

PROMISSORY NOTE

\$8,000,000.00

Louisville, Kentucky
August 19, 1992

FOR VALUE RECEIVED, the undersigned, LOUISVILLE WATER COMPANY, a corporation all of the capital stock of which is owned by the City of Louisville, acting under the authority of the Board of Water Works of the City of Louisville, 435 South Third Street, Louisville, Kentucky 40202 (the "Maker") promises to pay to the order of First National Bank of Louisville (the "Bank"), its successors and assigns, at 101 South Fifth Street, Louisville, Kentucky 40202, or at such other place as the holder hereof may from time to time designate in writing, on or before August 18, 1993 (the "Maturity"), the principal sum of Eight Million Dollars (\$8,000,000.00) (the "Principal Debt") in lawful currency of the United States of America.

The Principal Debt shall bear interest at a per annum rate of 4.1875% computed on a 360-day basis and the actual number of days elapsed.

Interest accruing before maturity shall be due and payable on November 19, 1992, February 19, 1993 and May 19, 1993. The Principal Debt and all unpaid interest shall be due and payable at Maturity with the privilege of the Maker to pay the Principal Debt in full prior to Maturity with interest thereon, accrued to the date of payment.

The Maker waives presentment, notice of dishonor, protest, notice of protest and diligence in collection, and all exemptions, whether homestead or otherwise, to which it may now or hereafter be entitled under the laws of the Commonwealth of Kentucky, agrees, upon default, to pay all costs of collecting, securing, or attempting to collect, or secure this Promissory Note, including a reasonable attorney's fee, whether same be collected or secured by suit or otherwise, providing the collection of such cost and fees are permitted by applicable law.

Failure by the Bank to exercise any of its rights and remedies shall not constitute waiver of its right to exercise same at that or any other time. The Bank's rights and remedies upon default hereunder shall be cumulative to the greatest extent permitted by law.

This Promissory Note, including any security instrument relating thereto, unless otherwise indicated therein, shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky.

LOUISVILLE WATER COMPANY

By: 

John L. Huber, President

By: 

Robert K. Miller, Vice President

28:cjf:15
15:fnb:prn

BOARD OF WATER WORKS OF THE
LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY

LOUISVILLE WATER COMPANY

WATER SYSTEM
THIRD SUPPLEMENTAL RESOLUTION
AUTHORIZING THE ISSUANCE OF
WATER SYSTEM REVENUE BONDS
SERIES 2006

ADOPTED: MAY 25, 2006

TABLE OF CONTENTS

ARTICLE I DEFINITIONS, STATUTORY AUTHORITY, AND CERTAIN DETERMINATIONS	3
SECTION 101. SHORT TITLE	3
SECTION 102. DEFINED TERMS	3
SECTION 103. AUTHORITY	4
SECTION 104. DETERMINATIONS BY BOARD	4
SECTION 105. BOOK-ENTRY SYSTEM	5
ARTICLE II AUTHORIZATION, ISSUANCE AND SALE OF SERIES 2006 BONDS	6
SECTION 201. AUTHORIZATION OF SERIES 2006 BONDS; PRINCIPAL AMOUNT; DESIGNATION AND SERIES; REIMBURSEMENT PROVISIONS	6
SECTION 202. PURPOSES OF ISSUANCE OF SERIES 2006 BONDS	6
SECTION 203. ISSUE DATE	6
SECTION 204. PRINCIPAL PAYMENTS	7
SECTION 205. DENOMINATIONS, NUMBERS AND LETTERS	7
SECTION 206. PLACE OF PAYMENT	7
SECTION 207. REDEMPTION OF SERIES 2006 BONDS; REDEMPTION TERMS AND PRICES	8
SECTION 208. ADDITIONAL REDEMPTION PROVISIONS	8
SECTION 209. APPLICATION OF THE PROCEEDS OF THE SERIES 2006 BONDS	9
SECTION 210. AUTHORIZATION TO EXECUTE AND DELIVER DOCUMENTS	10
SECTION 211. GENERAL ARBITRAGE CERTIFICATIONS	10
SECTION 212. EXECUTION, AUTHENTICATION AND REGISTRATION OF THE SERIES 2006 BONDS	10
ARTICLE III LIMITED OBLIGATIONS	10
SECTION 301. THE LIEN CREATED BY THE GENERAL BOND RESOLUTION	10
ARTICLE IV BOND INSURANCE	11
SECTION 401. CLAIMS UPON THE BOND INSURANCE POLICY AND PAYMENTS BY AND TO THE BOND INSURER	11
SECTION 402. CERTAIN RIGHTS OF BOND INSURER	13
SECTION 403. THIRD PARTY BENEFICIARY	13
SECTION 404. ADDITIONAL PROVISIONS WITH RESPECT TO BOND INSURANCE	13
SECTION 405. DEFEASANCE OF SERIES 2006 BONDS	16
SECTION 406. REFERENCES TO THE BOND INSURER	17
ARTICLE V CERTAIN TAX COVENANTS	17
SECTION 501. TAX COVENANTS AND REPRESENTATIONS	17
ARTICLE VI CONTINUING DISCLOSURE	19
SECTION 601. CONTINUING DISCLOSURE AGREEMENT AUTHORIZED	19
ARTICLE VII SALE AND DELIVERY OF SERIES 2006 BONDS	19
SECTION 701. APPROVAL OF PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT	19
SECTION 702. DELEGATION OF CERTAIN AUTHORITY REGARDING SALE OF SERIES 2006 BONDS	19
SECTION 703. DELIVERY OF SERIES 2006 BONDS	20
ARTICLE VIII MISCELLANEOUS	20
SECTION 801. EFFECTIVE DATE	20
EXHIBIT A - 2006 PROJECT	
EXHIBIT B - CAPITAL IMPROVEMENT PROGRAM	
EXHIBIT C - FORM OF SERIES 2006 BONDS	
EXHIBIT D - BLANKET ISSUER LETTER OF REPRESENTATIONS	
EXHIBIT E - CONTINUING DISCLOSURE AGREEMENT	

THIRD SUPPLEMENTAL RESOLUTION OF THE BOARD OF WATER WORKS OF THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY, ACTING AS THE GOVERNING BODY OF THE LOUISVILLE WATER COMPANY, AUTHORIZING THE ISSUANCE OF LOUISVILLE WATER COMPANY WATER SYSTEM REVENUE BONDS, SERIES 2006, FOR THE PURPOSES OF (i) PROVIDING FUNDING FOR CONSTRUCTION OF MAJOR ADDITIONS, EXTENSIONS, IMPROVEMENTS AND BETTERMENTS TO THE WATERWORKS SYSTEM OF THE COMPANY, WHICH CONSTITUTES A PORTION OF THE MULTI-YEAR CAPITAL IMPROVEMENT PROGRAM OF THE COMPANY (THE "2006 PROJECT") AND APPROVING THE SERIES 2006 PROJECT, (ii) MAKING PROVISION FOR CAPITALIZATION OF INTEREST ON AND PAYMENT OF DISCOUNT AND COSTS OF ISSUANCE OF SUCH WATER SYSTEM REVENUE BONDS, SERIES 2006, (iii) PROVIDING FOR MUNICIPAL BOND INSURANCE FOR A PORTION OF THE SERIES 2006 BONDS; AND (iv) TAKING OTHER RELATED ACTIONS.

