

**ORDINANCE NO. 3523**

AN ORDINANCE of the City of Kirkland, Washington, approving a plan of refunding for certain outstanding water and sewer revenue bonds; authorizing the issuance of \$3,725,000 par value Water and Sewer Revenue Refunding Bonds, 1996, of the City; fixing the date, form, terms, interest rates, maturities and covenants of those bonds; providing for the issuance of bonds in the future on a parity therewith; appointing an escrow agent; and providing for the sale and delivery of the bonds to Piper Jaffray Inc. of Seattle, Washington.

WHEREAS, the City of Kirkland, Washington (the "City"), by Ordinance No. 576, maintains a combined system of water and sewerage (the "System"); and

WHEREAS, the City has heretofore issued and has outstanding the following series of bonds payable from the revenues of the System:

Authorizing Ordinance	Dated Date	Designation	Outstanding Principal Amount	Final Maturity
3026	07/01/87	Water and Sewer Revenue Bonds, 1987	\$ 270,000	06/01/97
3224	09/15/90	Water and Sewer Revenue Bonds, 1990	\$ 510,000	07/01/00
3321	06/01/92	Water and Sewer Revenue Refunding Bonds, 1992	\$ 5,850,000	06/01/12
3482	08/01/95	Water and Sewer Revenue Bonds, 1995	\$ 2,565,000	06/01/14

("Outstanding Parity Bonds"); and

WHEREAS, the Outstanding Parity Bonds issued under date of June 1, 1992 (the "1992 Bonds") mature in principal amounts as follows:

Maturity Years (June 1)	Principal Amounts	Interest Rates
1996	\$ 20,000	5.00%
1997	20,000	5.25
1998	165,000	5.45
1999	185,000	5.60
2000	200,000	5.75
2001	330,000	5.90
2002	350,000	6.00
2003	335,000	6.10
2004	360,000	6.20

2005	385,000	6.30
2006	405,000	6.35
2007	435,000	6.40
2012	2,660,000	6.60

; and

WHEREAS, the 1992 Bonds maturing on and after June 1, 2003 are callable in whole or in part on June 1, 2002 and on any interest payment date thereafter at a price of par plus accrued interest to the date of redemption; and

WHEREAS, federal tax law will permit only a portion of each such maturity to be advance refunded on a tax-exempt basis; and

WHEREAS, the City has reserved the right in each of the ordinances authorizing the issuance of the Outstanding Parity Bonds to issue revenue bonds in the future on a parity therewith (hereinafter defined as "Future Parity Bonds"); and

WHEREAS, the City has been assured that the conditions to the issuance of Future Parity Bonds have been met or will be met prior to the issuance of the bonds herein authorized; and

WHEREAS, the City has received the offer of Piper Jaffray Inc. to purchase the herein authorized bonds on the terms and conditions set forth herein and in their purchase offer presented to this Council, which terms and conditions this Council have found acceptable;

THE CITY COUNCIL OF THE CITY OF KIRKLAND, WASHINGTON, DO ORDAIN AS FOLLOWS:

#### ARTICLE I DEFINITIONS AND INTERPRETATION

Section 1.1. Definitions. As used in this ordinance the following words shall have the following meanings unless the context shall clearly indicate that another meaning is intended:

"Acquired Obligations" means the Government Obligations acquired by the City under the terms of this ordinance and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

"Advance Refunding Account" means the account by that name established within the Bond Fund pursuant to Section 8.1 of this ordinance.

"Adjusted Net Revenues" means Net Revenues as calculated pursuant to Section 4.4(H).

"Annual Debt Service" means, prior to the New Covenant Date, in any year, that year's total of principal and interest requirements for the then outstanding bonds (except the principal maturity of Term Bonds) to which the term Annual Debt Service refers, plus any mandatory sinking fund or mandatory bond redemption requirement for that year, less all capitalized interest payable that year from such bonds.

From and after the New Covenant Date, the term "Annual Debt Service" for any Fiscal Year shall mean the sum of:

(a) the interest due in such Fiscal Year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of Bonds,

(b) the principal of all outstanding Serial Bonds due in such Fiscal Year, and

(c) the Sinking Fund Requirement, if any, for such Fiscal Year (calculated as of the Sinking Fund Requirement Date for such Fiscal Year).

If the interest rate on any such Bonds is other than a fixed rate, the rate applicable at the time of computation shall be used.

"Average Annual Debt Service" means, prior to the New Covenant Date, in any year, the sum of the remaining Annual Debt Service of the then outstanding bonds to which the term Average Annual Debt Service refers divided by the number of years such bonds are scheduled to remain outstanding.

From and after the New Covenant Date, the term "Average Annual Debt Service" shall mean the amount determined by dividing (a) the sum of all interest and principal to be paid on outstanding Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of Fiscal Years from and including the Fiscal Year in which the determination is made to the last Fiscal Year in which the sum of (i) the principal amount of Serial Bonds maturing in such Fiscal Year plus (ii) the Sinking Fund Requirement for such Fiscal Year, exceeds 4% of the principal amount of Parity Bonds outstanding as of the date of determination.

If the interest rate on any such Bonds is other than a fixed rate, the rate applicable at the time of computation shall be used.

"Bond Fund" means the 1996 Water and Sewer Revenue Bond Redemption Fund, created pursuant to Section 7.2 of this ordinance for the purpose of paying and securing the principal of and interest on the Bonds.



"Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto.

"Bonds" means the \$3,725,000 par value of Water and Sewer Revenue Refunding Bonds, 1996, authorized to be issued by this ordinance.

"Bond Register" means the books or records maintained by the Bond Registrar containing the name and mailing address of the owner of each Parity Bond or nominee of such owner and the principal amount and number of Parity Bonds held by each owner or nominee.

"Bond Registrar" means the fiscal agencies of the State of Washington in Seattle, Washington, and New York, New York, as the same may be designated from time to time. A Supplemental Ordinance may appoint a different person, firm or entity to serve as Bond Registrar.

"City" means the City of Kirkland, Washington, a municipal corporation of the State of Washington.

"Closing" means the delivery of any Bonds to, and payment of the purchase price therefor by, the Underwriter.

"Code" means the federal Internal Revenue Code of 1986, as the same shall be amended from time to time, and all regulations promulgated or applicable thereunder.

"Commission" means the Securities and Exchange Commission.

"Council" means the legislative body of the City as the same shall be duly and regularly constituted from time to time.

"Coverage Requirement" means Net Revenues in each calendar year at least equal to 1.25 times the Maximum Annual Debt Service with respect to all Parity Bonds actually payable from Revenues.

"Director" means the duly appointed and acting Director of Administration and Finance of the City or the successor to the functions of such office.

"Escrow Agreement" means the Escrow Deposit Agreement to be dated as of the date of closing and delivery of the Bonds substantially in the form attached hereto as Exhibit A.

"Escrow Agent" means First Trust Washington, Seattle, Washington.

"Fiscal Year" means the fiscal year used by the City at any time. At the time of the passage of this ordinance, the Fiscal Year is the twelve-month period beginning January 1 of each year.

"Future Parity Bonds" means any water and sewer revenue bonds which the City may hereafter issue having a lien upon the Revenues equal to the lien of the Bonds and the Outstanding Parity Bonds upon the Revenues. "Future Parity Bonds" may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

"Government Obligations" has the meaning given such term in RCW Ch. 39.53 as it now reads or hereafter may be amended.

"Maximum Annual Debt Service" means highest dollar amount of Annual Debt Service in any fiscal year for all Parity Bonds and/or for all subordinate lien evidences of indebtedness secured by Revenues, as the context requires.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"1992 Bond Resolution" means Ordinance No. 3321 by the City on May 19, 1992.

"1992 Bonds" means the Water and Sewer Revenue Bonds, 1992, of the District issued under date of June 1, 1992, and presently outstanding in the aggregate principal amount of \$5,850,000.

"Refunded Bonds" means \$4,580,000 of the 1992 Bonds maturing after June 1, 2002.

"Net Revenue" means, prior to the New Covenant Date, Revenue of the System less Operating Expenses.

From and after the New Covenant Date, the term "Net Revenue" shall mean, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, litigation settlements, or resulting from the early extinguishment of debt, and (b) insurance proceeds.

"New Covenant Date" means the date on which the Outstanding Parity Bonds issued prior to 1995 are no longer outstanding.

"NRMSIR" means a nationally recognized municipal securities information repository.

"Operating Expense" means, prior to the New Covenant Date, all reasonable expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition and all payments made to another agency for treatment or disposal of sewage or acquisition of water, but excluding depreciation and any City-imposed utility taxes or payments in lieu of taxes.

From and after the New Covenant Date, the term "Operating Expenses" shall mean (i) the City's expenses for operation and maintenance of the System, and ordinary repairs, renewals, replacements and reconstruction of the System, including all payments (other than payments out of Bond proceeds) into reasonable reserves for items of Operating Expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, all costs of purchased water, payments made to another agency for the treatment or disposal of sewage (regardless of whether such costs include payments with respect to debt service), rents, administrative and general expenses, engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums and any taxes, assessments, or payments in lieu of taxes, all to the extent properly allocable to the System; (ii) any current expenses required to be paid by the City under the provisions of this ordinance or by law, all to the extent properly allocable to the System; and (iii) the fees and expenses of any Bond Registrar. Operating Expenses shall not include any costs or expenses for new construction or other capital outlays, interest, amortization of debt service on any evidence of indebtedness or any allowance for depreciation.

"Outstanding Parity Bonds" means those water and sewer revenue and refunding bonds identified in the recitals of this ordinance.

"Outstanding Parity Bond Ordinances" means Ordinance No. 3026, passed by the Council on June 22, 1987; Ordinance No. 3224, passed by the Council on September 18, 1990; Ordinance No. 3321, passed by the Council on May 19, 1992; and Ordinance No. 3482, passed by the Council on July 18, 1995.

"Parity Bonds" means the Bonds, the Outstanding Parity Bonds and any Future Parity Bonds.

"Professional Utility Consultant" means the independent person(s) or firm(s) selected by the City having a favorable reputation for skill and experience with water/sewer systems of comparable size and character to the System in such areas as are relevant to the purposes for which they are retained.

