statutes.

(b) The Irrigation District has full power to enter into this Agreement and by proper action of its Board of Directors has duly authorized the execution and delivery of this Agreement.

(c) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, will violate any provision of law, any order of any court or other agency of government, or any indenture, agreement or other instrument to which the Borrower is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or, except as provided hereunder, result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Borrower.

(d) The State's entering into this Agreement with the Borrower relating to the financing of the Project will contribute to the agricultural productivity of the State.

(e) The Borrower intends to utilize or to cause the Project to be utilized to furnish water to the general public within the service area and that it will operate and maintain the project at least until all of the amounts to become due and payable under this Agreement have been paid and all of the Borrower's other obligations hereunder have been discharged.

(f) The Project consists, and will at all times consist, of land or property subject to the allowance for depreciation provided in Section 167 of the Internal Revenue Code of 1954, as amended.

(g) At the time of submission of an application to the State for financial assistance in connection with the Project and on the dates on which the State took action on such application, financing for the Project had not otherwise been obtained or arranged.

SECTION 7

REPRESENTATIONS BY THE STATE

The Director makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Director has power under the Act to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. The Project constitutes and will constitute a qualified "Project" within the meaning of the Act. By proper action of the State, the Director has been duly authorized to execute and deliver this Agreement and to make the loans and advances contemplated hereby.

(b) Payments received pursuant to this Agreement will be used only to pay the principal of, premium, if any, and interest on the Bonds when it becomes due and payable and to pay the additional expenses contemplated by Section 3 hereof.

SECTION 8

EXPENSES

Whether or not the loan contemplated by this Agreement shall be consummated, the Borrower will pay out-of-pocket expenses and charges, professional fees and disbursements, all printing expenses, the cost of advertising notice of sale, and all other expenses reasonably incurred by the State by reason of the execution of this Agreement. The Borrower will hold the State free and harmless of and from any claims of any kind for such or similar fees and expenses.

SECTION 9

CONSTRUCTION OF THE PROJECT

(a) Construction and Occupancy. The Borrower, concurrent with the execution and delivery of this Loan Agreement, or as soon thereafter as practicable, will take all steps necessary to cause the Project to be constructed and installed. The Borrower may enter into construction contracts and shall supervise and provide for the complete construction of the Project. The Borrower shall, upon its sole responsibility, obtain all necessary governmental permits and authorizations necessary to be obtained for the construction or operation of the Project. The Director shall not be responsible for obtaining any such permits or authorizations, but shall cooperate with the Borrower in seeking such permits or authorizations at the Borrower's expense. If the monies in the Water Development Fund Account are not sufficient to pay for the costs of construction of the Project in full, the Borrower shall pay at its own expense from its own funds and without any right of reimbursement from the State all such Project costs in excess of monies available in the Water Development Fund Account.

(b) Disbursements from the Water Development Fund. The Director will authorize and direct the Executive Director under the Indenture to use the monies in the Water Development Fund for payment of the Costs of the Project, or to reimburse the Borrower for any part of the Costs of the Project paid by either of them, upon receipt by the Director of a requisition signed by the Authorized Borrower Representative previously designated in writing to the Director by the Borrower stating with respect to each payment to be made: (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid, and (iv) that each obligation mentioned therein has been properly incurred and is a proper charge against the Water Development Fund.

At the end of the construction period, after payment or provision for the payment of all items included in the Costs of the Project and other items provided for herein, all monies remaining in the Water Development Fund and not retained at the direction of the Borrower for payment of items not yet due and payable, shall be paid into the Security Reserve Account.

(c) No Responsibility of the State. It is expressly understood and agreed that the State will be under no liability of any kind or character whatsoever for the payment of labor, materials or otherwise in connection with the construction of the Project or for the carrying out of the construction contracts. All costs of material, labor and construction, including costs of bonds during construction, shall be paid by the Borrower.

SECTION 10

CHANGES TO THE PROJECT AND AREA SERVED

After the completion of the Project, the Borrower shall have the right during the term of this Agreement to make alterations or improvements or to attach fixtures or structures to the Project so long as the qualification of the Project as a water project as defined by the Act, shall not be adversely affected.