WHEREAS, the Louisville/Jefferson County Metro Government, Kentucky (the governmental successor by operation of law of the prior City of Louisville, Kentucky and the County of Jefferson, Kentucky) (the "Metro Government"), a combined local government in the Commonwealth of Kentucky pursuant to KRS Chapter 76C, is the owner of all of the capital stock of the Louisville Water Company, a corporation organized and existing under the laws of the Commonwealth, and said capital stock is now a part of the resources of the Sinking Fund of the Metro Government under the control and management of the Commissioners of the Sinking Fund of the Metro Government (the "Commissioners"); and

WHEREAS, the waterworks system of the Louisville Water Company serves the Metro Government and its environs, and consists of administrative offices, pumping stations and plants, water softening and treatment plants, reservoirs, mains, service connections, machinery, equipment and other property appurtenant thereto, all of which is supplying and distributing water to users within the Metro Government and its environs (the "Waterworks System"); and

WHEREAS, pursuant to Section 96.230, et seq. of the Kentucky Revised Statutes ("KRS"), the control, management and operations of the Waterworks System is vested in and carried out by and through the Board of Water Works of the Metro Government (the "Board") a public body corporate and a political subdivision of the Commonwealth of Kentucky, created and existing under and pursuant to the provisions of Sections 96.230 to 96.315, inclusive, of the Kentucky Revised Statutes, the Board being the governing body of, and being vested, pursuant to KRS 96.260, with all the authority and privileges, exercising all the franchises, and having possession, control and management of all the property of said Louisville Water Company; and pursuant to Section 96.300 of the Kentucky Revised Statutes, the Board has and possesses the specific power and authority to authorize the issuance of the bonds of the Louisville Water Company to provide funding for the requirements of the Louisville Water Company and the

Waterworks System and for the refunding of outstanding obligations payable from the Revenues of the Waterworks System; and

WHEREAS, the Louisville Water Company (i) is a corporation all of the capital stock of which is owned by the Metro Government, a de jure political subdivision of the Commonwealth, as provided by KRS 96.230, (ii) is controlled, managed and operated by the Board, a de jure political subdivision of the Commonwealth, (iii) performs essential governmental purposes and services by providing public, municipal water services to the general public and (iv) possesses the power of eminent domain and limited police power; and

WHEREAS, under date of July 14, 1992, the Board duly adopted its General Bond Resolution (the "Resolution" or "General Bond Resolution") pursuant to which the Board is authorized to, and has previously authorized and issued its Water System Revenue Bonds for the purpose of providing funding for extensions, improvements and betterments constituting part of the Waterworks System and the General Bond Resolution continues in full force and effect as of the date hereof; and

WHEREAS, pursuant to (i) the General Bond Resolution, (ii) the Reimbursement Resolution, hereinafter defined, meeting the criteria and requirements of Section 150 of the Internal Revenue Code of 1986, as amended, duly adopted by the Board on October 12, 2004, and (iii) this Series 2006 Bond Resolution, the Board, acting pursuant to Section 96.230, et seq., and Sections 58.010 to 58.180, inclusive, of the Kentucky Revised Statutes (the "Act") has heretofore and does hereby adopt a Project, pursuant to the General Bond Resolution, identified as the construction, acquisition and installation of major additions extensions, improvements and betterments to the Waterworks System (the "2006 Project"), being identified in Exhibit A attached hereto, of the Company, which constitutes a portion of the multi-year capital improvement program of the Company to serve the general public (the "Capital Improvement Program"), being identified in Exhibit B attached hereto, and in order to fund the costs of the 2006 Project the Board has determined to issue its Water System Revenue Bonds in principal amount required to provide such funding, pursuant to authority of the Act and the General Bond Resolution; and

WHEREAS, in and by the General Bond Resolution the right and privilege was reserved by the Board, under conditions and restrictions therein set out, of issuing additional bonds from time to time payable from the Revenues of the Waterworks System and ranking on a basis of parity and equality with the outstanding Bonds of the Board, for the funding and financing of capital Projects of the Board to constitute parts of the System, which conditions and restrictions are found to exist and prevail currently so as to permit the issuance of a Series of Bonds in the principal amount of \$83,845,000, as hereinafter authorized, ranking on a parity with the presently Outstanding Bonds of the Board; and

WHEREAS, the Board has determined that it is essential and necessary (i) to acquire and construct the major improvements and betterments to the Waterworks System constituting the 2006 Project at this time and (ii) to finance such extensions, improvements and betterments constituting the 2006 Project by the issuance of a Series of bonds of the Board of Waterworks pursuant to Sections 96.230 to 96.315, inclusive and Sections 58.010 to 58.180, inclusive, of the Kentucky Revised Statutes (collectively, the "Act"); and

WHEREAS, the Board is specifically authorized by Section 96.300 of the Act to authorize the issuance of the Series 2006 Bonds of the Louisville Water Company for the purposes referred to above, which Series 2006 Bonds shall be initially issued under the Book-Entry System, hereinafter defined, in substantially the form attached hereto as Exhibit C.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF WATER WORKS OF THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY, AS FOLLOWS:

ARTICLE I

DEFINITIONS, STATUTORY AUTHORITY, AND CERTAIN DETERMINATIONS

Section 101. Short Title. This resolution may hereafter be cited by the Board and is hereinafter sometimes referred to as the "Series 2006 Bond Resolution". The final terms of the Series 2006 Bonds and the principal amount thereof will be determined by competitive, public sale. Following such sale and award such terms shall be incorporated into this Series 2006 Bond Resolution and shall be effective ab initio, as of the date of adoption of this Series 2006 Bond Resolution, all the same being hereby ordered and resolved.

Section 102. Defined Terms. All terms which are defined in the General Bond Resolution shall have the same and identical meanings respectively in this Series 2006 Bond Resolution as such terms are given in Article I of the General Bond Resolution. The following additional defined terms are hereby adopted and approved.

"Bond Insurance Policy" or "Insurance Policy" means Financial Guaranty Insurance Policy No. 48184, in respect of the Series 2006 Bonds, issued by the Bond Insurer, guaranteeing the scheduled payment of principal of and interest on a portion of the Series 2006 Bonds when due, being the Series 2006 Bonds maturing on November 15 of the years 2022 through 2026.

"Bond Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, or any successor thereto or assignee thereof.

"Business Day" shall mean any day other than (i) a Saturday, a Sunday or any other day on which banks located in the city in which the Principal Office of the Trustee or the Paying Agent, or either, is located are authorized or required to remain closed or (ii) a day on which the New York Stock Exchange is closed.

"Capital Improvement Program" means the multi-year capital improvement program of the Company identified as the "Louisville Water Company Capital Improvement Plan, 2006-2010" for the construction and acquisition of major additions, extensions, improvements and betterments to the Waterworks System of the Company, hereby approved and adopted.

"Letter of Representations" shall mean, in respect of the Series 2006 Bonds issued under the Book-Entry System, the Blanket Issuer Letter of Representations between the Board and DTC, substantially in the form as attached hereto as Exhibit D, including any amendments thereto as shall be agreed upon from time to time by the Board and DTC.

"Moody's" shall have the meaning ascribed to such term in Article IV, Section 401 of this Series 2006 Bond Resolution.

"Policy Payments Account" shall have the meaning ascribed to such term in Section 401(d) of this Series 2006 Bond Resolution.

"Qualified 2006 Project Costs" shall have the meaning ascribed to such term in Section 104(c) hereof.

"Reimbursement Resolution", shall mean the Resolution adopted by the Board on October 12, 2004, approving the Series 2006 Project and authorizing interim financing of the Series 2006 Project, in the anticipation of the issuance of the Series 2006 Bonds.

"Related Documents", shall mean, for the purposes of the provisions of Article V of this Series 2006 Bond Resolution, (i) the General Bond Resolution, (ii) the Series 2006 Bond Resolution, (iii) the Series 2006 Bonds, (iv) the Bond Insurance Policy and (v) the Series 2006 Debt Service Reserve Fund Policy.

"Series 2006 Bond Resolution" shall mean this resolution of the Board, authorizing the issuance of the Series 2006 Bonds, adopted on May 25, 2006.

"Series 2006 Note Resolution" shall mean that certain resolution of the Board, authorizing the issuance of not to exceed \$10,000,000 principal amount of Series 2006 Bond Anticipation Notes, adopted on May 25, 2006.

"S&P" shall have the meaning ascribed to such term in Article IV, Section 401 of this Series 2006 Bond Resolution.

"Series 2006 Bonds" shall mean the Water System Revenue Bonds, Series 2006, dated July 12, 2006 which are authorized by Article II of this Series 2006 Bond Resolution, substantially in the form attached hereto as Exhibit C.

"2006 Project" shall mean the construction, acquisition and installation of major extensions, improvements and betterments to the Waterworks System of the Company, constituting a portion of the Capital Improvement Program of the Company, generally described and identified in Exhibit A to this Series 2006 Bond Resolution, as the same may be adjusted from time to time by the Board, in its sound discretion.

Section 103. Authority. This Series 2006 Bond Resolution is adopted pursuant to authority of Article II, Section 203 of the General Bond Resolution, and pursuant to authority expressly set forth in the Act.