"Qualified Insurance" means any non-cancellable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance

companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group or both Moody's Investors Service, Inc., and Standard & Poor's Ratings Group if such institution is rated by both or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of one or more series of Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group or their comparably recognized business successors or both Moody's Investors Service, Inc. and Standard & Poor's Ratings Group if such institution is rated by both or their comparably recognized business successors.

"Reserve Fund" means the City's Water and Sewer Debt Service Reserve Fund created pursuant to Ordinance 3842 for the purpose of securing the payment of the principal of and interest on Parity Bonds.

"Reserve Requirement" means the amount equal to the Maximum Annual Debt Service.

"Revenues" means, prior to the New Covenant Date, all the earnings and revenue received by the System from any source whatsoever, except assessments in any ULID of the City, general ad valorem taxes, grants from the state or federal governments, proceeds from the sale of City property, bond proceeds and earnings subject to a federal tax or rebate requirement.

From and after the New Covenant Date, the term "Revenues" shall mean all income (including investment income), receipts and revenues derived by the City through the ownership and operation of the System, including assessments in ULIDs, but shall not include:

- (a) any income derived by the City through the ownership and operation of any facilities that may hereafter be purchased, constructed or otherwise acquired by the City as a separate utility system;
- (b) general ad valorem taxes;
- (c) grants;
- (d) proceeds of borrowing; or
- (e) investment income restricted to a particular purpose inconsistent with its use for the payment of debt service,



including investment income derived pursuant to a plan of debt retirement or refunding.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"Serial Bonds" means Parity Bonds other than Term Bonds.

"SID" means a state information depository for the State of Washington (if one is created).

"Sinking Fund Requirement" for any Fiscal Year means the principal amount of Term Bonds required to be purchased, redeemed or paid in such Fiscal Year as established by the ordinance of the City authorizing the issuance of such Term Bonds.

"Sinking Fund Requirement Date" means, for any Fiscal Year, the date by which the Sinking Fund Requirement for such Fiscal Year must be met, which with respect to the Term Bonds shall be June 1.

"Supplemental Ordinance" means any ordinance amending, modifying or supplementing the provisions of this ordinance, including any ordinance providing for the issuance of Future Parity Bonds.

"System" means the combined water supply and distribution system and sanitary sewage disposal system of the City, together with all additions thereto and betterments and extensions thereof heretofore or hereafter made.

"Term Bonds" means those Parity Bonds specifically identified as "Term Bonds" in the ordinance authorizing their issuance.

"ULID" means a utility local improvement district.

"ULID Assessments" means all ULID assessments and installments thereof, plus interest and penalties thereon payable into a bond fund to secure the payment of any Parity Bonds.

"Water/Sewer Fund" means the Water/Sewer Operating Fund of the City.

#### Section 1.2. Interpretation.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words imparting the singular number shall include the plural numbers and vice versa unless the context shall otherwise indicate. Reference to Articles, Sections and other subdivisions of this ordinance are to the Articles, Sections and other subdivisions of this ordinance as originally adopted

unless expressly stated to the contrary. The headings or titles of the Articles and Sections hereof, and the Table of Contents appended hereto, are for convenience of reference only and shall not define or limit the provisions hereof.

## ARTICLE II FINDINGS AND DETERMINATIONS

Section 2.1. Adoption of Refunding Plan. The purpose of this ordinance is to authorize the issuance and sale of not to exceed \$3,725,000 of water and sewer revenue refunding bonds to provide moneys, together with funds to be provided by the City, to refund selected amounts of the 1992 Bonds maturing on and after June 1, 2003 (the "Refunded Bonds"), to pay costs of issuance, including but not limited to bond insurance, and to pay the interest on and principal of all outstanding Refunded Bonds on June 1, 2002, and to fix the form, terms, conditions and covenants of said revenue refunding bonds (the "Refunding Plan").

Section 2.2. Best Interest of the City.

The Council hereby finds and determines that it is in the best interests of the City to undertake the Refunding Plan.

Section 2.3. Due Regard.

The Council hereby finds and determines that due regard has been given to the cost of the operation and maintenance of the System and that it has not obligated the City to set aside into the bond funds for the account of Parity Bonds a greater amount of the revenues and proceeds of the System than in its judgment will be available over and above such cost of maintenance and operation.

Section 2.4. Satisfaction of Parity Conditions. The City Council hereby finds and determines, as required by the Outstanding Parity Bond Ordinances, as follows:

First, at this time and the time of issuance of the Bonds, there is and will be no deficiency in any account in the bond funds established for the payment of the Outstanding Parity Bonds or the Reserve Fund;

Second, this ordinance provides that all ULID Assessments shall be paid directly into the a bond fund for Parity Bonds;

Third, this ordinance provides for the payment of the principal of the Bonds and the interest thereon from the Bond Fund;

Fourth, this ordinance requires that the Reserve Requirement shall be met within three years; and

Fifth, the City Council hereby determines that the Refunding Plan will effect a substantial saving between the principal and interest costs over the life of the Bonds and the principal and interest costs over the life of the outstanding Refunded Bonds.

ARTICLE III  
AUTHORIZATION AND ISSUANCE OF BONDS

Section 3.1. Authorization of Bonds.

For the purpose of accomplishing the Refunding Plan and paying costs of issuance, there are hereby authorized to be issued \$3,725,000 aggregate principal amount of Water and Sewer Revenue Refunding Bonds, 1996 (the "Bonds"), which shall bear interest from their date at such rates per annum and shall mature on June 1 of years and in such amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1998	\$ 20,000	3.90%
1999	35,000	4.00
2000	35,000	4.10
2001	35,000	4.15
2002	40,000	4.25
2003	210,000	4.30
2004	225,000	4.40
2005	250,000	4.50
2006	280,000	4.65
2007	330,000	4.70
2008	345,000	4.80
2009	360,000	4.90
2010	375,000	5.00
2011	580,000	5.10
2012	605,000	5.20

Section 3.2. Additional Provisions of Bonds.

The Bonds shall be dated March 1, 1996, shall be fully registered as to both principal and interest, shall be in denominations of \$5,000 or any integral multiple thereof, provided that no Bond shall represent more than one maturity, and shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification.

Interest may be paid by the Bond Registrar. Principal of the Bonds, at maturity or when otherwise due, shall be payable upon due presentation and surrender of the Bonds at the office of the Bond Registrar in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts. The principal of and interest on the Bonds shall be payable solely from the Bond Fund.

Interest on the Bonds shall be payable semiannually on June 1 and December 1 of each year, beginning June 1, 1996.

The Bond Register shall be maintained by the Bond Registrar, and shall contain the name and mailing address of the registered owner or owners of each Bond or nominee of such registered owner or owners and the principal amount and number of Bonds held by each registered owner or nominee.

Section 3.3. Reservation of Right to Purchase.

The City reserves the right to use moneys in the Water/Sewer Fund or any other funds legally available therefor at any time to purchase any of the Bonds offered to it for retirement only if such purchase shall be found by the Director to be economically advantageous and in the best interest of the City.

Any purchases of Bonds may be made with or without tenders of Bonds and at either public or private sale. All Bonds so purchased or redeemed shall be cancelled and not reissued. Any moneys which are to be applied to the purchase or redemption of Bonds shall, prior to such purchase or redemption, be transferred to and deposited in the Bond Fund to the credit of the appropriate account therein.

Section 3.4. Optional Redemption of Bonds.

The Bonds maturing on or after June 1, 2007 are subject to redemption prior to maturity, at the option of the City, on or after June 1, 2006, in whole or in part on any date, upon written notice mailed as provided in Article VI of this ordinance, at a price of par plus interest accrued thereon to the date fixed for redemption.

If fewer than all of the Bonds subject to optional redemption are so called for redemption, the City shall choose the maturities to be redeemed. If less than the whole of a maturity is so called for redemption, the Bond Registrar shall choose by lot the Bonds to be redeemed.

In the case of any redemption of Bonds at the election or direction of the City, the City shall give written notice to the Bond Registrar, at least 45 days prior to the date of redemption, of the principal amounts of the Bonds of each maturity to be redeemed (all of which shall be determined by the City in its sole discretion, subject to the provisions of this ordinance).

For the purpose of selection of Bonds for redemption, each \$5,000 of principal amount of Bonds shall be treated as a separate Bond.

ARTICLE IV  
ISSUANCE OF FUTURE PARITY BONDS

Section 4.1 Effect of New Covenant Date. Prior to the New Covenant Date, the City may issue Future Parity Bonds upon compliance with the conditions set forth in Section 4.2 as well as the conditions set forth in the subsequent sections of this Article IV. From and after the New Covenant Date, the City may issue Future Parity Bonds upon compliance with the conditions set forth in Sections 4.3 and the subsequent sections in this Article IV.

Section 4.2. Provisions for Future Parity Bonds. The City further covenants with the owner of each of the Outstanding Parity Bonds for as long as any of the same are outstanding that it will not create any special fund or funds for the payment of the principal of and interest on any other revenue bonds which will have any priority over or which will rank on a parity with the payments required by this ordinance to be made out of the Revenues and ULID Assessments, nor will it issue Future Parity Bonds, except that it reserves the right for

First, the purpose of acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary equipment for, or making necessary replacements of or repairs or capital improvements to the System pursuant to a plan or plans of additions and betterments thereto hereafter adopted, or

Second, the purpose of refunding by exchange or purchasing and retiring or advance refunding by call and payment at or prior to their maturity any part or all of the outstanding Bonds or Parity Bonds,

to issue additional and/or refunding revenue bonds therefor, and to make payments into the Bond Fund from the Revenues and ULID Assessments sufficient to pay the principal of and interest on such Future Parity Bonds and to accumulate and maintain a reserve therefor as hereinafter required, which payments may rank equally with the payments out of the Revenue of the System and ULID Assessments required to be made into the Bond Fund by this ordinance, if the conditions and requirements set forth in the Outstanding Parity Bond Ordinances are met and complied with at the time of the issuance of such Future Parity Bonds, which sections by this reference are incorporated herein and made a part hereof.

Nothing contained in the provisions for Future Parity Bonds shall prevent the City from issuing revenue bonds or other obligations having a junior lien on the Revenues or from pledging the payment of assessments in any ULID into a bond, note, or warrant redemption fund or account created to pay and secure the payment of the principal of and interest on such junior lien obligations as long as such assessments are levied to pay part or all of the cost of improvements being constructed out of the

proceeds of the sale of such junior lien obligations. Neither shall anything contained in this ordinance prevent the City from issuing revenue bonds to refund maturing revenue obligations of the City for the payment of which money is not otherwise available.