The Borrower hereby covenants that it will not for the first ten (10) years of the useful life of the Project supply water to more than one and one-half (1-1/2) times the area of land served by the Project and owned by the Water Developer.

SECTION 11

FIRE AND EXTENDED COVERAGE INSURANCE AND EMINENT DOMAIN

(a) Insurance. The Borrower agrees that throughout the full term of this Agreement it will maintain fire and extended coverage insurance on its interest on all insurable property,

real or personal, offered as security for this loan and on the Project. The Borrower agrees to deliver to the Director the original or memorandum copies of the insurance policies or certificate of insurance with appropriate loan payable or mortgage clauses attached thereto. Such insurance shall be upon substantially the same terms and conditions and in comparable amounts, with comparable deductibles, as that customarily maintained by the Borrower upon its properties generally. In the event of damage or destruction of the whole or any part of the Project, the Borrower will, within thirty (30) days following such damage or destruction, notify the Director in writing as to the nature and extent of such damage or loss and whether it is practicable or desirable to rebuild, repair or restore such damage or loss. If the Borrower shall determine that such rebuilding, repairing or restoring is practicable and desirable, it shall forthwith proceed with and complete with reasonable dispatch any such rebuilding, repairing or restoring. For such purpose the Borrower may use all or any part of the proceeds of such insurance, provided that if only a portion thereof is used the excess shall be paid into the Bond Sinking Fund and used as provided in paragraph (c) below.

(b) Eminent Domain. If the whole or any part of the Project shall be taken under the power of eminent domain, the Borrower shall nevertheless remain liable for the payment of the loan payments provided herein and this Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary. In the event of such taking of the whole or any part of the Project, the Borrower will notify the Director in writing, within ninety (90) days after the date of entry of final judgment in such condemnation proceedings, as to the nature and extent of such condemnation and whether it is practicable or desirable to acquire or construct substitute improvements. If the Borrower shall determine that such substitute improvements are practicable and desirable, it shall forthwith proceed with and complete with reasonable dispatch the acquisition or construction of such substitute improvements.

(c) Prepayment of Loan Payments. If the Borrower determines that rebuilding, repairing or restoring of the Project pursuant to subsection (a) hereof is not practicable or desirable, or that the construction of alternate or substitute improvements is not practicable or desirable pursuant to subsection (b) hereof, and the Borrower chooses not to exercise its option to cause the Bonds or a portion thereof to be redeemed pursuant to Section 13 hereof, the proceeds of such insurance or such condemnation proceedings shall be paid by the Borrower into the Bond Sinking Fund under the Indenture and such payment shall serve to reduce the loan payments of the Borrower under the provisions of Section 3(a) hereof or, in the alternative, shall be applied as the Treasurer shall direct to the purchase of the Bonds in the open

market, to the extent practicable; or to any combination of such methods of application of the proceeds of insurance or condemnation procedure as may be desired by the Treasurer.

(d) No Offset From Loan Payments. The Borrower shall not, by reason of its inability to use all or any part of the Project during any period when the Project is damaged, destroyed or condemned or is being rebuilt, repaired, restored or replaced or by reason of the payment of the costs of such rebuilding, repairing, restoring or replacement be entitled to any reimbursement from the Director or the Executive Director or any abatement or diminution of the loan payments under Section 3 of this Agreement.

SECTION 12

LIABILITY INSURANCE

The Borrower shall procure, and maintain throughout the term of this Agreement, insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Project with prudent limits which insurance may be contained in the form of liability insurance customarily maintained by the Borrower, including such deductibles as may be provided in said policies. The Borrower shall annually certify to the Director the amount and character of all liability insurance then carried by it pursuant to and in accordance with this Agreement.