Section 104. Determinations by Board.

(a) It is hereby determined by the Board that (i) the Capital Improvement Program is approved and adopted and shall proceed forthwith and (ii) it is necessary and desirable that \$83,845,000 principal amount of Series 2006 Bonds be authorized and issued for the purposes of financing the 2006 Project and paying costs related thereto. The 2006 Project, described more

fully in Exhibit A hereto, is hereby determined to constitute a qualified Project, as provided by the General Bond Resolution, including, inter alia, Section 203 thereof, and is approved and adopted. The Series 2006 Project, which constitutes identified components of the "Louisville Water Company Capital Improvement Plan, 2006-2010", may be adjusted and modified by the Board in its sound discretion. The Board also hereby approves and adopts the Capital Improvement Program, subject to the Board's right of adjustment and modification thereof, in its sound discretion.

(b) The Waterworks System and all additions, modifications and extensions thereto, including the additions, modifications and extensions constituting the 2006 Project, has heretofore been declared to be and is hereby declared to be a public project within the meaning of Section 58.010 of the Act.

(c) It is hereby determined that the Series 2006 Bonds shall be issued pursuant to the provisions of Section 201 hereof and in accordance with the provisions of Article II, Sections 201, 202 and 203, of the General Bond Resolution for the purposes of (i) providing financing for the Cost of Construction of the 2006 Project, including reimbursement to the Board for advances made in respect of paying Cost of Construction of the 2006 Project, and, if applicable, paying and discharging the Series 2006 Notes, (ii) providing for the necessary capitalization of interest on the Series 2006 Bonds, (iii) funding necessary reserves and (iv) making provisions for discount and costs of issuance of the Series 2006 Bonds and any other related costs. The expenditures enumerated in clauses (i) through (iv) of this Section 104 are hereinafter sometimes referred to as "Qualified 2006 Project Costs."

(d) It is hereby determined that the 2006 Project and the financing of the 2006 Project by proceeds of the Series 2006 Bonds are essential, necessary and desirable in the public interest.

(e) Following the competitive, public sale of the Series 2006 Bonds, this Series 2006 Bond Resolution shall be appropriately modified and completed to reflect the final terms of the Series 2006 Bonds, including, but not limited to, final 2006 Bond principal amount, maturity principal amounts, interest rates and redemption provisions, matters relating to bond insurance, if applicable, and similar matters.

(f) Pursuant to the Series 2006 Note Resolution, adopted of even date herewith, the Board has authorized the issuance of not to exceed \$10,000,000 of Series 2006 Bond Anticipation Notes, to be issued in anticipation of the availability of the proceeds of the Series 2006 Bonds, which are payable, inter alia, from the proceeds of the Series 2006 Bonds.

Section 105. Book-Entry System. The Series 2006 Bonds shall be initially issued in the Book Entry System, as more fully described in the General Bond Resolution, with a single fully registered certificate representing each maturity of principal, in accordance with the Letter of Representations and the related provisions of the General Bond Resolution. So long as any of the Series 2006 Bonds are held in the Book-Entry System, the Registered Owner of such Series 2006 Bonds shall be DTC, and such Series 2006 Bonds shall be registered in the name of CEDE & Co., as nominee for DTC. The provisions of the Letter of Representations shall be and are hereby incorporated herein by reference and, in the event that there shall be any inconsistency between the Letter of Representations and this Series 2006 Bond Resolution, so long as such

Series 2006 Bonds are held in the Book-Entry System, the Letter of Representations shall govern.

ARTICLE II

AUTHORIZATION, ISSUANCE AND SALE OF SERIES 2006 BONDS

Section 201. Authorization of Series 2006 Bonds; Principal Amount; Designation and Series; Reimbursement Provisions.

(a) In accordance with and subject to the Act, the General Bond Resolution and this Series 2006 Bond Resolution, the Series 2006 Bonds are hereby authorized to be issued in the aggregate principal amount of \$83,845,000. The Board hereby determines that the issuance of the Series 2006 Bonds in the principal amount of \$83,845,000 is necessary for the funding of the proper governmental purposes of the Issuer and for the more specific purposes set forth in this Series 2006 Bond Resolution, including the funding of the Qualified 2006 Project Costs. The Board further hereby determines that all said purposes are authorized by the Act. In addition to the title "Water System Revenue Bonds," the Series 2006 Bonds herein authorized shall bear the additional designation of "Series 2006" and each Bond as so designated shall be a "Water System Revenue Bond, Series 2006."

(b) Pursuant to the Reimbursement Resolution adopted by the Board in accordance with the Code, on October 12, 2004, the Board has advanced moneys from available funds in the accounts of the Board for the payment of construction costs of the 2006 Project and other related costs incurred prior to the date of issuance of the Series 2006 Bonds. The Board shall be reimbursed for any such advances of the Board's moneys from the proceeds of the Series 2006 Bonds, when issued, such reimbursement to the Board for advances of Board funds shall be made pursuant to a Requisition of the Board pursuant to Section 503(3)(a) of the General Bond Resolution. Such Reimbursement Resolution and this provision of the Series 2006 Bond Resolution are and were adopted in compliance with Section 1.150-2 of the Treasury Regulations under the Code.

Section 202. Purposes of Issuance of Series 2006 Bonds. The purposes for which the Series 2006 Bonds are being issued are the purposes enumerated in Section 104 and in other provisions of this Series 2006 Bond Resolution, including the funding of the Qualified 2006 Project Costs. It is hereby determined that immediately following the issuance of the Series 2006 Bonds, adequate and appropriate moneys in or a qualified Debt Service Reserve Credit Enhancement on deposit in or in favor of the Trustee, for the benefit and security of the Reserve Account, will at least equal the Bond Reserve Requirement.

Section 203. Issue Date. The Series 2006 Bonds shall be dated as of their date of issuance and shall be issued as expeditiously as possible. As a condition precedent to the issuance of the Series 2006 Bonds, all requirements, conditions, certifications and similar requirements, including but not limited to, debt service coverage requirements, as set forth in Article II of the General Bond Resolution, shall be complied with and completed.

Section 204. Principal Payments. The principal amount of the Series 2006 Bonds shall be \$83,845,000. The Series 2006 Bonds shall be offered and sold at competitive, public sale, as required by law.

The Series 2006 Bonds shall consist of \$73,150,000 principal amount of Serial Bonds and \$10,695,000 principal amount of Term Bonds, dependent upon the results of the public, advertised, competitive sale of the Series 2006 Bonds, all the same maturing on November 15 of the years, as follows:

<u>Due</u> <u>November 15</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Due</u> <u>November 15</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>
2007	\$ 500,000	4.000%	2019	\$ 3,240,000	4.500%
2008	1,725,000	4.000%	2020	3,375,000	4.625%
2009	2,180,000	4.000%	2021	3,520,000	5.000%
2010	2,465,000	4.000%	2022*	3,675,000	5.000%
2011	2,370,000	4.000%	2023*	3,835,000	5.000%
2012	2,460,000	4.000%	2024*	4,000,000	5.000%
2013	2,555,000	4.000%	2025*	4,180,000	5.000%
2014	2,655,000	4.000%	2026*	4,365,000	5.000%
2015	2,760,000	5.000%	2027	4,565,000	5.000%
2016	2,870,000	5.000%	2028	4,770,000	5.000%
2017	2,985,000	5.000%	2029	4,990,000	5.000%
2018	3,110,000	4.375%	2031	10,695,000	5.000%

* Payment of principal of and interest when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation.

Section 205. Denominations, Numbers and Letters. The Series 2006 Bonds shall be issuable only as fully registered Bonds without coupons in denominations of \$5,000 principal amount or any integral multiple thereof. The Series 2006 Bonds shall be numbered from 1 consecutively upwards and bear such other designation by letter or other identifying feature as shall be appropriate. The Series 2006 Bonds shall bear interest to maturity, payable on each May 15 and November 15, commencing November 15, 2006.