Section 4.3. Authorization of Bonds.

Before any series of Future Parity Bonds shall be issued under the provisions of this Section and the remaining sections of this Article, the City shall adopt an ordinance or ordinances authorizing the issuance of such bonds, fixing the amount and the details thereof, describing in brief and general terms the purpose or purposes for which such bonds are to be issued and specifying the amount, if any, of the proceeds of such bonds to be deposited to the credit of the construction or project fund created with respect to such bonds or to another fund for the payment of capitalized interest on such bonds and to the Reserve Fund; provided, however, that deposits to the Reserve Fund shall be made as required under Section 7.2.D hereof. The bonds of each series issued under the provisions of this Section shall be designated "Water and Sewer Revenue Bonds," and may include an additional designation identifying the year of issuance, shall be in such denominations, shall be dated, shall bear interest at a rate or rates (including variable rates) not exceeding the maximum rate then permitted by law, shall be payable, both as to principal and interest, at such place or places, shall mature in such year or years, shall be made redeemable at such times and prices (subject to the provisions of this ordinance), shall be numbered, shall have such Bond Registrar, and any Term Bonds of such series shall have such amortization requirements, all as may be provided by ordinance or ordinances approved by the City prior to the issuance of such bonds.

Section 4.4. Future Parity Bonds.

A. Future Parity Bonds may be issued on a parity with the Bonds and secured by an equal charge and lien on the Revenues pledged to the Bond Fund for any lawful purpose of the City, including the refunding of outstanding Bonds; provided that, (i) except as to Bonds issued pursuant to Section 4.4E hereof, at the time of the issuance of such Future Parity Bonds, there is no deficiency in the any bond fund securing the repayment of Parity Bonds, and no Event of Default has occurred and is continuing, and (ii) the requirements of the applicable provisions of this Section 4.4 are complied with.

B. Future Parity Bonds may be issued for any lawful purpose of the City if the following requirements are met. A certificate signed by the Director of Administration and Finance shall set forth:

(1) the amount of the Net Revenues for any 12 consecutive months of the 36 months prior to the date of the issuance of such Bonds;

(2) the amount of the Maximum Annual Debt Service in any Fiscal Year thereafter on account of all Parity Bonds then outstanding under this ordinance and the Future Parity Bonds then to be issued hereunder; and

(3) the percentage derived by dividing the amount shown in (i) above by the amount shown in (ii) above, and shall state that such percentage is not less than 125%;

C. Future Parity Bonds may also be issued for any lawful purpose of the City if the following requirements are met. A certificate signed by a Professional Utility Consultant and filed with the City Clerk shall set forth:

(1) the amount of the Adjusted Net Revenues computed as provided in Section 4.2.I;

(2) the amount of the Maximum Annual Debt Service thereafter on account of all Parity Bonds then outstanding under this ordinance and the Future Parity Bonds then to be issued hereunder; and

(3) as to the applicable Fiscal Year under (ii) above, the percentage derived by dividing the amount shown in (i) above by the amount shown in (ii) above, and shall state that such percentage is not less than 125%.

Future Parity Bonds may be issued pursuant to Subsections E and F of this Section 4.4 without complying with the provisions of this Subsection C.

D. Future Parity Bonds may also be issued for the purpose of paying part of the costs of the System for which Parity Bonds have theretofore been issued, if a certificate is signed by a Professional Utility Consultant and filed with the City Clerk, which shall comply with the requirements of paragraph C above or shall state that the issuance of such Future Parity Bonds is necessary to complete such facilities and that the completion is necessary for the efficient and economic operation of the System.

E. Future Parity Bonds may also be issued from time to time for the purpose of providing funds, together with any other available funds, for retiring at or prior to their maturity or maturities any or all of the outstanding Parity Bonds of any series, including the payment of any redemption premium thereon, and, if deemed necessary by the City, for paying the interest to accrue thereon to the date fixed for their retirement and any expenses incident to the issuance of such Future Parity Bonds.

F. Future Parity Bonds issued under subsections E above shall not be delivered unless the proceeds (excluding any accrued interest

but including any premium) of such Future Parity Bonds, together with any other moneys that have been made available for such purposes, and the principal of and the interest on the investment of such proceeds or any such moneys, shall be sufficient to pay the principal of and the redemption premium, if any, on the Parity Bonds to be refunded and the interest that will become due and payable on or prior to the date of their payment or redemption, and the expenses incident to the issuance of such Future Parity Bonds.

If such Future Parity Bonds are to be issued pursuant to Section 4.4.F above,

(1) there shall be filed with the City a certificate signed by the Director showing that the Annual Debt Service for any Fiscal Year thereafter shall not be increased by more than \$5,000 by reason of the issuance of the Future Parity Bonds, or

(2) There shall be filed with the City a certificate signed by a Professional Utility Consultant setting forth:

(i) the amount of the Adjusted Net Revenues computed as provided in Section 4.2.I;

(ii) the amount of the Maximum Annual Debt Service in any Fiscal Year thereafter on account of all Parity Bonds to be outstanding in such Fiscal Year and the Future Parity Bonds then to be issued hereunder; and

(iii) stating that the amount shown in (a) above is not less than 125% of the amount shown in (b) above.

G. In rendering any certificate under this Section, the Professional Utility Consultant may rely upon, and such certificate shall have attached thereto, (1) financial statements of the System, certified by the Director of Administration and Finance thereof, showing income and expenses for the period upon which the same are based and a balance sheet as of the end of such period, or (2) similar certified statements by the Division of Municipal Corporations of the Office of the State Auditor of the State of Washington (or any successor thereto), or (3) similar certified statement by an independent certified public accountant, if any, for as much of said period as any examination by them has been made and completed. If two or more of such statements are inconsistent with each other, the Professional Utility Consultant shall rely on the statement described under (1) above.

In connection with the issuance of any Bonds pursuant to subsections 4.4.C, 4.4.D and 4.4.G of this Section, the certificate of the Professional Utility Consultant hereinabove referred to shall be conclusive and the only evidence required to show compliance with the provisions and requirements of said subsection.



H. For the purposes of the certificates required by Sections 4.4.C and 4.4.G of this ordinance, Adjusted Net Revenues shall be computed by the Professional Utility Consultant as follows:

(1) The Net Revenues for any 12 consecutive months (selected by the City) out of the 36 months prior to the date of issuance of the Future Parity Bonds (such 12-month period being herein called the "Base Period") may be adjusted:

(i) to reflect any changes in Net Revenues for the Base Period which would have occurred if the schedule of rates and charges in effect at the time of the computation (or approved by the Council as of the time of such computation and to become effective within 12 months thereof) had been in effect during the portion of the Base Period in which such schedule was not in effect;

(ii) to reflect a full 12 months of Net Revenues from any customers of the System added prior to the computation date; and

(iii) to reflect any changes in Net Revenues estimated as a result of, and upon completion of, any facilities under construction or to be acquired, constructed or installed as a part of the System from the proceeds of any Bonds.

I. Nothing contained herein shall prevent the City from refunding at one time all of the Parity Bonds then outstanding. Nothing contained herein shall prevent the City from issuing obligations payable from a lien on the Revenues that is junior and inferior to Parity Bonds.

J. Future Parity Bonds may be issued from time to time without complying with the requirements set forth above if, in the opinion of the Professional Utility Consultant, as evidenced by a certificate filed with the City, it is necessary to repair any damage or loss to the System or if the System has been destroyed or damaged by disaster or unanticipated event to such an extent that it cannot be operated; provided, however, that the proceeds of any Future Parity Bonds issued for such purpose may only be used to return the System to, or to maintain the System at, substantially its former or then operating capacity; and provided further, that in the case of repair, such Future Parity Bonds may be issued only to the extent that insurance proceeds from such damage or loss are insufficient for the accomplishment of such purpose.

K. In calculating Annual Debt Service for purposes of this Section, if the interest rate on any Parity Bonds is other than a fixed rate, the rate applicable at the time of computation shall be used unless such rate is less than the most recently published *Bond Buyer's Revenue Bond Index* for municipal revenue bonds, in which case the rate stated by such

index shall be used. If such index is no longer published, another nationally recognized index for municipal revenue bonds maturing in 20 to 30 years shall be used.

## ARTICLE V GENERAL TERMS AND PROVISIONS OF PARITY BONDS

### Section 5.1. Execution and Payment of Parity Bonds.

The Bonds and, except as otherwise provided in the Supplemental Ordinance providing for the issuance thereof, Future Parity Bonds shall be executed on behalf of the City with the manual or facsimile signature of the Mayor and attested with the manual or facsimile signature of the City Clerk or the Director of Administration and Finance; and the seal of the City shall be impressed or imprinted on each of the Parity Bonds. In case any of the officers who shall have signed, attested or registered any of the Parity Bonds shall cease to be such officer before such Parity Bonds have been actually issued and delivered, such Parity Bonds shall be valid nevertheless and may be issued by the City with the same effect as though the persons who had signed, attested or registered such Parity Bonds had not ceased to be such officers. The Parity Bonds of each series shall be payable as to principal, premium, if any, and interest in lawful money of the United States of America and, except as otherwise provided in Section 5.6 shall be payable at the principal office of the Bond Registrar of the City for such series of Parity Bonds.

Only such Parity Bonds as shall bear thereon a Certificate of Authentication in the form set forth in Section 13.2 of this ordinance, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Parity Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this ordinance.

### Section 5.2. Ownership of Parity Bonds.

The City, the Bond Registrar and any other person may treat the registered owner of any Parity Bond as the absolute owner of such Parity Bond for the purpose of paying the principal thereof, and premium, if any, and interest thereon and for all other purposes, and neither the City nor the Bond Registrar shall be bound by any notice or knowledge to the contrary, whether such Parity Bond or the interest thereon shall be overdue or not. All payments of or on account of interest to any registered owner (or to his registered assigns), and all payments of or on account of principal to any registered owner of any Parity Bond, shall be valid and effectual and shall be a discharge of the City and Bond Registrar in respect of the liability upon the Parity Bonds or claims for principal or interest, as the case may be, to the extent of the sum or sums paid.