SECTION 13

PREPAYMENT

(a) The Borrower may at any time prepay all or any part of the loan payments payable under Section 3 hereof, and the Director agrees to accept such prepayments when the same are tendered by the Borrower. All such prepayments shall be deposited with the Executive Director and credited against the installment of loan payments specified in Section 3 hereof in the order of their due date, or at the election of the Treasurer, used for the redemption or purchase of the Bonds in the manner and to the extent provided by their terms and as set forth in subsection (b) hereof. Notwithstanding any such prepayment, the Borrower shall not be relieved of its obligations hereunder, including its obligation to make loan payments pursuant to Section 3, until it receives notification from the Director pursuant to Section 20 that it has fulfilled its obligations hereunder.

(b) If the Borrower is not in default in the payment of its obligations under Section 3, the Treasurer, at the request of the Borrower, at any time authorized in the Supplemental Indenture when the aggregate monies held by the Executive Director,

including any prepayment deposited therein under the foregoing paragraph, are sufficient to effect the redemption, including payment of any premium, in whole or in part, of the Bonds, shall forthwith take all steps that may be necessary to effect the redemption of all or part of the then outstanding Bonds in accordance with their terms.

(c) The Borrower shall have, and is hereby granted, the right to prepay in whole but not in part the loan payments required in Section 3 of this Agreement, for the purpose of paying the principal and any accrued interest on the Bonds, without premium or penalty, if and when any of the following shall have occurred:

(i) the Project or buildings, equipment or machinery used by the Borrower on the site of the Project shall have been damaged or destroyed to such extent that, in the opinion of the Borrower (as expressed in a Certificate filed with the Director) (a) it is not practicable or desirable to rebuild, repair or restore the Project within a period of four consecutive months following such damage or destruction, (b) it is or will be thereby prevented from carrying on its normal operations for a period of four consecutive months, or (c) the cost of restoration thereof would substantially exceed the net proceeds of insurance carried thereon;

(ii) Title to, or the temporary use of, all or substantially all of the Project or the site of the Project shall have been taken under the exercise of the power of eminent domain, including such a taking as results, or is likely to result, in the Borrower being prevented from carrying on normal operations for a period of four months or as renders the Project (or the site of the Project) unsuitable for use by the Borrower;

(iii) unreasonable burdens or excessive liabilities shall have been imposed on the Borrower, including, without limitations, Federal, state or other ad valorem property income or other taxes not being imposed on the date of the Agreement, or any court or administrative body shall enter a judgment, order or decree requiring the Borrower to cease all or any substantial part of its operations at the site of the Project to such extent that, in the opinion of the Borrower (expressed in a Certificate filed with the Director), it is or will be thereby prevented from carrying on its normal operations for a period of four consecutive months; or

(iv) changes shall have occurred which make the continued operation of the facility in which the Project is installed uneconomical in the opinion of the Borrower (expressed in a Certificate filed with the Director) and which shall have resulted in a cessation of all or substantially

all of its normal operations either of such Project or facility.

(d) The Borrower shall be required to prepay the loan payments required by Section 3 of this Agreement, in full, without premium or penalty;

(i) if and when as a result of any changes in the Constitution of the United States of America or the Oregon Constitution or as a result of any legislative, judicial or administrative action, this Agreement shall have become void or unenforceable or impossible of performance in accordance with the intention and purposes of the parties hereto, or shall have been declared unlawful; or

(ii) if, due to the untruth or inaccuracy of any representation or warranty made by the Borrower herein or in connection with the offer and sale of the Bonds, or the breach of any covenant or warranty of the Borrower contained in this Agreement, or for any other reason, interest on the Bonds, or any of them, is determined to be includable in the gross income for federal income tax purposes of the holders thereof (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(7) of the Internal Revenue Code of 1954, as amended) by a final administrative determination of the Internal Revenue Service or judicial decision of a court of competent jurisdiction in a proceeding of which the Borrower received notice and was afforded an opportunity to participate in the full extent permitted by law. A determination or decision will be considered final for this purpose when all periods for administrative and judicial review have expired.

(iii) if the Project is refinanced or financial assistance is obtained from other sources after execution of the Supplemental Loan Agreement, all such funds shall be payable to the Executive Director.