Section 206. Place of Payment. Principal or Redemption Price of the Series 2006 Bonds shall be paid upon surrender thereof in any currency of the United States of America, which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal and interest shall be paid at the principal corporate trust office of the

Trustee. Interest on the Series 2006 Bonds shall be paid by check or draft mailed by the Trustee to the registered owner at the address shown on the registration books maintained by the Trustee as of the applicable Record Date, which shall be the April 30 and October 31 of each Bond Fiscal Year; provided however, that payment of such interest with respect to the Series 2006 Bonds shall be made by wire transfer in federal immediately available funds to any Bondholder of an aggregate amount of Series 2006 Bonds of at least \$1,000,000, if such Bondholder shall have requested in writing to the Trustee payment by such method.

Section 207. Redemption of Series 2006 Bonds; Redemption Terms and Prices.

(a) The Series 2006 Bonds maturing on or prior to November 15, 2016, shall not be subject to redemption.

(b) Optional Redemption. The Series 2006 Bonds maturing on and after November 15, 2017 are subject to redemption, at the option of the Issuer, on or after November 15, 2016, in whole or in part on any date (less than all Series 2006 Bonds of a single maturity to be selected by lot) at the price of par, together with accrued interest to the date of redemption.

(c) Sinking Fund Redemption. The Series 2006 Bonds maturing on November 15, 2031 are subject to mandatory Sinking Fund redemption, in part, prior to their scheduled maturity, by lot, at the price of par, plus accrued interest to the redemption date, from moneys on deposit in the Bond Service Account of the Bond Fund, on each November 15 of the years and in the principal amounts set forth below:

Series 2006 Term Bonds Maturing November 15, 2031

<u>Sinking Fund Installments</u>	<u>Amount</u>
2030	\$5,225,000
2031*	\$5,470,000

*Final Maturity

Section 208. Additional Redemption Provisions.

(a) All provisions of Article IV of the General Bond Resolution relating to redemption of Bonds shall be strictly complied with by the Board. In addition, to comport with general current commercial practice, the following provisions shall be applicable to refundings of Outstanding Bonds provided, that failure to comply with such provisions shall not affect the validity of any Series 2006 Bond redemptions carried out in compliance with the provisions of the General Bond Resolution:

(i) In the event any Series 2006 Bonds to be refunded are registered in the name of Depository Trust Company (DTC) or its nominee, Cede & Co. or any other depository institution or its nominee, the Trustee shall, in addition to the giving of notice of redemption in accordance with the General Bond Resolution, send a copy of any such

notice of redemption by facsimile transmission and overnight mail to Depository Trust Company or its nominee, or such other depository, or its nominee.

(ii) All redemption notices in respect of the Series 2006 Bonds shall contain: (a) the official name of the refunded Series 2006 Bond issue, (b) applicable CUSIP Numbers, (c) certificate numbers, (d) amounts called for each certificate in the case of partial redemptions, (e) date of redemption notice and date of redemption, (f) redemption price, (g) name of redemption agent and address with contact person identification and telephone number and (h) date of issue, interest rate, maturity dates and other relevant and descriptive information.

(iii) In the event any Series 2006 Bondholder does not present Series 2006 Bonds called for redemption within 60 days following the scheduled redemption date, a second redemption notice shall be sent to such Series 2006 Bondholder by certified mail with return receipt requested within 70 days of the redemption date. In the case of any advance refunding, two redemption notices conforming to the standards herein set forth shall be given, the second of which is mailed at least 30 days prior to the actual redemption date. Any Registered Holder of at least \$1,000,000 principal amount of Series 2006 Bonds may stipulate in writing to the Issuer that any notice given in respect of the Series 2006 Bonds be sent, in addition to the address of such Registered Holder as shown on the records of the Bond Registrar, to a second address simultaneously, by first class mail.

Section 209. Application of the Proceeds of the Series 2006 Bonds. There have previously been created the following funds and accounts by the General Bond Resolution, (i) the Construction and Acquisition Fund, (ii) the Revenue Fund, (iii) the Bond Fund, containing the Bond Service Account and the Reserve Account, (iv) the Depreciation Fund, (v) the Operation Fund and (vi) the Rebate Fund. The net proceeds of the Series 2006 Bonds shall be applied as follows:

(a) There shall be deposited into the Bond Service Account of the Bond Fund in a subaccount hereby created to be designated "Series 2006 Subaccount" all sums, if any, received as accrued interest plus net capitalized interest, as determined by a Certificate of an Authorized Officer.

(b) There shall be reimbursed to the Issuer upon presentation to the Trustee of a Requisition complying with the provisions of Section 503(3)(a) of the General Bond Resolution any amounts directly advanced from Issuer funds for the interim financing of the 2006 Project; provided, however, that any such reimbursements shall be for expenditures for Costs of Construction paid not later than the date which is 60 days prior to October 12, 2004, the date of adoption of the Reimbursement Resolution in respect of the Series 2006 Project by the Board.

(c) There shall be transferred to a special account of the Board to be held by the Trustee within the Construction and Acquisition Fund, pursuant to Section 503(1)(ii) of the General Bond Resolution an account hereby created and denominated "Series 2006 Cost of Issuance Account" (the "Cost of Issuance Account") such amount of proceeds as shall be determined by the Certificate of an Authorized Officer.

(d) There shall be transferred to the Trustee for deposit to the Construction and Acquisition Fund and deposited into an account, hereby created, to be designated "Series 2006 Account" such amount as shall be determined by the Certificate of an Authorized Officer.

In addition to the foregoing, there shall be deposited into or retained in the Reserve Account of the Bond Fund in a subaccount, hereby created, to be designated "Series 2006 Subaccount" an amount, taking into account the moneys already on deposit in such Account, at least equal to the Bond Reserve Requirement in respect of the Series 2006 Bonds.

Section 210. Authorization to Execute and Deliver Documents. Any Authorized Officer is hereby authorized and directed to take, on behalf of the Board, any actions and execute and deliver any documents necessary with respect to the issuance of the Series 2006 Bonds.

Section 211. General Arbitrage Certifications. The Issuer certifies, on the basis of known facts and circumstances in existence on the date of adoption of this Series 2006 Bond Resolution, that it is not expected that the proceeds of the Series 2006 Bonds or the Revenues of the System or the application and use of any moneys of the Issuer will be used in a manner which would cause the Series 2006 Bonds to be arbitrage bonds within the meaning of the Code. The Issuer covenants with the Holders of the Series 2006 Bonds that (1) the Issuer will make no use of the proceeds of said Series 2006 Bonds, or apply or use any moneys of the Board which, if such use had been reasonably expected on the date of issue of such Series 2006 Bonds, would have caused such Series 2006 Bonds to be arbitrage bonds within the meaning of the Code or to otherwise be not eligible for interest exclusion from gross income for federal income tax purposes and (2) that the Issuer will comply with all of the requirements of Section 148 and all other applicable provisions of the Code to assure that the interest on the Series 2006 Bonds shall be and remain excluded from gross income for federal income tax purposes. The Board ratifies, readopts and continues all of its warranties, representations and covenants with respect to such tax matters as set forth in the General Bond Resolution.

Section 212. Execution, Authentication and Registration of the Series 2006 Bonds. The Series 2006 Bonds shall be executed, authenticated and registered by the Issuer and the Trustee, in accordance with Article III of the General Bond Resolution. The Series 2006 Bonds shall be in substantially the form of Exhibit C to this Series 2006 Bond Resolution.

ARTICLE III

LIMITED OBLIGATIONS

Section 301. The Lien Created by the General Bond Resolution.

(a) Pursuant to the Act, the General Bond Resolution and this Series 2006 Bond Resolution, the Series 2006 Bonds do not constitute an indebtedness of the Issuer, the Commonwealth of Kentucky (the "Commonwealth"), the Metro Government, or any instrumentality thereof, including the Board, within the meaning of the Constitution of the Commonwealth of Kentucky or constitute a pledge of the faith and credit of the Issuer, the Commonwealth, the Metro Government or the Board, but are payable solely as provided herein from Revenues of the Waterworks System and other funds pledged therefor, and neither the

Issuer, the Commonwealth, the Metro Government or the Board is obligated to pay the Series 2006 Bonds [except as otherwise provided herein with respect to the additional security of the Bond Insurance Policy]. The issuance of the Series 2006 Bonds hereunder shall not directly, indirectly or contingently obligate the Metro Government to levy or to pledge any taxes whatsoever for the payment of such Series 2006 Bonds or to make any appropriation for such payment except from the Funds and Accounts created by the General Bond Resolution and this Series 2006 Bond Resolution, subject to the conditions set forth in the General Bond Resolution.