### Section 5.3. Bond Registrar.

The City hereby adopts for the Bonds the system of registration specified and approved by the Washington State Finance Committee. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance. Ordinance No. 2758 of the City shall hereafter be effective only with respect to the Outstanding Parity Bonds.

The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bonds. The Bond Registrar may become the owner of Bonds with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond owners.

### Section 5.4. Transfers and Exchanges.

Upon surrender thereof to the Bond Registrar, the Bonds are interchangeable for Bonds in any authorized denomination of equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Such exchange or transfer shall be without cost to the owner or transferee.

In every case of an exchange of Parity Bonds and of a transfer of any Parity Bond, the surrendered Parity Bonds shall be held by the Bond Registrar and a certificate evidencing such exchange or transfer shall be promptly transmitted by the Bond Registrar to the City. All Parity Bonds surrendered for exchange or transfer shall be cancelled and a certificate evidencing such cancellation shall be promptly transmitted to the City. All Parity Bonds executed and delivered in exchange for or upon transfer of Parity Bonds so surrendered shall be valid obligations of the City evidencing the same debt as the Parity Bonds surrendered, and shall be entitled to all the benefits and protection of this ordinance to the same extent as the Parity Bonds in exchange for, or upon transfer for, which they were executed and delivered.

### Section 5.5. Payment of Parity Bonds and Interest.

The Parity Bonds of each series may be presented for payment at the principal office of any of the Bond Registrar for such series of Parity Bonds.

The principal of all Parity Bonds of a series shall be payable at the principal office of any Bond Registrar for such series of Parity Bonds. Payment of the interest on each Parity Bond shall be made on each interest payment date by check or draft drawn upon one of the Bond Registrar therefor and mailed by first class mail to the registered owner at his address as it appears on the Parity Bond Register as of the 15th day of the month preceding the interest payment date. Upon request of a registered owner of at least \$1,000,000 in principal amount of Parity Bonds, payment shall be made by wire transfer to an account designated by such owner.

All Parity Bonds upon the payment thereof shall be cancelled and destroyed by the Bond Registrar. A certificate evidencing such payment, cancellation and destruction shall be promptly transmitted by the Bond Registrar to the City.

Section 5.6. Lost, Stolen, Destroyed or Mutilated Parity Bonds.

In case any Parity Bond shall at any time become mutilated or be lost, stolen or destroyed, the City in the case of such mutilated Parity Bond shall, and in the case of such a lost, stolen or destroyed Parity Bond, in its discretion may, execute and deliver a new Parity Bond of the same series, interest rate and maturity and of like tenor and effect in exchange or substitution for and upon the surrender or cancellation of such mutilated Parity Bond, or in lieu of or in substitution for such destroyed, stolen or lost Parity Bond or if such stolen, destroyed or lost Parity Bond shall be matured, instead of issuing a substitute therefor, the City may at its option pay the same without the surrender thereof. Any such exchange or substitution shall be accomplished in accordance with RCW Chapter 39.72, as the same shall be amended from time to time, or any successor statute thereto. Except in the case where a mutilated Parity Bond is surrendered, the applicant for the issuance of a substitute Parity Bond shall furnish to the City evidence satisfactory to it of the theft, destruction or loss of the original Parity Bond, and of the ownership thereof, and also such security and indemnity as may be required by the City, and no such substitute Parity Bond shall be issued unless the applicant for the issuance thereof shall reimburse the City for the expenses incurred by the City in connection with the preparation (including printing), execution, issuance and delivery of the substitute Parity Bond. Any such substitute Parity Bond shall be equally and proportionately entitled to the security of this ordinance with all other Parity Bonds issued hereunder, whether or not the Parity Bond alleged to have been lost, stolen or destroyed shall be found at any time or enforceable by anyone. The City shall advise the Bond Registrar of the issuance of substitute Parity Bonds. All mutilated Parity Bonds so surrendered to the City shall be cancelled by it.

Section 5.7. Limitations on Duty to Register, Exchange or Transfer Parity Bonds.

Neither the City nor the Bond Registrar shall be required (a) to issue, transfer or exchange Parity Bonds for a period of 15 days next preceding any interest payment date therefor; (b) to issue, register, discharge from registration, transfer or exchange Parity Bonds for a period of ten days thereafter; or (c) to register, discharge from registration, transfer or exchange any Parity Bonds which have been designated for redemption within a period of 30 days next preceding the date fixed for redemption.

Section 5.8. Paid or Surrendered Parity Bonds Not to be Reissued.

No Parity Bonds shall be issued in lieu of Parity Bonds surrendered upon exchange or transfer, except as expressly provided by this ordinance; provided that the City reserves the right to account for any Parity Bonds redeemed at the option of the registered owner thereof prior to maturity pursuant to the Supplemental Ordinance authorizing the issuance of such Parity Bonds as having been purchased by the City and eligible for resale or reissuance (including the issuance of substitute Parity Bonds).

Section 5.9. CUSIP Identification Numbers.

At the sole option of the City, CUSIP identification numbers may be printed on the Parity Bonds of any series of Parity Bonds, but no such number shall be deemed to be a part of any Parity Bond or a part of the contract evidenced thereby, and no liability shall hereafter attach to the City or any officer or agent thereof (including the Bond Registrar) because of or on account of said CUSIP identification numbers or any use made thereof.

Section 5.10. Issuance of Coupon or Bearer Bonds.

The City reserves the right to amend and modify the provisions of this ordinance and to include in any Supplemental Ordinance authorizing the issuance of Future Parity Bonds provisions relating to the issuance of Parity Bonds in bearer or coupon form if state and federal law permit such issuance; provided always that no changes can be made that would, in the opinion of bond counsel, impair the obligation of the City to carry out its other promises, covenants, warranties and representations hereunder nor in any way impair its obligation to pay the principal of, premium, if any, or interest on any Parity Bonds or any Future Parity Bonds or affect the tax-exempt status of any Parity Bonds or any Future Parity Bonds.

Section 5.11. Temporary Bonds.

Any Bonds of any series may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Parity Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this ordinance as may be appropriate. Every temporary Parity Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Parity Bonds. If the City issues temporary Parity Bonds, it will execute and furnish definitive Parity Bonds without delay, and thereupon the temporary Parity Bonds may be surrendered for cancellation at the corporate trust office of the Bond Registrar and the Bond Registrar shall deliver in exchange for such temporary Parity Bonds so surrendered an equal aggregate principal amount of definitive Parity Bonds of like principal amount and in authorized denominations of the same series, maturity or maturities, interest rate or rates. Until so exchanged, the temporary Parity Bonds shall be entitled to the same benefits under this ordinance as definitive Parity Bonds delivered under this ordinance.

ARTICLE VI  
REDEMPTION OF PARITY BONDS

Section 6.1. Notice of Redemption.

Written notice of any redemption of Parity Bonds shall be given by the City, which notice shall specify the title, series, maturities, letters and numbers or other distinguishing marks of the Parity Bonds to be redeemed, the redemption date and the place or places where the amount due upon such redemption will be payable and, in the case of registered Parity Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that upon the date fixed for redemption there shall become due and payable upon each Parity Bond to be redeemed the principal amount thereof plus the premium, if any, due thereon upon the said redemption date, together with interest accrued to the redemption date, and that from and after the redemption date interest thereon, or on the portion of any Parity Bond to be redeemed in part (unless the City shall default in the payment of the Parity Bonds, or of the portion of any Parity Bond so to be redeemed in part) shall cease to accrue and become payable. Such notice shall be mailed by first class mail, postage prepaid, not less than 30 days nor more than 60 days before the redemption date to the registered owners of Parity Bonds which are to be redeemed in whole or in part at their last addresses, if any, appearing upon the Bond Register. Whenever notice of redemption has been duly given as herein provided, the City shall transfer to the Bond Registrar or Bond Registrar for the Parity Bonds so to be redeemed amounts in cash which, in addition to other moneys, if any, held by such Bond Registrar or Bond Registrar for such purpose, will be sufficient to redeem, on the redemption date, the Parity Bonds so to be redeemed.

In addition to the foregoing notice, further notice may be given by the City as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

(i) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Parity Bonds being redeemed; (ii) the date of issue of the Parity Bonds as originally issued; (iii) the rate of interest borne by each Parity Bond being redeemed; (iv) the maturity date of each Parity Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(ii) Each further notice of redemption may be sent at least 35 days before the redemption date by registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Parity Bonds to the NRMSIRs and SID, if any, and shall be sent to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

(iii) Upon the payment of the redemption price of Parity Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Parity Bonds being redeemed with the proceeds of such check or other transfer.

The foregoing notice provisions of this Section 6.1, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 6.2. Payment of Redeemed Parity Bonds: When Interest on Bonds Called for Redemption Ceases to Accrue.

Notice having been given by mailing in the manner provided in Section 6.1 hereof, the Bonds or portions thereof so called for redemption, together with accrued interest to the date fixed for redemption, shall become due and payable on the redemption date designated in said notice, and the Bond Registrar shall make payments thereof upon presentation and surrender thereof at the offices of the Bond Registrar specified in such notice together with, in the case of Parity Bonds for which payment is requested by a person other than the registered owner, a written instrument of transfer in form satisfactory to

the Bond Registrar, duly executed by the registered owner or his duly authorized attorney. In the event there shall be selected for redemption fewer than all of the Parity Bonds represented by a Parity Bond, the City shall execute and the Bond Registrar shall deliver upon the surrender of such Parity Bond without charge to the owner thereof, for the unredeemed balance of the principal amount of the Parity Bond so surrendered, a Parity Bond or Parity Bonds of the same series, interest rate and maturity, in either the denomination of such unredeemed balance or in any of the authorized denominations as shall be requested by the registered owner of the Parity Bond so surrendered; provided, however, that the City may, upon written agreement with the owner of any Parity Bond, make payment of the redemption price of a portion of such Parity Bond directly to the registered owner thereof without presentation or surrender thereof upon such terms and conditions as the City may consent to in such agreement. The Bond Registrar shall be advised by the City of each such agreement and shall be entitled to rely thereon, and to make payments in accordance therewith, until notified by the City of the termination of such agreement.