(e) To exercise any right of prepayment pursuant to subsection (b) or subsection (c) or make any required prepayment pursuant to subsection (d), the Borrower shall within six months following the event causing the exercise of such right or creating such obligation, give written notice to the Director specifying therein the redemption date, which date shall be not less than forty-five nor more than ninety days from the date such notice is mailed. The amount payable by the Borrower in the event its exercise of such prepayment pursuant to this Section, shall be paid to the Executive Director at least ten business days prior to such redemption date and shall be the sum of the following:

(i) an amount of money to be paid into the Bond Sinking Fund which, when added to the amount then on deposit with the Treasurer and available for such purpose will be

sufficient to pay or redeem, at the principal amount thereof, but without premium, the then outstanding Bonds affected by such prepayment, including principal and all interest accrued and to accrue to the payment or redemption date and redemption expenses, plus

(ii) only in the case of a redemption of all of the Bonds then outstanding, an amount of money equal to the Executive Director's and any paying agent's fees and expenses under the Indenture, and of the expenses of the State accrued and to accrue until such final payment and redemption of the Bonds to be redeemed.

SECTION 14

LIEN

The Borrower acknowledges that the state has a lien, created by Section 8 of the Act, on all real property of the Borrower, to the user charges (including interest, if any) owed to or received by the Borrower and to all real property, whether owned by the Borrower or other persons, which is irrigated by reason of the Project, for the unpaid balance of the loan amount.

SECTION 15

EVENTS OF DEFAULT

The following shall be "events of default" under this Agreement and the terms "events of default" or "default" shall mean, whenever they are used in this Agreement, any one or more of the following events:

(a) Failure by the Borrower to make any payments required by Section 3 hereof at the time specified therein.

(b) Failure by the Borrower to observe or perform any covenant, condition or agreement in this Agreement on its part to be observed or performed, other than as referred to in subsection (a) of this Section, or the breach of any warranty by the Borrower herein, for a period of 30 days, or such additional time as is reasonably required to correct any such defaults after the Borrower's receipt of written notice thereof, specifying such failure or breach and requesting that it be remedied, has been given to the Borrower by the Director, unless the Director shall agree in writing to an extension of such time prior to its expiration.

The provisions of this subsection (b) are subject to the following limitations: If by reason of force majeure the Borrower is unable in whole or in part to carry out the agreements on its part herein contained, other than the obligations on the

part of the Borrower contained in Section 3, the Borrower shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean any of the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of Oregon or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; tornadoes; storms; floods; washouts; droughts; restraint of government or people; civil disturbances; explosions; partial or entire failure of utilities or other supplier of energy; or any other cause or event not reasonably within the control of the Borrower. The Borrower agrees, however, that after the occurrence of an event of force majeure it will take such steps as may thereafter be within its reasonable control to mitigate the cause or causes preventing the Borrower from carrying out its obligations under this Agreement; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower and that the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Borrower unfavorable to the Borrower.

(c) The making of any representation or warranty by the Borrower in this Agreement or in any document executed in connection with this Agreement which is false or misleading in any material respect.

(d) The taking of any administrative action by any governmental regulatory authority which materially and adversely affects the Borrower's condition, operations or ability to pay its obligations under Section 3 of this Agreement.

(e) Default shall be made by the Borrower in the payment of any installment of interest, or the payment of principal of or premium, when and as the same shall become due and payable, on any bond, debenture, note or other evidence of indebtedness of, or assumed by the Borrower, and such default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, or default shall be made by the Borrower in the payment of the principal of or premium, if any, on any bond, debenture, note or other evidence of indebtedness when and as the same shall become due and payable, whether at final maturity, by declaration, by call or redemption, or otherwise; provided, however, that for the purposes of this clause (e) the Borrower shall not be deemed to be in default if it shall be contesting in good faith its liability for the payment of the installment of interest or of principal or premium in question, and shall have been advised by its counsel that it has a meritorious defense thereto, and provided, further that the Borrower shall not be in default pursuant to this clause if it shall have cured any such

default of any other such indebtedness or it shall have been waived by the holder or holders of any such other indebtedness.