(b) In accordance with the General Bond Resolution, upon the issuance of the Series 2006 Bonds, there have been pledged and are hereby pledged for the payment of the principal and Redemption Price of, interest on, and Sinking Fund Installments for, the Series 2006 Bonds, for the purposes and on the terms and conditions set forth in this Series 2006 Bond Resolution, (a) the proceeds of sale of the Series 2006 Bonds, (b) all Revenues and (c) all amounts held in the Funds and Accounts created by the General Bond Resolution and this Series 2006 Bond Resolution, subject to the conditions set forth in the General Bond Resolution.

(c) The pledge heretofore and hereby made has been valid and shall be valid and binding with respect to the Series 2006 Bonds from and after the date of issuance of the Series 2006 Bonds, which shall occur upon compliance with all of the conditions and restrictions for the issuance of parity Bonds set forth in the General Bond Resolution, including, but not limited to, all provisions in Article II, Sections 202, 203 and 204 of the General Bond Resolution, and the proceeds of sale of the Series 2006 Bonds and all the Revenues, moneys, securities and funds as received by the Board as set forth in this Series 2006 Bond Resolution shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be immediately perfected and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer or the Company irrespective of whether such parties have notice thereof.

(d) The Series 2006 Bonds maturing on November 15 of the years 2022, 2023, 2024, 2025 and 2026 shall additionally be secured by the Bond Insurance Policy.

ARTICLE IV

BOND INSURANCE

Section 401. Claims Upon the Bond Insurance Policy and Payments by and to the Bond Insurer. As long as the Bond Insurance Policy shall be in full force and effect, the Issuer, the Trustee and the Paying Agent agree to comply with the following provisions:

(a) At least two (2) days prior to each Interest Payment Date or principal payment date in respect of the Series 2006 Bonds, the Trustee will determine whether there will be sufficient funds in the Funds and Accounts established under the General Bond Resolution and this Series 2006 Bond Resolution to pay the principal of or interest on the Series 2006 Bonds on such Interest Payment Date. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date in respect of the Series 2006 Bonds (each a "Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the General Bond Resolution, moneys sufficient to pay the principal of and interest on the

Series 2006 Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2006 Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2006 Bonds and the amount required to pay principal of the Series 2006 Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such immediately prior Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(b) In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Series 2006 Bondholders who surrender their Series 2006 Bonds, a new Series 2006 Bond or Series 2006 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2006 Bond surrendered. The Trustee shall designate any portion of payment of principal on Series 2006 Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2006 Bonds registered to the then current Series 2006 Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2006 Bond to the Bond Insurer, registered in the name of the Bond Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2006 Bond shall have no effect on the amount of principal or interest payable by the Issuer on any Series 2006 Bond or the subrogation rights of the Bond Insurer.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account, as created in clause (d) of this Section 401 and the allocation of such funds to payment of interest on and principal paid in respect of any Series 2006 Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the Bond Insurance Policy the Trustee shall establish a separate special purpose trust account for the benefit of Series 2006 Bondholders referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of Series 2006 Bondholders 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 Trustee to Series 2006 Bondholders in the same manner as principal and interest payments are to be made with respect to the Series 2006 Bonds under the sections of this Series 2006 Bond Resolution regarding payment of Series 2006 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.

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

(f) Any funds remaining in the Policy Payments Account following a Series 2006 Bond payment date shall promptly be remitted to the Bond Insurer.

Section 402. Certain Rights of Bond Insurer.

(a) Reasonable written notice in writing shall be given by the Issuer to the Bond Insurer prior to the deposit of any Debt Service Reserve Credit Enhancement provided in lieu of a cash deposit into the Reserve Account.

(b) The Bond Insurer shall be deemed to be the sole holder of the Series 2006 Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Series 2006 Bonds insured by it are entitled to take pursuant to Articles VII and X of the General Bond Resolution.

(c) In the event the maturity of the Series 2006 Bonds is accelerated, notwithstanding the terms of the Bond Insurance Policy, the Bond Insurer may elect, in its sole discretion, to pay insured accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Issuer) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy with respect to such Series 2006 Bonds shall be fully discharged.

(d) Copies of any modification or amendment to the General Bond Resolution or the Series 2006 Bond Resolution or any other related document to either shall be sent to the Bond Insurer, Standard & Poor's Ratings Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

(e) The General Bond Resolution and/or the Series 2006 Bond Resolution shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

Section 403. Third Party Beneficiary. To the extent that this Series 2006 Bond Resolution, confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this Series 2006 Bond Resolution, the Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

Section 404. Additional Provisions With Respect to Bond Insurance. As long as the Bond Insurance Policy issued by the Bond Insurer is in full force and effect with respect to the Series 2006 Bonds and the Bond Insurer is not in default thereunder:

(a) Any provision of this Series 2006 Bond Resolution expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder or the security for or source of payment of the Series 2006 Bonds may be impaired or prejudiced without the prior written consent of the Bond Insurer.

(b) (i) The Trustee shall furnish to the Bond Insurer (1) a copy of any notice, certificate, opinion of Bond Counsel or other document that it receives pursuant to this Series 2006 Bond Resolution and (2) a copy of any notice that it gives to the Bondholders, including, without limitation, notice of any redemption of or defeasance of the Series 2006 Bonds, notice of an Event of Default, and any certificate or report received by it rendered pursuant to this Series 2006 Bond Resolution relating to the security for the Series 2006 Bonds.

(ii) The Trustee shall notify the Bond Insurer in writing of any failure of the Company to provide the Trustee notices, certificates, and other documents required to be furnished to the Trustee by this Series 2006 Bond Resolution.

(c) Notwithstanding anything herein to the contrary, in the event that the principal or interest due on any insured Series 2006 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, such insured Series 2006 Bonds shall remain outstanding for all purposes, shall not be defeased or deemed defeased or otherwise satisfied and shall not be considered 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 Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and, to the extent of all such payments to the Bondholders, the Bond Insurer shall be subrogated to the rights of the Bondholders.

(d) (i) The Bond Insurer shall receive five Business Days' prior written notice of any default known to the Trustee, any Trustee or Paying Agent resignation and any advance refunding or prior redemption of any of the Series 2006 Bonds, including the principal amount, maturities and CUSIP numbers thereof.

(ii) Notwithstanding any other provision of the General Bond Resolution or this Series 2006 Bond Resolution, or in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the General Bond Resolution and this Series 2006 Bond Resolution, the Trustee shall consider the effect on the Bondholders as if there were no Bond Insurance Policy.

(e) Before the Issuer may provide any notice under the General Bond Resolution or this Series 2006 Bond Resolution which causes an acceleration of Series 2006 Bonds to occur, the Board shall first obtain the written consent of the Bond Insurer to such action, with respect to the Series 2006 Bonds insured, and provide a copy of such written consent along with its notice under the applicable Section of the General Bond Resolution or this Series 2006 Bond Resolution.

(f) Notwithstanding satisfaction of other conditions to the issuance of additional Bonds contained in the General Bond Resolution, no such issuance may occur (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance and (2) unless the Reserve Account is fully funded at its requirement (including the new issue) upon the issuance of such additional Bonds (including, by the deposit of a Debt Service Reserve Credit Enhancement), in either case unless otherwise permitted by the Bond Insurer.

(g) The Issuer will give the Bond Insurer not less than 15 days written notice in respect of any proposed sale of all or any substantial part of the assets of the Company, or any corporate or governmental reorganization, combination, merger or other similar transaction.

(h) The Bond Insurer shall be provided with the following information:

(i) Annual audited financial statements of the Company within 120 days after the end of the Issuer's fiscal year and the Issuer's annual budget within 30 days after the approval thereof;

(ii) Notice of any draw upon the Reserve Account within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Debt Service Reserve Requirement and (ii) withdrawals in connection with a refunding of Bonds;

(iii) Notice of the commencement of any proceeding by or against the Issuer or the Company commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(iv) Notice of the making of any claim in connection with any insolvency proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2006 Bonds;

(v) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Related Documents; and

(vi) All reports, notices and correspondence to be delivered under the terms of the Related Documents.