If moneys for the redemption of all the Parity Bonds, or portions thereof, to be redeemed on any redemption date, together with the interest to the redemption date, shall be held by the Bond Registrar so as to be available therefor on the date fixed for the redemption thereof, and if notice of redemption of said Parity Bonds shall have been mailed as provided in this Article, then from and after the redemption date, interest on the Parity Bonds or portions thereof so called for redemption shall cease to accrue and become payable, and all Parity Bonds or portions thereof so called for redemption shall be payable solely from the moneys set aside for the payment thereof with the Bond Registrar, and said Parity Bonds or portions thereof shall no longer be secured by the lien on and pledge of the Revenues herein created for the security and payment thereof; *provided, however*, that such lien and pledge shall continue in full force and effect as to the portion of any Parity Bond not called for redemption. If moneys shall not be available for the payment of such Parity Bonds or portions thereof as shall have been called for redemption, such Parity Bonds or portions thereof shall continue to bear interest until paid at the rate they would have borne had they not been called for redemption and shall continue to be secured by the lien on and pledge of the Revenues herein created for the security and payment thereof.

### Section 6.3. Optional Redemption or Purchase of Parity Bonds.

In the event that moneys available therefor are to be applied to the purchase or redemption of Parity Bonds, and if more than one series of Bonds shall then be outstanding hereunder, the City shall determine from which series such purchases or redemptions shall be made and may elect that all such purchases or redemptions shall be made from only one series or from more than one series. Any such purchases of Parity Bonds may be made with or without tenders of Parity Bonds and at either public or private sale. All Parity Bonds so purchased or redeemed shall be



cancelled and not reissued. Any moneys which are to be applied to the purchase or redemption of Parity Bonds shall, prior to such purchase or redemption, be transferred to and deposited in the Bond Fund to the credit of the appropriate account therein.

In the case of any redemption of bonds at the election or direction of the City, the City shall give written notice to the Bond Registrar, at least 45 days prior to the date of redemption, of the series and the principal amounts of the Parity Bonds of each maturity of such series to be redeemed (all of which shall be determined by the City in its sole discretion, subject to this ordinance). In the event notice of redemption shall have been given as provided above, the Bond Registrar shall pay on the redemption date, out of moneys available therefore held by the Bond Registrar, the redemption price thereof, plus interest accrued and unpaid to the redemption date on the Bonds to be redeemed.

ARTICLE VII  
CREATION OF SPECIAL FUNDS AND ACCOUNTS AND  
PAYMENTS THEREFROM

Section 7.1. Water/Sewer Fund.

A. The City currently maintains the Water/Sewer Operating Fund (the "Water/Sewer Fund"). The Water/Sewer Fund shall be maintained and continued in existence, and shall be held and administered by the City. The City covenants and agrees that it will pay or cause to be paid all Revenues into the Water/Sewer Fund as promptly as practicable after receipt thereof.

B. The Revenues of the City shall be deposited and credited to the following accounts in the Water/Sewer Fund and used only for the following purposes and in the following order of priority:

(1) All Revenues paid into the Water/Sewer Fund shall be applied as follows:

- (i) to pay Operating Expenses;
- (ii) to make all payments required to be made for the payment of accrued interest on Parity Bonds on the next interest payment date;
- (iii) to make all payments required to be made for the payment of the principal amount of Serial Bonds next coming due, and for the mandatory redemption of Term Bonds;
- (iv) to make all payments required to be made into the Reserve Fund;

(v) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any revenue bonds, warrants or other revenue obligations of the City having a lien upon Revenues and moneys in the Water/Sewer Fund therein junior and inferior to the lien thereon for the payment of the principal of and interest on the Bonds; and

(vi) to make additions, betterments, extensions, renewals, replacements and other capital improvements to the System, to purchase and/or retire Parity Bonds, or for any other lawful purpose of the City.

Nothing contained in this Section 7.1 shall be construed to require the deposit into the Water/Sewer Fund of any of the revenues, income, receipts or other moneys of the City derived by the City through the ownership or operation of any separate utility system hereafter created or established from funds other than the proceeds of Parity Bonds.

#### Section 7.2. Bond Fund.

A special fund of the City is hereby authorized to be created to be designated the "1996 Water and Sewer Revenue Bond Redemption Fund" (hereinafter referred to as the "Bond Fund"). The Bond Fund shall be held in trust and administered by the City and shall be used solely for the purposes of paying the principal of, premium, if any, and interest on the Bonds, and retiring the Bonds prior to maturity in the manner herein provided. The City hereby obligates and binds itself irrevocably to set aside and to pay (to the extent not otherwise provided) from moneys in the Water/Sewer Fund into the Bond Fund, after paying or making provision for Operating Expenses and prior to the payment of any other charge or obligation against such Revenues, amounts sufficient to pay the principal of, premium, if any, and interest on all the Bonds from time to time outstanding as the same respectively become due and payable, either at the maturity thereof or in accordance with the terms of any Sinking Fund Requirement established for the retirement of Term Bonds. The fixed amounts to be paid into the Bond Fund, to the extent that such payments are not made from Bond proceeds or from other moneys which may legally be available therefor, shall be as follows and in the following order of priority:

A. No later than the last day of the month of March 1996 and on or before the 25th day of each month thereafter, the City shall pay from the Water/Sewer Fund into the Bond Fund an amount such that, if the same amount were so paid and credited to the Bond Fund on the 25th day of each of the months preceding the next date upon which an installment of interest falls due on Bonds, the aggregate of the amounts so paid and credited to the Bond Fund would on such date be equal to the installment of interest then falling due on all Bonds then outstanding.

B. No later than the 25th day of the March 1996, and on or before the 25th day of each month thereafter, the City shall pay from the Water/Sewer Fund into the Bond Fund an amount such that, if the same amount were so paid and credited to the Bond Fund on the 25th day of each succeeding month thereafter and prior to such Serial Bond maturity date, the aggregate of the amounts so paid and credited to the Bond Fund would on such date be equal to the principal amount of Serial Bonds then falling due.

C. A Reserve Fund is hereby authorized to created for the purpose of securing the repayment of all Parity Bonds (the "Reserve Fund"). On or prior to February 1, 1999, the City shall have on deposit (by approximately equal monthly payments) in the Reserve Fund an amount equal to the Reserve Requirement. In the event of the issuance of any Future Parity Bonds, the Supplemental Ordinance authorizing the issuance of such Future Parity Bonds shall provide for approximately equal monthly payments into the Bond Fund for credit to the Reserve Fund from the moneys in the Water/Sewer Fund, in such amounts and at such times so that by no later than three years from the date of issuance of such Future Parity Bonds the Reserve Fund will be increased to an amount equal to the Reserve Requirement at the date of issuance of such Future Parity Bonds; provided, however, that the proceedings authorizing the issuance of Future Parity Bonds may provide for payments into the Reserve Fund from the proceeds of such Future Parity Bonds or from any other moneys lawfully available therefor, in which event, in providing for deposits and credits required by the foregoing provisions of this paragraph, allowance shall be made for any such amounts so paid into such Fund.

In making the payments and credits to the Bond Fund and Reserve Fund required by Bond Ordinance 3842 and now fully funded, to the extent that such payments are made from Bond proceeds, from moneys in any capitalized interest account, or from other moneys which may legally be available, such payments are not required to be made from the Water/Sewer Fund .

Following the New Covenant Date, the City may elect to meet the requirements of this Section 7.2.C with respect to the Reserve Fund through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device currently rated in one of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group. The City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Bonds.

In the event that the City elects additionally to secure any issue of Future Parity Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device, the City may contract with the entity providing such Qualified Letter of

Credit, Qualified Insurance or other equivalent credit enhancement device that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with outstanding Parity Bonds; provided that the payments due under such reimbursement agreement are such that if such reimbursement obligation were a series of Future Parity Bonds, such Bonds could be issued in compliance with the provisions of Article IV hereof.

In making the payments and credits to the Reserve Fund to the extent that the City has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the Reserve Fund, such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Bond Reserve Fund by this Section 7.2.C to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution. Upon the expiration of any Qualified Letter of Credit or the termination of any Qualified Insurance, the Reserve Fund shall be funded in accordance with the third paragraph of this Section 7.2.C as if the Parity Bonds that remain outstanding had been issued on the date of such notice of expiration or termination.

D. In the event that there shall be a deficiency in the Bond Fund, the City shall promptly make up such deficiency from the Reserve Fund by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Fund, if necessary, in such amounts as will provide cash in the Reserve Fund sufficient to make up any such deficiency. The City covenants and agrees that any deficiency created in the Reserve Fund by reason of any withdrawal therefrom for payment into the Bond Fund shall be made up from moneys in the Water/Sewer Fund first available after making provision first for payment of Operating Expenses and then for the required payments into the Bond Fund.

Moneys in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments of principal of, premium, if any, and interest on the Bonds when due. Whenever the assets of the Bond Fund shall be sufficient to provide moneys to retire all Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premium upon redemption thereof, no further payments need be made into the Bond Fund. All moneys remaining in the Bond Fund after provision for the payment in full of the principal of, premium, if any, and interest on the Bonds shall be returned to the Water/Sewer Fund.

The Bond Fund shall be drawn upon solely for the purpose of paying the principal of, premium, if any, and interest on the Bonds. Moneys set aside from time to time with the Bond Registrar for such payment shall be held in trust for the owners of the Bonds in respect of which the same shall have been so set aside. Until so set aside, all

moneys in the Bond Fund shall be held in trust for the benefit of the owners of all Bonds at the time outstanding equally and ratably.

Section 7.3. Investment of Funds.

Prior to the New Covenant Date, all money in the Bond Fund and the Reserve Fund may be kept in cash or deposited in institutions permitted by law in an amount in each institution not greater than the amount insured by any department or agency of the United States Government, or may be invested in obligations issued or fully guaranteed by the United States of America or other legal investments permitted to the City maturing not later than the date when needed or the last maturity of any outstanding bonds payable from the Bond Fund (for investments in the Reserve Fund). Income from investments in the Bond Fund shall be deposited in the Bond Fund. Income from investments in the Reserve Fund shall be deposited in the Reserve Fund until the amount therein is equal to the Reserve Requirement, and thereafter shall be deposited in the Bond Fund.

After the New Covenant Date, moneys held for the credit of the Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the City in any legal investment for City funds. Moneys in the Reserve Fund not required for immediate disbursement for the purposes for which such Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the City solely in any legal investment for City funds maturing or subject to redemption at the option of the owner thereof maturing prior to the final maturity date of the Bonds then outstanding.