(f) The dissolution or liquidation of the Borrower in any manner except as permitted in Section 21 hereof.

(g) The Borrower shall file any petition or institute any proceedings under the Bankruptcy Act, either as such Act now exists or under any amendment thereof which may hereafter be enacted, or under any act or acts, state or Federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt, or as an insolvent, or as a debtor, or in any similar capacity, whether in or whereby the Borrower prays to be adjudicated a bankrupt, or is to be discharged from any or all of the Borrower's debts or obligations, or offers to the Borrower's creditors to effect a composition or extension of time to pay the Borrower's debts or prays for a reorganization or to effect a plan of reorganization, or for a readjustment of the Borrower's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted against the Borrower and not discharged or dismissed within sixty days, or if a receiver of the business or of the property or assets of the Borrower shall be appointed by any court, except a receiver appointed at the instance or request of the State. The appointment of a receiver, trustee or liquidator of the Borrower in any proceeding described in this subsection (g) shall not be deemed a default by the Borrower hereunder if such receiver, trustee or liquidator shall be discharged within sixty days after such appointment.

(h) The Borrower's interest in this Agreement or any part thereof be assigned or transferred without the written consent of the Director, either voluntarily or by operation of law.

The happening of any event of default above mentioned, and the continuance thereof beyond the times herein limited, shall constitute a breach of this Agreement.

SECTION 16

REMEDIES ON DEFAULT

(a) Until the principal, interest and premium, if any, on the Bonds have been paid in full and the Indenture has been discharged, upon the happening of any event of default, and the continuance thereof beyond the times herein limited, the State shall have and may exercise all of the rights provided by law and may take any one or more of the following remedial steps:

(1) The Director may, at his option, declare all installments of loan payments under Section 3 hereof for the

remainder of the term of this Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(2) The Director may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due hereunder, to foreclose on the lien and effect entry on or take possession of the Project or to enforce performance and observance of any obligation, condition or covenant of the Borrower under this Agreement.

(3) The Director may contract with another qualified Water Developer for the continuance of construction or operation of the Project.

(4) The Director may deliver to the Executive Director a certificate declaring that an event of default, as specified in this Agreement, has occurred and directing the Executive Director to make no further disbursements of funds pursuant to the Indenture until such time as the Director may direct to continue such disbursements.

(b) Any amounts collected pursuant to action taken under this Section shall be deposited into the Bond Sinking Fund and applied in accordance with the provisions of the Indenture. No remedy herein conferred upon or reserved to the Director is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay in exercising or omission to exercise any right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Director to exercise any remedy reserved to it by this Section, it shall not be necessary to give any notice other than such notice as may be herein expressly required. Each and all of the remedies given to the Director hereunder or by any law now or thereafter enacted are cumulative and the exercise of one right or remedy shall not impair the right of the Director to any or all other remedies.

All remedies reserved to the Director hereunder may be exercised by the holders of the Bonds, subject to the provisions of the Indenture, and the holders of the Bonds shall be entitled to the benefit of all covenants on the part of the Borrower herein contained.

SECTION 17

TAX EXEMPT STATUS OF THE BONDS

The Borrower and the Director covenant and agree that they, and each of them, will not take or permit any action to be taken which results in interest paid on the Bonds being included in Federal gross income of the holder thereof (other than a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(7) of the Internal Revenue Code of 1954, as amended).

SECTION 18

WITHDRAWALS FROM THE WATER DEVELOPMENT FUND

The Director and Treasurer have, in the Indenture, authorized holding a portion of the monies derived from the proceeds of the Bonds in the Water Development Fund in trust for the Borrower to make payment solely to provide funds for the Costs of Issuance and Costs of the Project, all as more fully provided in Section 5.02 of the Indenture, and have further provided for the investment of monies in the Water Development Fund as more fully provided in the Indenture.