(vii) The Issuer shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the General Bond Resolution, the Series 2006 Bond Resolution or any Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the General Bond Resolution, the Series 2006 Bond Resolution or any Related Document whether or not executed or completed, (iv) the violation by the Issuer of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the General Bond Resolution, the Series 2006 Bond Resolution or any Related Document or the transactions contemplated thereby, other than amounts resulting from the failure of the Bond Insurer to honor its obligations under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the General Bond Resolution, the Series 2006 Bond Resolution or any Related Document.

(i) Payments required to be made to the Bond Insurer shall be payable solely from the Trust Estate and shall be paid (i) prior to an event of default, to the extent not paid from the Bond Fund, after required deposits to the Reserve Account and (ii) after an event of default, with respect to amounts other than principal and interest on the Series 2006 Bonds, on the same priority as payments to the Trustee for expenses. The obligations to the Bond Insurer shall survive discharge or termination of any Related Documents.

(j) The Bond Insurer shall be entitled to pay principal or interest on the Series 2006 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Bond Insurance Policy) and any amounts due on the Series 2006 Bonds as a result of acceleration of the maturity thereof in accordance with the General Bond Resolution and Series 2006 Bond Resolution, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Bond Insurance Policy) or a claim upon the Bond Insurance Policy.

(i) The notice address of the Bond Insurer is: MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of General Counsel of the Bond Insurer and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

Section 405. Defeasance of Series 2006 Bonds. For the purpose of adding additional security, covenants and safeguards for the security and source of payment of the Holders of the Series 2006 Bonds, the provisions of Section 1101 of the General Bond Resolution are supplemented with respect to any defeasance of the Series 2006 Bonds (nothing herein contained to be in derogation of such Section 1101, but only in addition thereto, in respect of the Series 2006 Bonds), as follows:

(a) Only (1) cash, (2) non-callable Government Obligations, as defined in the General Bond Resolution, (3) evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Government Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated or (4) pre-refunded municipal obligations fully secured by an irrevocable escrow of General Obligations, which municipal obligations are rated "AAA" and "Aaa" by S&P and Moody's, respectively, or any combination thereof, shall be authorized to be used to effect any defeasance of Series 2006 Bonds unless the Bond Insurer otherwise approves.

(b) To accomplish defeasance of Series 2006 Bonds, the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay and discharge the Series 2006 Bonds in full on the applicable maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Bond Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2006 Bonds are no longer "Outstanding" under the General Bond Resolution; and each Verification and defeasance opinion

shall be acceptable in form and substance, and addressed, to the Issuer, the Trustee and the Bond Insurer. In the event a forward purchase agreement will be employed in the applicable refunding, such agreement shall be subject to the approval of the Bond Insurer and shall be accompanied by such opinions of counsel as may be required by the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

(c) Series 2006 Bonds shall be deemed "Outstanding" under the General Bond Resolution unless and until they are in fact paid and retired or the above criteria of this Section 505 are met.

Section 406. References to the Bond Insurer. All provisions hereof regarding consents, approvals, directions, appointments or requests by the Bond Insurer shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Bond Insurer and shall be read as if the Bond Insurance Policy was not mentioned therein during any time in which the Bond Insurer is in default in its obligations to make payments under the Bond Insurance Policy; provided, however, that this Section shall not affect the rights of the Bond Insurer to collect any amounts owed to it.

ARTICLE V

CERTAIN TAX COVENANTS

Section 501. Tax Covenants and Representations.

(a) All covenants, warranties and representations of the Board contained in the General Bond Resolution are hereby ratified, readopted and continued, in all respects.

(b) The Board certifies, covenants and agrees that so long as any of the Series 2006 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the Series 2006 Bonds, whether or not such moneys were derived from the proceeds of the sale of the Series 2006 Bonds or from any other sources, will not be invested or used in a manner which will cause the Series 2006 Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The President and the Vice President and Treasurer, as the officers of the Board charged with the responsibility for issuing the Series 2006 Bonds, are authorized and directed, for and on behalf of the Board, to execute all papers, documents, certificates and other instruments that may be required for evidencing compliance with federal tax rules, and any representations and certifications contained in such papers, documents, certificates and other instruments so executed shall be deemed to constitute representations and certifications of the Board.

The Board further represents, warrants, agrees, covenants and certifies as follows:

(c) Within the meaning of Section 141 of the Code, and the Income Tax Regulations issued thereunder, over the term of the Series 2006 Bonds (i) less than 10% of the proceeds of the Series 2006 Bonds, if any, will be applied for any private business use, and the payment of

the principal of or interest on less than 10% of the amount of the Series 2006 Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived directly or indirectly from payment (whether or not to the Board) in respect of such property; (ii) at least 90% of the proceeds of the Series 2006 Bonds will be applied for governmental uses of the Board, to wit, acquiring, processing and supplying pure and potable water to the general public; (iii) any private business use of the facilities financed and refinanced by the Series 2006 Bonds will be related to such governmental uses of the Board and will not be unrelated or disproportionate; and (iv) none of the proceeds of the Series 2006 Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected and required by law that over the term of the Series 2006 Bonds (a) the facilities financed by the Series 2006 Bonds will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no nongovernmental person will have any special legal entitlement to use the facilities financed by the Series 2006 Bonds and (c) there will be no direct or indirect payment made with respect to the facilities financed and refinanced by the Series 2006 Bonds or the security of the Series 2006 Bonds by any persons or entities other than payment by the general public as described in clause (a) above.

(d) Within the meaning of Section 148(f)(4)(B) of the Code, it is reasonably expected that at least 90% of the net proceeds (including investment proceeds) of the Series 2006 Bonds will be used for construction expenditures with respect to property which is owned by a governmental unit, at least 10% of such proceeds is reasonably expected to be spent for the governmental purposes of the issue within six months from the date the Series 2006 Bonds are issued, at least 45% of such proceeds is reasonably expected to be spent for such purposes within one year from such date, at least 75% of such proceeds is reasonably expected to be spent for such purposes within eighteen months from such date, and at least 100% of such proceeds is reasonably expected to be spent within two years from such date. The Board will take all action necessary to comply with the applicable arbitrage rebate requirements of Section 148(f) of the Code in respect of the Series 2006 Bonds.

(e) The Series 2006 Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

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

(g) It is reasonably expected that during the term of the Series 2006 Bonds the facilities financed by the Series 2006 Bonds will not be disposed of; provided, however, should there be any disposition of any personal property constituting a part of the facilities refinanced and financed by the Series 2006 Bonds because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its costs.

(h) The weighted average maturity of the Series 2006 Bonds does not exceed 120% of the weighted average useful life of the facilities financed by the proceeds of the Series 2006 Bonds.

(i) The Board has not heretofore expended any sums on the 2006 Project which are to be reimbursed from the proceeds of the Series 2006 Bonds, other than (a) certain preliminary expenditures such as engineering and planning costs not exceeding 20% of the cash proceeds of the Series 2006 Bonds allocable to the 2006 Project, (b) expenditures made within 60 days prior to the date of adoption of the Reimbursement Resolution (i.e. October 12, 2004).

(j) The Board will not use or permit the use of any of the funds provided by the Series 2006 Bonds in such a manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. The Board shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Board on the Series 2006 Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

ARTICLE VI

CONTINUING DISCLOSURE

Section 601. Continuing Disclosure Agreement Authorized. For the purpose of complying with applicable law, including Rule 15c2-12, promulgated by the U.S. Securities and Exchange Commission, the Board shall enter into the Continuing Disclosure Agreement with the Trustee in substantially the form attached hereto as Exhibit E. The Continuing Disclosure Agreement shall be executed and delivered by either the President or Vice President and Treasurer, attested by the Secretary, with such changes, insertions and omissions as may be approved by them or any of them, such execution being conclusive evidence of such approval.

ARTICLE VII

SALE AND DELIVERY OF SERIES 2006 BONDS

Section 701. Approval of Preliminary Official Statement and Official Statement. The Board hereby approves substantially the form and content of the Preliminary Official Statement of the Board, dated June 14, 2006, submitted to the Board and hereby made a part hereof, and hereby ratifies its completion and use by Public Financial Management, the Financial Advisor to the Board in connection with the public offering of the Series 2006 Bonds. Either of the President or the Vice President and Treasurer are authorized, on behalf of the Board, to deem the Preliminary Official Statement as substantially final, pursuant to SEC Rule 15c2-12. The Board further directs the completion of the Official Statement following the advertised competitive sale of the Series 2006 Bonds to reflect the final terms and provisions of the Series 2006 Bonds. The final revised, completed and accurate Official Statement shall be delivered to the Purchasers of the Series 2006 Bonds, as the Underwriters, thereof following the sale and award of the Series 2006 Bonds on a timely basis in accordance with the provisions of SEC Rule 15c2-12.