Moneys in the Water/Sewer Fund and any arbitrage rebate fund not required for immediate disbursement for the purposes for which such Funds were created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the City in any legal investment for City funds.

Except to the extent there are deficiencies in any account in the Bond Fund, all income received from the investment of moneys in the Water/Sewer Fund shall be from time to time deposited in the Water/Sewer Fund.

All moneys held or set aside by the City in the Water/Sewer Fund, the Reserve Fund and Bond Fund shall, until otherwise invested or applied as provided in this ordinance, be deposited by the City in its name in such depository or depositories as the City shall at any time or from time to time appoint for such purpose. All moneys so deposited shall be secured in the manner prescribed by the laws of the State of Washington for the securing of funds of the City.

ARTICLE VIII  
DISPOSITION OF PROCEEDS

Section 8.1. Disposition of the Proceeds from the Sale of the Bonds.

There is hereby authorized to be created in the Bond Fund an account known as the "Advance Refunding Account" which Account is to be drawn upon for the sole purpose of paying the principal of and interest on the Refunded Bonds until their date of redemption and of paying costs related to the refunding of the Refunded Bonds.

The proceeds of sale of the Bonds (exclusive of accrued interest thereon, which shall be paid into the City's Bond Fund and used to pay interest on the Bonds on June 1, 1996) shall be credited to the Advance Refunding Account.

Money in the Advance Refunding Account shall be used immediately upon receipt thereof to defease the Refunded Bonds as authorized by the 1992 Parity Bond Ordinance and pay costs of issuance. The City shall defease the Refunded Bonds and discharge such obligations by the use of money in the Advance Refunding Account to purchase certain Government Obligations (which obligations so purchased, are herein called "Acquired Obligations"), bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of:

- (a) interest on the Refunded Bonds on each date on which interest is due and payable on and prior to June 1, 2002; and
- (b) the redemption price (100% of the principal amount thereof) on June 1, 2002, of the Refunded Bonds.

Such Acquired Obligations shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to acquired obligations in connection with refunding bond issues.

The City hereby appoints the corporate trust department of First Trust Washington, Seattle, Washington, as the Escrow Agent for the Refunded Bonds (the "Escrow Agent"). A beginning cash balance, if any, and Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. The proceeds of the Bonds remaining in the Advance Refunding Account after acquisition of the Acquired Obligations and provision for the necessary beginning cash balance shall be utilized to pay expenses of the acquisition and safekeeping of the Acquired Obligations and expenses of the issuance of the Bonds.

Section 8.2. Call For Redemption of Refunded Bonds. The City hereby irrevocably sets aside sufficient funds out of the purchase of Acquired Obligations from proceeds of the Bonds to make the payments described in Section 8.1 of this ordinance.

The City hereby irrevocably calls the Refunded Bonds for redemption on June 1, 2002 in accordance with the provisions of Section 7 of the 1992 Parity Bond Ordinance, authorizing the redemption and retirement of the 1992 Bonds prior to their fixed maturities.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the final establishment of the escrow account and delivery of the Acquired Obligations to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide for the giving of notices of the redemption of the Refunded Bonds in accordance with the applicable provisions of the 1992 Parity Bond Ordinance. The Director is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notices therefor. The costs of publication of such notices shall be an expense of the City.

The Escrow Agent is hereby authorized and directed to pay to the Director, or, at the direction of the Director, to the fiscal agency or agencies of the State of Washington, sums sufficient to pay, when due, the payments specified in of Section 8.1 of this ordinance. All such sums shall be paid from the moneys and Acquired Obligations deposited with said Escrow Agent pursuant to the previous section of this resolution, and the income therefrom and proceeds thereof. All such sums so paid to said Treasurer shall be credited to the Advance Refunding Account. All moneys and Acquired Obligations deposited with said bank and any income therefrom shall be held, invested (but only at the direction of the Director) and applied in accordance with the provisions of this ordinance and with the laws of the State of Washington for the benefit of the City and owners of the Refunded Bonds.

The City will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

In order to carry out the purposes of the preceding section of this ordinance and this section, the Director is authorized and directed to execute and deliver to First Trust Washington, Seattle, Washington, a copy of such agreement when the provisions thereof have been fixed and determined. Such agreement, when finally executed, shall be marked "Exhibit A," shall be attached to this ordinance and by this reference thereto is hereby made a part of this ordinance. In addition, for the purpose of effecting delivery of the Acquired Obligations to be held by the Escrow Agent, the Director is further authorized to enter into a

forward purchase agreement for securities in such form as shall be approved by the Escrow Agent and the bond counsel for the City.

ARTICLE IX  
COVENANTS TO SECURE PARITY BONDS

Section 9.1 Effect of New Covenant Date. Prior to the New Covenant Date, the City shall observe the covenants and agreements set forth in Sections 9.2 and 9.3 hereof, as well as the conditions set forth in the subsequent sections of this Article IX. From and after the New Covenant Date, the City shall observe the covenants and agreements set forth in Section 9.3 and the subsequent sections of this Article IX.

Section 9.2. Bond Covenants Prior to New Covenant Date. The City covenants and agrees with the owner of each of the Outstanding Parity Bonds and the Bonds as follows:

A. It will establish, maintain, revise as necessary and collect such rates and charges for water and sanitary sewage disposal service furnished which, together with ULID Assessments which will be collected in any such year and other revenue available therefor, will produce Revenue of the System available for debt service each calendar year, after payment of Operating Expense, at least equal to 1.25 times the Annual Debt Service in any year thereafter on all Outstanding Parity Bonds, Bonds and Parity Bonds actually payable from the Revenue of the System (the "Rate Covenant").

B. It will at all times maintain and keep the System in good repair, working order and condition, and also will at all times operate such utility and the business in connection therewith in an efficient manner and at a reasonable cost.

C. It will collect promptly all ULID Assessments. Such assessments may be used to pay the principal of or interest on any bonds payable out of the Bond Fund without those assessments being particularly allocated to the payment of principal of or interest on any particular series of outstanding Parity Bands, Bonds or Parity Bonds.

D. It will not sell, lease, mortgage or in any manner encumber or dispose of all the property of the System unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of and interest on all Bonds at any time outstanding, and that it will not sell, lease, mortgage, or in any manner encumber or dispose of any part of the property of the System that is used, useful and material to the operation thereof, unless provision is made for replacement thereof, or for payment into the Bond Fund of the total amount of revenue received which shall not be less than an amount which shall bear the same ratio to the amount of outstanding bonds payable from the Bond Fund as the Revenue of the System available for debt service for such outstanding bands for the twelve months preceding such sale, lease, encumbrance or disposal from



the portion of the System sold, leased, encumbered or disposed of bears to the Revenue of the System available for debt service for such bonds for the same period. Any such money so paid into the Bond Fund shall be used to retire outstanding bonds payable therefrom at the earliest possible date and until being so used may be invested to the same extent and in the same manner as provided for the investment of money in the Reserve Fund.

E. It will keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and it will furnish the owner or owners of the Bonds or any subsequent owner or owners thereof, at the written request of such owner or owners, complete operating and income statements of the System in reasonable detail covering any calendar year not more than 120 days after the close of such calendar year and it will grant any owner or owners of at least 25% of the outstanding Bonds the right at all reasonable times to inspect the entire System and all records, accounts and data of the City relating thereto. Upon request of any owner of any of the Bonds, it also will furnish to such owner a copy of the most recently completed audit of the City's accounts by the State Auditor of Washington.

F. It will not furnish any service of the System to any customer whatsoever free of charge and will take prompt legal action to enforce collection of all delinquent accounts.

G. It will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the City as under good practice are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of water and sewer systems to the full insurable value thereof, and also will carry adequate public liability insurance (and war risk insurance if available at reasonable rates) at all times. The premiums on such insurance policies are declared to be a normal part of Operating Expense.

H. it will pay all Operating Expense and otherwise meet the obligations of the City as herein set forth.

I. It will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause the interest on the Bonds to be included in gross income for federal income tax purposes.

It has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

J. It will use, pay out and distribute the Revenues, other than money deposited in bond redemption funds, in the following order of priority:

- (1) To pay Operating Expenses;
- (2) To meet the required debt service payments on the Outstanding Parity Bonds, the Bonds and any Parity Bonds hereafter issued by making payments into the Bond Fund;
- (3) To make required payments into the Reserve Fund; and
- (4) To meet the required debt service on any water and sewer revenue bonds issued having a charge and lien on the Revenue of the System junior to the Bonds; to redeem and retire any then outstanding water and sewer revenue bonds or to purchase any or all of those bonds in the open market as provided in this ordinance; to make necessary betterments and replacements of or repairs, additions or extensions to the System; or for any other lawful purpose.

Section 9.3. Security for Bonds. All Parity Bonds are special limited obligations of the City payable from and secured solely by Revenues, and by other moneys and assets specifically pledged hereunder for the payment thereof. There are hereby pledged as security for the payment of the principal of, premium, if any, and interest on all Bonds in accordance with the provisions of this ordinance, subject only to the provisions of this ordinance restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in this ordinance: (i) the Revenues, and (ii) the moneys and investments, if any, credited to the Water/Sewer Fund and the Bond Fund, and the income therefrom. The Revenues and other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City regardless of whether such parties have notice thereof.

All Parity Bonds now or hereafter outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the ordinance providing for their issuance or by reason of their series, number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments and covenants made herein, except as otherwise expressly provided or permitted in this ordinance and except as to insurance which may be obtained by the City to insure the repayment of one or more series or maturities within a series.

The pledge of the Revenues and of the amounts to be paid into and maintained in the funds and accounts described above in this Section to pay and secure the payment of Bonds is hereby declared to be a prior lien and charge on the Revenues and the moneys and investments in such funds and accounts, subject to provision for operating capital and to the payment of Operating Expenses as provided in Section 7.1.B hereof, and superior to all other liens and charges of any kind or nature.

Parity Bonds shall not in any manner or to any extent constitute general obligations of the City or of the State of Washington, or any political subdivision of the State of Washington, or a charge upon any general fund or upon any moneys or other property of the City or of the State of Washington, or of any political subdivision of the State of Washington, not specifically pledged thereto by this ordinance.

Section 9.4. Rate Covenant - General.