The Director and the Borrower agree to cooperate with each other in furnishing the Executive Director any and all documents which may be required to effect payments out of the Water Development Fund provided in the Indenture, including any and all orders, instructions or other documents required under the Indenture to effect payments out of the Water Development Fund therein provided in accordance with the terms thereof. The obligation of the Director shall not extend beyond the monies in the Water Development Fund available for payments and disbursements therefrom under the terms of the Indenture.

SECTION 19

TERMINATION OF AGREEMENT

Upon payment by the Borrower of all loan payments due hereunder, the Director shall take the steps necessary to terminate this Agreement and to release or convey to the Borrower the State's interest or any other lien or interest of the State in the real property described in Exhibit C hereto.

SECTION 20

ARBITRAGE COVENANT

The Director and the Borrower jointly and severally covenant that so long as any of the Bonds shall remain unpaid,

and notwithstanding any provisions in this Agreement or the Indenture, with respect to investment of monies, whether such monies were derived from the proceeds of the Bonds or from any other source, no use will be made of such monies which would cause the Bonds to be classified as "arbitrage bonds" within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended, and further jointly and severally covenant to comply with the requirements of said Section 103(c) and any regulations promulgated thereunder.

SECTION 21

MERGERS OR CONSOLIDATIONS

(a) The Borrower agrees that during the term of this Agreement it will maintain its corporate existence and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another municipal corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Borrower may, without violating the covenants contained in this Section, consolidate with or merge into another municipal corporation, or permit one or more other municipal corporations or consolidate with or merge into it, or sell or otherwise transfer to another municipal corporation all or substantially all of its assets as an entity and thereafter dissolve, provided that the surviving, resulting or transferee municipal corporation, as the case may be, assumes and agrees in writing, or is required by law, to pay and perform all of the obligations of the Borrower hereunder and that the prior written consent of the State has been obtained.

(b) The rights and obligations of the Borrower under this Agreement may be assigned by the Borrower in whole or in part subject, however, to each of the following conditions:

(i) No assignment other than pursuant to this Section shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to this Section the Borrower shall continue to remain primarily liable for the payments specified in Section 3 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement and any assignee from the Borrower shall assume the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall, within thirty days after delivery thereof, furnish or cause to be furnished to the

Director a true and complete copy of each such assignment together with an instrument of assumption.

(iv) Prior written permission has been obtained from the State.

SECTION 22

ENTIRE AGREEMENT; AMENDMENTS

This Agreement represents the entire contract between the parties. Except as otherwise provided in this Agreement, or the Indenture, subsequent to the initial issuance of the Bonds and prior to the discharge of the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Director.

SECTION 23

WAIVER

The waiver by the Director of any breach by the Borrower of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof.

SECTION 24

NON-LIABILITY OF STATE

The State and its members, officers, agents and employees shall not be liable to the Borrower or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Premises and the Project. The Borrower shall, and does hereby, indemnify and hold the State, its members, officers, agents and employees harmless from, and defend each of them against, any and all claims, liens and judgements for death of or injury to any person or damage to property whatsoever occurring in, on or about the Premises and the Project, and, to the extent permitted by law, any reasonable attorneys' fees and expenses not covered by the additional payments provided for in Section 3(b) hereof incurred in connection with litigation against the State challenging or questioning the validity of this Agreement or the Bonds.

SECTION 25

LAW GOVERNING

This Agreement shall be governed exclusively by the provisions hereof and by the laws of the State of Oregon as the same from time to time exist. It is agreed that time is of the essence for the performance of all of the Borrower's obligations hereunder and that the remedy of specific performance shall be available in the event the Borrower shall fail to perform any of its obligations hereunder.

SECTION 26

NOTICES

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if deposited postage prepaid in a post office letter box, and, if the Borrower, addressed to

Pine Grove Irrigation District
c/o Harold Campbell
Rt. 2, Box 714
Klamath Falls, OR 97603

or, if to the Director, addressed to

Director, Department of Water Resources
Mill Creek Office Park
555 13th Street, N. E.
Salem, Oregon 97310

or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 27

RIGHT OF ENTRY

The State and its assignees shall have the right to enter the Premises during reasonable business hours upon reasonable notice to the Borrower to inspect the Project and for all other lawful purposes, subject to such limitations and requirements as the Borrower may reasonably prescribe to protect proprietary information.