Section 702. Delegation of Certain Authority Regarding Sale of Series 2006 Bonds. The Board hereby determines and finds that it is appropriate that the Board take certain actions to authorize the immediate sale of the Series 2006 Bonds and the acceptance of the lowest and best bid for the Series 2006 Bonds by the Chairman of the Board and the President and Vice President and Treasurer of the Company, in the event of the unavailability of a quorum of the

Board on the date of the public sale of the Series 2006 Bonds, to accept the lowest and best bid and award the Series 2006 Bonds to such lowest and best bidder. Accordingly, the Board delegates to the Chairman of the Board, the President and the Vice President and Treasurer of the Company, as a Pricing and Sale Committee, limited discretionary powers, as herein provided.

The Chairman of the Board, the President and the Vice President and Treasurer of the Company shall carry out the advertised, public sale, competitive of the Series 2006 Bonds on behalf of the Board and the Company as expeditiously as possible. There is hereby delegated to any two of the Chairman of the Board, the President and the Vice President and Treasurer of the Company the authority and power to accept and consent to the final terms of the sale of the Series 2006 Bonds, including their final principal amount and interest rates, on behalf of the Board and the Company by accepting the lowest and best bid for the Series 2006 Bonds, provided, however, such delegation is subject to the conditions and limitations that (i) the Series 2006 Bonds must mature as to principal over a term such that the weighted average maturity of the Series 2006 Bonds does not exceed 30 years from date of issue and (ii) the Series 2006 Bonds shall not bear interest at an average true interest cost in excess of 6.50% per annum.

Section 703. Delivery of Series 2006 Bonds. The Chairman of the Board, the members of the Board, the President, the Vice President-Chief Engineer, the Vice President and Treasurer and the Vice President, General Counsel and Secretary and all other Officers and employees of the Company are hereby severally authorized, after execution of the Series 2006 Bonds, to deliver said Series 2006 Bonds for authentication by the Trustee and upon receipt of the purchase price for said Series 2006 Bonds to deliver to this Trustee a written order in the name of the Board directing the Trustee to deliver the Series 2006 Bonds to or upon the order of the Underwriters, to receive the proceeds of sale of the Series 2006 Bonds and give a written receipt therefor on behalf of the Board, to apply said proceeds and any other moneys in accordance with the terms of the General Bond Resolution and the Series 2006 Series Bond Resolution and in such manner as is required to cause the conditions precedent to the issuance of the Series 2006 Bonds as stipulated in the General Bond Resolution and the Series 2006 Bond Resolution to be complied with, and to do and perform, or cause to be done and performed, for and on behalf of the Board, all acts and things that constitute conditions precedent to the authentication and delivery of the Series 2006 Bonds, or that are otherwise required to be done and performed by or on behalf of the Board prior to, or simultaneously with, the delivery of the Series 2006 Bonds, including execution and delivery of documents, bonds, certificates and other matters.

ARTICLE VIII


MISCELLANEOUS

Section 801. Effective Date. This Series 2006 Bond Resolution shall take effect from and after its adoption and upon the filing with the Trustee of a copy hereof certified by an Authorized Officer.

ADOPTED BY THE BOARD OF WATER WORKS OF THE LOUISVILLE/
JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY, AS THE GOVERNING
BODY OF THE LOUISVILLE WATER COMPANY, AT A DULY CONVENED MEETING
HELD ON MAY 25, 2006.


APPROVED:

(SEAL)



JOHN L. HUBER
President

ATTEST:



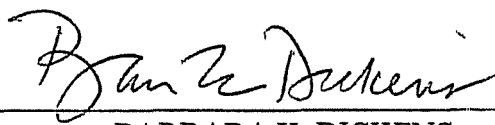
BARBARA K. DICKENS
Vice President, General Counsel
and Secretary

CERTIFICATION

I, the undersigned, the duly appointed and qualified Vice President, General Counsel and Secretary of the Louisville Water Company, do hereby certify that the foregoing Series 2006 Bond Resolution is a true, accurate and complete copy of that certain Series 2006 Bond Resolution duly adopted by the Board of Water Works of the Metro Government of Louisville, Kentucky, as the governing body of said Louisville Water Company, at a duly convened meeting of said Board, held on May 25, 2006, on the same occasion signed in open session by the President, attested under seal by me as Secretary, and declared to be in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Louisville Water Company this 25th day of May, 2006.

(SEAL)



BARBARA K. DICKENS
Vice President, General Counsel
and Secretary

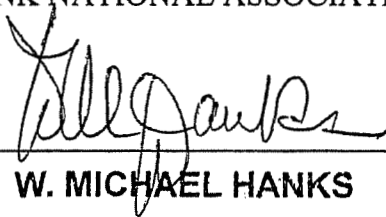
ENDORSEMENT OF TRUSTEE

U. S. BANK NATIONAL ASSOCIATION, Louisville, Kentucky, Trustee in respect of the General Bond Resolution, adopted on July 14, 1992 and the Series 2006 Bond Resolution, adopted on May 25, 2006, hereby acknowledges the filing by the Board of Water Works of the Metro Government of Louisville, Kentucky and Louisville Water Company with the Trustee of duly executed and certified copies of each of the General Bond Resolution and the Series 2006 Bond Resolution. The Trustee consents in each case to such filings and accepts the duties of Trustee thereunder, and will hold and maintain each of the General Bond Resolution and the Series 2006 Bond Resolution in its corporate records as integral records of the Board of Water Works of the Metro Government of Louisville, Kentucky and Louisville Water Company, effective as of May 25, 2006.

The Trustee further consents to the modification of the General Bond Resolution contained in Article IV, Section 401 of the Series 2006 Bond Resolution.

U. S. BANK NATIONAL ASSOCIATION

By



Name:

W. MICHAEL HANKS

Title:

VICE PRESIDENT

EXHIBIT A

Proposed capital expenditures for the years 2006 to 2010 from the five year capital plan of the Board, including application of a portion of the proceeds of the Series 2006 Bonds, are summarized in the table below:

Capital Improvement Program

	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2008	Year Ended Dec. 31, 2009	Year Ended Dec. 31, 2010
SUMMARY OF CAPITAL IMPROVEMENTS					
Infrastructure Replace/Rehabilitation:					
Treatment & Pumping	\$8,565,381	\$19,238,338	\$14,029,380	\$4,190,000	\$9,370,000
Transmission & Distribution	15,993,239	9,344,219	11,440,625	11,232,425	11,870,425
Buildings, Facilities & Grounds	4,005,429	1,788,164	805,000	910,000	75,000
Equipment & Vehicles	1,692,600	781,250	1,054,650	1,516,300	1,344,950
Self-Financing Improvements:					
Developer Extensions	7,870,000	8,370,000	8,370,000	8,370,000	8,370,000
New Services	4,477,572	4,477,572	4,477,572	4,477,572	4,477,572
Relocations	3,313,610	1,437,000	1,505,000	750,000	750,000
Bullitt Co. & Oldham Co.	4,707,828	5,233,657	1,406,300	1,205,300	1,376,850
System Improvements:					
Advanced Treatment	7,000,000	16,000,000	17,000,000	29,304,020	25,000,000
Treatment, Pumping & Supply	910,000	5,225,000	9,865,000	2,000,000	761,000
Technology Improvements	2,643,070	3,738,583	2,015,000	578,000	0
Growth-Related Improvements:					
New Transmission	7,420,000	13,550,000	15,482,900	7,688,500	1,970,000
Boosted Pumping	573,000	1,125,000	1,950,000	400,000	500,000
Storage Facilities	3,990,000	3,667,100	2,500,000	2,550,000	6,900,000
TOTAL	73,161,729	93,975,883	91,901,427	75,172,117	72,765,797
Adjusted Total ⁽¹⁾	83,240,719	96,386,754	100,763,193	87,431,228	84,773,940
SOURCES OF FUNDS					
Construction Fund	31,899,846	47,668,467	49,603,167	37,116,262	32,081,065
Capital Contributions ⁽²⁾	15,830,130	15,925,709	16,998,962	14,698,085	15,139,027
Cash from Operations ⁽³⁾	35,510,743	32,792,578	34,161,064	35,616,881	37,553,847
TOTAL	83,240,719	96,386,754	100,763,193	87,431,228	84,773,940

Source: Louisville Water Company.