The City will establish, maintain and collect rates and charges for water and sewer service and other services, facilities and commodities sold, furnished or supplied through the facilities of the System that shall be fair and nondiscriminatory and adequate to provide Revenues sufficient, together with other funds legally available therefor, for the punctual payment of the principal of, premium, if any, and interest on Parity Bonds for which the payment has not otherwise been provided, for all payments which the City is obligated to make into the Bond Fund, and for the proper operation and maintenance of the System, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the System or the Revenues therefrom, or payments in lieu thereof, and the payment of all other amounts which the City may now or hereafter become obligated to pay from the Revenues by law or contract.

Section 9.5. Coverage Requirement - Debt Service Coverage.

The City will also establish, maintain and collect rates and charges which shall be adequate to provide in each Fiscal Year Net Revenues in an amount equal to at least 1.25 times the Maximum Annual Debt Service on the then outstanding Parity Bonds in such Fiscal Year.

The City also covenants and agrees to maintain Net Revenues for the then current Fiscal Year in an amount that will be equal to the Annual Debt Service on the then outstanding Parity Bonds in such Fiscal Year.

The failure to collect Revenues in any Fiscal Year sufficient to comply with the covenants contained in this Section 9.5 shall not constitute an Event of Default if the City, before the 60th day of the following Fiscal Year:

A. Employs a Professional Utility Consultant to recommend changes in the City's rates which are estimated to produce Revenues sufficient (once the rates recommended by the Professional Utility

Consultant have been imposed by the City) to meet the Coverage Requirement; and

B. Promptly imposes rates at least as high as those recommended by such Professional Utility Consultant.

The calculation of the coverage requirements set forth above, and in Section 4.4 hereof, and the City's compliance therewith, may be made solely with reference to this ordinance without regard to future changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then an event of default relating to these coverage requirements shall not be considered an Event of Default if the coverage requirement ratios would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this ordinance.

Section 9.6. Restrictions on Contracting of Obligations Secured by Revenues.

A. The City will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other revenue obligations, or issue any bonds, warrants or other obligations or create any additional indebtedness which will rank on a parity with or prior to the charge and lien on the Revenues or properties of the System for the payments into the Bond Fund, except as provided under Article IV hereof.

B. Future Parity Bonds may be issued as provided in Article IV.

C. The City may issue bonds, notes, warrants or other obligations payable from and secured by a lien on the Revenues of the System that is subordinate or inferior to the lien on such Revenues securing the Parity Bonds and may create a special fund or funds for payment of such subordinate obligations.

Section 9.7. Covenant to Maintain System in Good Condition.

The City shall at all times maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the System and all additions and betterments thereto and extensions thereof and every part and parcel thereof, in good repair, working order and condition, and will from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted. The City will at all times operate such properties and the business in connection therewith or cause

such properties and business to be operated in an efficient manner and at a reasonable cost.

Section 9.8. Covenants Concerning Disposal of Properties of System.

The City shall not sell, mortgage, lease or otherwise dispose of the properties of the System except as provided in this Section.

A. The City will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment, redemption or other retirement of all Parity Bonds then outstanding.

B. Except as provided in C below, the City will not sell or otherwise dispose of any part of the System unless provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts, provided, such amount is in excess of \$100,000:

(1) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of Parity Bonds outstanding less the amount of cash and investments in the Bond Fund) that the Revenues attributable to the part of the System sold or disposed of for the 12 preceding months bears to the total Revenues for such period; or

(2) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

The City shall only be required to comply with the requirements of subsections (1) and (2) above if the proceeds of such sale, lease or other disposition shall exceed two percent of the value of the net utility plant of the System.

C. The City may sell or otherwise dispose of any part of the System that shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation. The proceeds of any such sale or disposition pursuant to this subsection C shall be paid into the Reserve Fund to the extent of any deficiency in such Reserve Fund, and the balance of such proceeds, if any, shall be deposited in the Water/Sewer Fund .

D. Notwithstanding any other provision of this Section 9.8 to the contrary, the City may sell or otherwise dispose of any part of the System if the City obtains a certificate satisfying the requirements of Section 4.4.B or Section 4.4.C hereof.

#### Section 9.9. Insurance.

The City shall either self-insure or, as needed, and to the extent insurance coverage is available at reasonable cost with responsible insurers, keep, or cause to be kept, the System and the operation thereof insured, with policies payable to the City, against the risks of direct physical loss, damage to or destruction of the System, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by utilities operating like properties.

In the event of any loss or damage to the properties of the System covered by insurance, the City will (i) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless in the case of loss or damage involving \$300,000 or more, such repair and reconstruction shall not be recommended by the Professional Utility Consultant, and (ii) if the City shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, such insurance proceeds thereof not so used shall be paid into the Water/Sewer Fund , and if in excess of \$300,000 for any one loss or damage, shall be used to purchase or redeem Bonds or to acquire or construct extensions, betterments and improvements to the System.

#### Section 9.10. Books of Account.

The City shall keep proper books of account as required by this ordinance in accordance with the rules and regulations prescribed by the Division of Municipal Corporations of the Office of the State Auditor of the State of Washington, or other State department or agency succeeding to such duties of the State Auditor's office. The City shall cause its books of account to be audited by the Office of the State Auditor or other state agency as may be authorized and directed by law to make such audit, or if the audit shall not be made within twelve months after the close of any Fiscal Year of the City, then the City shall cause such audit to be made by independent certified public accountants licensed, registered or entitled to practice, and practicing as such, under the laws of the State of Washington who, or each of whom, is in fact independent and does not have any interest, direct or indirect, in any contract with the City other than his contract of employment pursuant to this Section and who is not connected with the City as an officer or employee of the City. The City will furnish a copy of the most recent audit report to any owner of Bonds upon written request therefor. Any owner of Bonds may also obtain at the office of the City copies of the balance sheet and income and expense statements showing in reasonable detail the financial condition of the System as of the close of each Fiscal Year, including the transactions relating to the Water/Sewer Fund, the Bond Fund, and all other funds and

accounts created or maintained pursuant to the provisions of this ordinance.

Section 9.11. Covenant Not to Render Service Free of Charge.

So long as any Bonds are outstanding, the City shall not furnish or supply or permit the furnishing or supplying of water or sewer service or any other commodity, service or facility furnished by or in connection with the operation of the System free of charge to any person, firm or corporation, public or private, and the City will promptly enforce the payment of any and all accounts owing to the City and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit; provided, that to the extent permitted by law, the City may loan money and may provide commodities, services or facilities free of charge or at a reduced charge in connection with a senior citizen or indigent ratepayer discounts adopted by the Council.

Section 9.12. Covenant to Make Only Economically Sound Improvements.

The City shall not expend any moneys in the Water/Sewer Fund or the proceeds of Future Parity Bonds or other obligations for any renewals, replacements, extensions, betterments and improvements to the System which are not economically sound, and which will not properly and advantageously contribute to the conduct of the business of the City in an efficient and economical manner; provided that the foregoing shall not preclude the City from paying any legal or contractual obligations.

Section 9.13. Covenant to Pay Bond Principal and Interest Punctually.

The City shall duly and punctually pay or cause to be paid, but only from the Bond Fund, the principal of, premium, if any, and interest on each and every Parity Bond on the dates and at the places and in the manner provided in the Parity Bonds, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in Parity Bonds and in this ordinance and each Supplemental Ordinance authorizing Future Parity Bonds.

Section 9.14. Covenant to Pay Taxes, Assessments and Other Claims.

The City shall from time to time duly pay and discharge, or cause to be paid and discharged, when the same shall become due, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the System or the Revenues, and all claims for labor and materials and supplies which, if not paid, might become a lien or charge upon the System, or any part thereof, or upon the Revenues, or

which might in any way impair the security of the Bonds, except taxes, assessments, charges or claims which the City shall in good faith contest by proper legal proceedings. .

Section 9.15. Covenant to Retain Competent Management.

The City shall at all times retain and employ a competent manager for the System who shall be an experienced executive of administrative ability. All employees or agents of the City who collect or handle money of the City shall be bonded by a responsible surety company or companies in amounts sufficient to protect the City adequately from loss.

Section 9.16. Further Assurances.

The City shall, at any and all times, insofar as it may be authorized so to do, pass, make, do, execute, acknowledge and deliver all and every such further ordinances, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming any and all of the rights, Revenues and other funds hereby pledged or assigned to the payment of the Parity Bonds, or intended so to be, or which the City may hereafter become bound to pledge or assign.

Section 9.17. Tax Covenants.

The City shall comply with the provisions of this Section 9.17 unless, in the written opinion of bond counsel to the City, such compliance is not required in order to maintain the exemption of the interest on the Bonds from federal income taxation.

The City hereby covenants that it will not make any use of the proceeds of sale of the Bonds or any other funds of the City which may be deemed to be proceeds of such Bonds pursuant to Section 148 of the Code that will cause the Bonds to be "arbitrage bonds" within the meaning of said section and said regulations. The City will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Bonds), and the applicable regulations thereunder throughout the term of the Bonds.

The City further covenants that it will not take any action or permit any action to be taken that would cause the Bonds to constitute "private activity bonds" under Section 141 of the Code.

Section 9.18. Undertaking to Provide Ongoing Disclosure.

A. This section constitutes the City's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.



B. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 1997 for the fiscal year ended December 31, 1996):

(1) Annual financial statements showing ending fund balances for the System prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute);

(2) Debt service coverage for outstanding Parity Bonds;

(3) Rates for the System; and

(4) Number of customers of the System by type (water or sewer) and Revenues.

Such annual information and operating data described above shall be available on or before September 1 of each year. The City may adjust such date if the City changes its Fiscal Year by providing written notice of the change of Fiscal Year and the new reporting date to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents the City provides to the NRMSIRs, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

C. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bondholders;
8. Bond calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds; and
11. Rating changes.

For purposes of information and disclosure (without intending to modify in any respect this undertaking regarding ongoing disclosure), with reference to item 11 above, no property secures the repayment thereof, as the City lacks legal authority for such measure. If further changes in the law permit such measures, and if the City subsequently chooses to obtain credit enhancement or liquidity or provide such property as security for the Bonds, the City will provide notice of such establishment or provision and undertake to provide notices of material events relating thereto, should such events occur.

*D Notification Upon Failure to Provide Financial Data.*

The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described in subsection (b) above on or prior to the date set forth in subsection (b) above.