SECTION 28

3607

ATTORNEYS' FEES AND EXPENSES

In the event the Borrower shall default under any of the provisions of this Agreement and the Director any of his assignees shall employ attorneys or incur other expenses for the collection of loan payments or the performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees that it will on demand therefor pay to the Director, or any of his assignees the reasonable fee of such attorneys and such other expenses so incurred by the State.

SECTION 29

VALIDITY AND SEVERABILITY

If for any reason this Agreement shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by either party, or if for any reason it is held by such court that any of the covenants and conditions of the Borrower hereunder, is unenforceable for the full term hereof, all of the payment and other terms, provisions and conditions of this Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

SECTION 30

SECTION HEADINGS

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Agreement.

SECTION 31

BINDING EFFECT

The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns.

SECTION 32

EXECUTION

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all

together shall constitute but one and the same instrument. It is also agreed that separate counterparts of this Agreement may separately be executed by the Director and the Borrower, all with the same force and effect as though the same counterpart had been executed by both the State and the Borrower.

IN WITNESS WHEREOF, the Director and the Borrower have cause this Agreement to be executed in their respective names, all as of the date first above written.

THE STATE OF OREGON

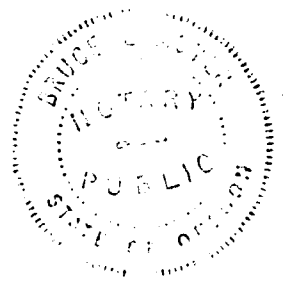
By William H. Young
Director,
Department of Water Resources

STATE OF OREGON)
) ss.
County of Marion)

Before me, a Notary Public, personally appeared the above-named William H. Young, the duly appointed, qualified, and acting Director of the Water Resources Department, and acknowledged the foregoing instrument to be his voluntary act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 15th day of February, 19 84.

Grace L. Meyer
Notary Public for Oregon
My Commission Expires: 2/25/88



Pine Grove Irrigation District

By Harold A. Campbell Title

Alfred D. Campbell, Jr. Title

Title

STATE OF OREGON)
) ss.
County of _____)

Dated this 24 day of February, 19 84. Personally appeared HAROLD A. CAMPBELL who, being duly sworn each for himself and not one for the other, did say that he is the President (title), _____ is the _____ (title), and _____ is the _____ (title) of Pine Grove Irrigation Dist. and that the seal affixed to the foregoing instrument was signed and sealed in behalf of said _____ by the authority of its board of directors; each of them acknowledged said instrument to be its voluntary act and deed.

Before Me:
NANCY E. MEYER
NOTARY PUBLIC OREGON
My Commission Expires _____

Mary E. Kuhn
Notary Public for Oregon
My Commission Expires: 10/31/87

Pine Grove Irrigation District

WDLF Series A 1982

EXHIBIT A - PREMISES

Beginning at the northwest corner of the NE 1/4 of the NE 1/4, Section 7, Township 39 South, Range 10 East, W.M., thence due east to northeast corner of northeast quarter of northwest quarter, Section 8, same township and range, thence south to center of said Section 8, thence east to northeast corner of NW 1/4 of SE 1/4, same section, thence south to center of the SE 1/4 of said section 8, thence east to northeast corner of SE 1/4 of SW 1/4 of Section 9, said township and range, thence south to southeast corner of SW 1/4 of Section 9, thence east to the northeast corner of NW 1/4 of the NE 1/4, Section 16, said township and range, thence south to a point intersecting the right-of-way of the United States Reclamation Service Main and East Branch Canal at the southeast corner of the SW 1/4 of the SE 1/4, in said Section 16, same township and range, thence along the northerly limit of said right-of-way, in a westerly direction to a point where said right-of-way intersects the section line between Sections 17 and 20, in said township and range, thence west to the southwest corner of the SW 1/4 of said section 17, thence north to the southwest corner of the NW 1/4 of the NW 1/4, said Section 17, same township and range, thence east to the southwest corner of NE 1/4 of NE 1/4, Section 18, said township and range, thence north to place of beginning, all in Klamath County, State of Oregon.