- (1) Adjusted for inflation and projects carried forward.
- (2) Adjusted for inflation.
- (3) Includes depreciation which must be deposited in the Depreciation Fund and used for capital expenditures and operating surplus.

EXHIBIT B

Budget Area	B1	PRIOR	2004	2005	2006	2007	2008	2004-2008	2009-2013	2004-2013
SOURCE OF SUPPLY (ZPS)	11	3,170,000	4,915,000	14,915,000	11,300,000	5,300,000	14,000,000	50,430,000	57,200,000	107,630,000
ZORN PUMPING STATION (ZPS)	12	200,000	575,000	365,000	500,000	1,300,000	0	2,740,000	0	2,740,000
CRESCENT HILL PUMP STATION (CHPS)	13	0	225,000	225,000	225,000	0	200,000	875,000	2,000,000	2,875,000
BOOSTED PRESSURE SYSTEM	14	65,000	250,000	1,050,000	1,300,000	400,000	250,000	1,250,000	4,500,000	4,500,000
STORAGE FACILITIES	15	726,500	4,430,000	1,703,500	2,190,000	3,200,000	1,350,000	12,873,500	9,550,000	22,423,500
CRESCENT HILL FILTRATION PLANT (CHFP)	16	2,480,000	4,335,000	5,045,000	5,885,000	2,635,000	1,135,000	19,035,000	22,795,000	41,830,000
B.E. PAYNE PLANT (BEPWTP)	18	12,250,000	9,225,000	900,000	2,950,000	2,550,000	100,000	15,725,000	22,150,000	37,875,000
DISTRIBUTION CENTER	19	16,900	5,160,533	5,013,533	4,855,033	4,870,233	4,850,233	24,749,565	24,612,940	49,362,505
GENERAL ADMINISTRATIVE	20	0	75,000	75,000	75,000	75,000	75,000	375,000	375,000	750,000
PRODUCTION BLDGS./FAC IMPROVEMENT	21	280,000	1,405,000	1,105,000	145,000	245,000	645,000	3,545,000	1,185,000	4,730,000
DISTRIBUTION BLDGS./FAC IMPROVEMENT	22	0	427,500	652,500	527,500	527,500	527,500	2,662,500	3,637,500	6,300,000
GENERAL FACILITIES MANAGEMENT	23	55,000	370,000	535,000	290,000	290,000	280,000	1,765,000	475,000	2,240,000
INFORMATION TECHNOLOGY	30	4,238,500	2,406,400	3,838,000	1,425,000	370,000	150,000	8,189,400	915,000	9,104,400
RELOCATIONS FOR AGENCY & DEVELOPERS (GROSS)	50	5,372,554	2,588,000	5,983,000	3,288,000	2,204,000	400,000	14,463,000	2,000,000	16,463,000
RELOCATIONS FOR AGENCY & DEVELOPERS (NET - AFTER REIMB)	50	4,177,328	-703,492	3,073,000	2,553,000	-1,787,000	50,000	3,185,508	250,000	3,435,508
RELOCATIONS FOR MSD SEWER/DRAINAGE (GROSS)	51	0	250,000	250,000	250,000	250,000	1,250,000	1,250,000	2,500,000	2,500,000
RELOCATIONS FOR MSD SEWER/DRAINAGE (NET - AFTER REIMB)	51	0	40,000	40,000	40,000	40,000	40,000	200,000	200,000	400,000
MAIN REPLACEMENT & REHAB PROGRAM	63	8,531,546	9,468,454	7,000,000	7,000,000	7,000,000	7,000,000	37,468,454	35,000,000	72,468,454
TRANSMISSION IMPROVEMENTS	65	650,000	5,520,000	9,900,000	11,497,300	11,952,500	10,212,000	49,081,800	43,379,000	92,460,800
DEVELOPER EXTENSIONS (GROSS)	71	7,675,000	7,700,000	7,700,000	7,700,000	7,700,000	38,500,000	38,375,000	76,875,000	16,955,000
DEVELOPER EXTENSIONS (NET - AFTER REIMBURSEMENT)	71	-8,460,000	-2,345,000	-2,440,000	-1,440,000	-1,440,000	-10,105,000	-6,850,000	-16,955,000	-16,955,000
HYDRANT AND SERVICE INSTALLATIONS (GROSS)	72	0	3,429,250	3,429,250	3,429,250	3,429,250	17,146,250	16,752,500	33,898,750	33,898,750
HYDRANT AND SERVICE INSTALLATIONS (NET - AFTER REIMB)	72	0	336,675	336,675	336,675	336,675	1,683,375	1,579,125	3,262,500	3,262,500
SURCHARGES - CWF #1 (GROSS)	74	0	0	0	0	0	0	0	0	0
SURCHARGES - CWF #1 (NET - AFTER REIMBURSEMENT)	74	-143,800	-161,600	-155,900	-176,800	-163,900	-163,900	-822,100	-822,100	-822,100
NON-BACKBONE MAINS - CWF #2 & #3 (GROSS)	76	84,700	200,215	0	0	0	0	200,215	0	200,215
NON-BACKBONE MAINS - CWF #2 & #3 (NET - AFTER REIMB)	76	-1,238,660	-1,051,789	-1,182,449	-1,112,893	-1,043,337	-990,670	-5,381,138	-4,173,348	-9,554,48
PRIVATE ROADS - CWF #2 & #3 (GROSS)	77	100,000	100,000	0	0	0	0	100,000	0	100

**LOUISVILLE WATER COMPANY
2004-2013 CAPITAL IMPROVEMENT PLAN**

Budget Area	2004	2005	2006	2007	2008	2004-2008	2009-2013	2004-2013
BCEP - TANKS AND BOOSTER PUMP STATIONS (GROSS)	925,000	1,175,000	200,000	200,000	419,000	2,919,000	1,000,000	3,919,000
BCEP - TANKS AND BOOSTER PUMP STATIONS (NET - AFTER REIMB)	155,000	875,000	200,000	200,000	419,000	2,619,000	1,000,000	3,619,000
BCEP - SYSTEM DEVELOPMENT	0	0	0	0	0	308,300	0	308,300
GOSHEN	402,700	810,300	200,000	0	0	1,010,300	0	1,010,300
SHEPHERDVILLE	246,000	532,000	76,000	0	0	913,000	0	913,000
TOTALS (GROSS)	60,226,050	72,627,302	67,620,583	57,601,683	54,956,383	327,573,234	296,482,440	624,055,674
TOTALS (NET - AFTER REIMBURSEMENT)	38,113,864	52,060,590	54,930,258	51,080,737	38,747,491	236,846,714	217,743,517	454,590,231
REDUCTIONS								
DISTRIBUTION CENTER	-1,280,460							
GENERAL ADMINISTRATIVE	-75,000							
PRODUCTION BLDGS./FAC IMPROVEMENT	-295,000							
DISTRIBUTION BLDGS./FAC IMPROVEMENT	-227,500							
GENERAL FACILITIES MANAGEMENT	-265,000							
INFORMATION TECHNOLOGY	-705,000							
TOTAL REDUCTIONS	-2,847,960							
TOTALS (GROSS)	60,226,050	69,779,342	74,767,283	67,620,583	57,601,683	327,573,234	296,482,440	624,055,674
TOTALS (NET - AFTER REIMBURSEMENT)	38,113,864	52,060,590	54,930,258	51,080,737	38,747,491	236,846,714	217,743,517	454,590,231

FOR A DETAILED DESCRIPTION OF THE 2004-2013 CAPITAL
IMPROVEMENT PLAN, PLEASE SEE EXHIBIT NO. 1 TO THE
REIMBURSEMENT RESOLUTION UNDER TAB NO. 3.

EXHIBIT C
FORM OF SERIES 2006 BONDS
(See Tab No. 5)

EXHIBIT E

CONTINUING DISCLOSURE AGREEMENT
(See Tab Nos. 7 and 8)