Pine Grove Irrigation District

WDLF Series A 1982

3610

EXHIBIT B - PROJECT

The project encompasses the purchase and installation of a 125 horsepower turbine pump to replace an existing pump currently in service.

EXHIBIT C - SECURITY

Pursuant to ORS 541.700 to 541.855, the State of Oregon has a lien for the amount of the unpaid balance of the loan referred to in this Loan Agreement. The lien attaches to the real property of the water developer, to the user charges, including interest, owed to or received by the water developer. The lien attaches to all real property, whether owned by the water developer or other persons, which is served by the water development project. Except for tax liens, the lien created by law is prior and superior to all other liens, or encumbrances upon the affected real property or user charges, without regard to the date on which the other liens or encumbrances attached to the real property or user charges. The real property subject to the lien established by ORS 541.700 to 541.855 is bounded as follows, to-wit:

Beginning at the northwest corner of the NE 1/4 of the NE 1/4, Section 7, Township 39 South, Range 10 East, W.M., thence due east to northeast corner of northeast quarter of northwest quarter, Section 8, same township and range, thence south to center of said Section 8, thence east to northeast corner of NW 1/4 of SE 1/4, same section, thence south to center of the SE 1/4 of said section 8, thence east to northeast corner of SE 1/4 of SW 1/4 of Section 9, said township and range, thence south to southeast corner of SW 1/4 of Section 9, thence east to the northeast corner of NW 1/4 of the NE 1/4, Section 16, said township and range, thence south to a point intersecting the right-of-way of the United States Reclamation Service Main and East Branch Canal at the southeast corner of the SW 1/4 of the SE 1/4, in said Section 16, same township and range, thence along the northerly limit of said right-of-way, in a westerly direction to a point where said right-of-way intersects the section line between Sections 17 and 20, in said township and range, thence west to the southwest corner of the SW 1/4 of said section 17, thence north to the southwest corner of the NW 1/4 of the NW 1/4, said Section 17, same township and range, thence east to the southwest corner of NE 1/4 of NE 1/4, Section 18, said township and range, thence north to place of beginning, all in Klamath County, State of Oregon.

EXHIBIT D

PROMISSORY NOTE

I promise to pay to the State of Oregon
 Thirty-One Thousand One Hundred and 00/100-----
 Dollars (\$31,100.00), with interest from November 1
 1983, at the rate of Ten and 278/100 percent (10.278 %)
 per annum, principal and interest to be paid in lawful money
 of the United States at the office of the Executive Director
 of the State of Oregon, Salem, Oregon, as follows:

\$3,786.73 on or before the 1st day of September, 1984,
 and \$3,786.73 on each September 1 thereafter, and
 continuing until the full amount of the principal and interest
 shall be fully paid, such payments to be applied first as in-
 terest on the unpaid balance, the remainder on the principal.

The due date of the last payment shall be on or
 before the 1st day of September, 2001.

In the event of transfer of ownership of the premises
 or any part thereof, I will continue to be liable for payment
 and the balance shall draw interest from the date of such
 transfer.

This note is secured by a Loan Agreement, the terms of
 which are made a part hereof.

Dated at Klamath Falls, Oregon, on the 24 day of
February, 1984.

By: Harold A. Campbell
 President

Robert Campbell
 Secretary

STATE OF OREGON: COUNTY OF KLAMATH:ss
 I hereby certify that the within instrument was received and filed for
 record on the 27th day of March, A.D., 1984 at 1:30 o'clock P. M.
 and duly recorded in Vol MS4, of Mortgages on page 3524.
 Fee \$ 116.00

EVELYN BIENN, COUNTY CLERK
 by Pam Smith Deputy