*E. Termination/Modification.* The City's obligations to provide annual financial information and notices of material events shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this section. Notwithstanding any other provision of this ordinance, the City may amend this Section 9.18 and any provision of this Section 9.18 may be waived, provided that the following conditions are satisfied:

i. If the amendment or waiver relates to the provisions of Section 9.18(C), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

ii. The undertaking, as amended or taking into account such waiver, would, in the opinion of national recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

iii. The amendment or waiver either (A) is approved by the owners of the Bonds in the same manner as provided in this ordinance for amendments to this ordinance with the consent of owners, or (B) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds.

In the event of any amendment of or waiver of a provision of this Section 9.18, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a material event under Subsection (C), and (2) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if practical, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(F) *Bond Owner's Remedies Under This Section.* A Bond owner's right to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under this ordinance.

## ARTICLE X SUPPLEMENTAL AND AMENDATORY ORDINANCES

Section 10.1 Effect of New Covenant Date. Prior to the New Covenant Date, the provisions of Sections 10.2 and 10.3 hereof shall be in effect. From and after the New Covenant Date, the provisions of Section 10.3 and 10.4 shall be effective.

### Section 10.2. Amendments.

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

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

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

Any such supplemental ordinance may be adopted without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this section.

B. With the consent of the owners of not less than 65% in aggregate principal amount of the Parity Bonds at the time outstanding, the Council may pass an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

(1) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the time of payment of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

(2) Reduce the aforesaid percentage of bondowners required to approve any such supplemental ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of registered owners of Bonds under this subsection (b) to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

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

D. Parity Bonds executed and delivered after the execution of any supplemental ordinance passed pursuant to the provisions of this section may have a notation as to any matter provided for in such supplemental ordinance, and if such supplemental ordinance shall so provide, new Bonds so modified as to conform, in the opinion of the Council, to any modification of this ordinance contained in any such

supplemental ordinance, may be prepared and delivered without cost to the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

Section 10.3. Amendments Without Consent of Bondowners.

The City may adopt at any time and from time to time without the consent of the owners of any Bonds an ordinance or ordinances supplemental to or amendatory of this ordinance and any Supplemental Ordinance theretofore adopted for any one or more of the following purposes:

(1) To provide for the issuance of Future Parity Bonds pursuant to Article IV hereof, and to prescribe the terms and conditions pursuant to which such Parity Bonds may be issued, paid or redeemed;

(2) To add additional covenants and agreements of the City for the purpose of further securing the payment of Parity Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the City contained in this ordinance or any Supplemental Ordinance;

(3) To prescribe further limitations and restrictions upon the issuance of Parity Bonds and the incurring of indebtedness by the City payable from the Revenues which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(4) To surrender any right, power or privilege reserved to or conferred upon the City by the terms of this ordinance;

(5) To confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of this ordinance of the Revenues or of any other moneys, securities or funds;

(6) To cure any ambiguity or defect or inconsistent provision of this ordinance or any Supplemental Ordinance or to insert such provisions clarifying matters or questions arising under this ordinance or any Supplemental Ordinance as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this ordinance or any Supplemental Ordinance as theretofore in effect;

(7) To appoint a Bond Owners' Trustee and specify the qualifications, duties, rights and immunities of such Trustee; or

(8) To modify any of the provisions of this ordinance or any Supplemental Ordinance in any other respect; provided that such modification shall not be effective until after Parity Bonds outstanding as of the date of adoption of such ordinance shall cease to be outstanding,

and any Parity Bonds issued under such ordinance shall contain a specific reference to the modifications contained in such subsequent ordinance.

Section 10.4. Amendments With Consent of Bondowners.

The provisions of this ordinance and of any Supplemental Ordinance may be modified at any time or from time to time by a Supplemental Ordinance, with the consent of bondowners in accordance with and subject to the provisions of Article XII hereof.

Section 10.5. Consent of Bond Insurer.

For so long as the Bond Insurance Policy remains in force and effect and there is no payment default by the Bond Insurer thereunder, the prior written consent of the Bond Insurer shall be a condition precedent to any amendment hereunder.

ARTICLE XI  
DEFAULTS AND REMEDIES

Section 11.1. Events of Default.

The Council of the City hereby finds and determines that the continuous operation of the System and the collection, deposit and disbursement of the Revenues in the manner provided in this ordinance and in any Supplemental Ordinance are essential to the payment and security of the Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this ordinance or any such Supplemental Ordinance will endanger the necessary continuous operation of the System and the application of the Revenues to the purposes set forth in this ordinance. This ordinance and each Supplemental Ordinance adopted pursuant to Article X are hereinafter in this Article XI and in Article XII referred to collectively as "this ordinance".

The City hereby covenants and agrees with the purchasers and owners from time to time of Parity Bonds, in order to protect and safeguard the covenants and obligations undertaken by the City securing Parity Bonds, that the following shall constitute "Events of Default":

(1) If the City shall fail to deposit Revenues into the Water/Sewer Fund as required by this ordinance;

(2) If default shall be made in the due and punctual payment of the principal of and premium, if any, on any Parity Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(3) If default shall be made in the due and punctual payment of any installment of interest on any Parity Bond;

(4) If the City shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in this ordinance and such default or defaults shall have continued for a period of 60 days after the City shall have received from a Bondowners' Trustee or from the owners of not less than 20% in principal amount of the Parity Bonds outstanding, a written notice specifying and demanding the cure of such default;

(5) If the City shall (except as herein permitted) sell, transfer, assign or convey any properties constituting the System or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as expressly authorized by Section 9.8 hereof);

(6) If an order, judgment or decree shall be entered by any court of competent jurisdiction: (a) appointing a receiver, trustee or liquidator for the City or the whole or any substantial part of the System; (b) approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State of Washington; or (c) assuming custody or control of the City or of the whole or any substantial part of the System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within 60 days from the date of the entry of such order, judgment or decree; or

(7) If the City shall: (a) admit in writing its inability to pay its debts generally as they become due; (b) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (c) make an assignment for the benefit of its creditors; (d) consent to the appointment of a receiver of the whole or any substantial part of the System; or (e) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any substantial part of the System.

#### Section 11.2. Waivers of Default.

No delay or omission of the Bondowners' Trustee or of any owner of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Article to the Bondowners' Trustee or to the owners of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bondowners Trustee or by such owners.

The Bondowners' Trustee or the owners of not less than 50% in principal amount of the Bonds at the time outstanding, or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Bonds waive any past default under this ordinance and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

#### Section 11.3 Bondowners' Trustee.

So long as an Event of Default shall not have been remedied, a Bondowners' Trustee may be appointed by the owners of 20% in principal amount of the Parity Bonds then outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such bondowners or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification thereof being given to the City. Any Bondowners' Trustee appointed under the provisions of this Section 11.3 shall be a bank or trust company organized under the laws of any state or a national banking association. The fees and expenses of the Bondowners' Trustee shall be borne by the bondowners and not by the City. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the owners of a majority in principal amount of Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such bondowners or by their attorneys-in-fact duly authorized.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the owners of all Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

#### Section 11.4. Suits at Law or in Equity.

The Bondowners' Trustee may upon the happening of an Event of Default, and during the continuance thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of bondowners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance, or in any of the Bonds.

Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the bondowners and all such rights of action upon or under any Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners' Trustee without the possession of any of said Parity Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the



respective owners of said Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective owners of said Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of said Parity Bonds; to execute any paper or documents for the receipt of such money, and to do all acts with respect thereto that the bondowner himself might have done in person. Nothing herein contained shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any owner of any Parity Bond, any plan or reorganization or adjustment affecting the said Bonds of the City or any right of any owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City shall be a party.

Section 11.5. Books of City Open to Inspection.

The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City shall at all times be subject to the inspection and use of the Bondowners' Trustee.

The City covenants that if an Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Revenues and other moneys, securities and funds pledged under this ordinance.

Section 11.6. Payment of Funds to Bondowners' Trustee.

The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Bondowners' Trustee, shall pay over to the Bondowners' Trustee (i) forthwith, all moneys, securities and funds then held by the City and pledged under this ordinance, and (ii) as promptly as practicable after receipt thereof, all Revenues.

The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy.

Section 11.7. Application of Funds by Bondowners' Trustee.

During the continuance of an Event of Default, the Revenues received by the Bondowners' Trustee pursuant to the provisions of the preceding paragraph shall be applied by the Bondowners' Trustee, water/sewer service furnished or supplied by the System), and second, in accordance with the provisions of Section 7.1 of this ordinance.

In the event that at any time the funds held by the Bondowners' Trustee and the Bond Registrar for Parity Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on Parity Bonds, such funds (other than funds held for the payment or redemption of particular Parity Bonds which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of owners of Parity Bonds by the Bondowners' Trustee shall be applied as follows:

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Parity Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all Parity Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

Section 11.8. Relinquishment of Funds Upon Remedy of Default.

If and whenever all overdue installments of interest on all Parity Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bondowners' Trustee and the owners of Parity Bonds, their respective agents and attorneys, and all other sums payable by the City under this ordinance, including the principal of, premium, if any, and accrued unpaid interest on all Parity Bonds which shall then be payable (with interest upon such principal and premium, if any, and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Parity Bonds, to the date of such payment or deposit), shall either be paid by or for the account of the City, or provision satisfactory to the Bondowners' Trustee shall be made for such payment, and all defaults under this ordinance or the Parity Bonds shall be made good or secured to the satisfaction of the Bondowners' Trustee or provision deemed by the Bondowners' Trustee to be adequate shall be made therefor, the Bondowners' Trustee shall pay over to the City all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bondowners' Trustee and thereupon all Revenues shall thereafter be applied as provided in this ordinance. No such payment over to the City by the Bondowners' Trustee or resumption of the

application of Revenues as provided in this ordinance shall extend to or affect any subsequent default under this ordinance or impair any right consequent thereon.

Section 11.9. Suits by Individual Bondowners.

No owner of any one or more of said Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity, unless an Event of Default shall have happened and be continuing, and unless no Bondowners' Trustee has been created as herein provided, but any remedy herein authorized to be exercised by the Bondowners' Trustee may be exercised individually by any bondowner, in his own name and on his own behalf or for the benefit of all bondowners, in the event no Bondowners' Trustee has been appointed, or with the consent of the Bondowners' Trustee if such Bondowners' Trustee has been appointed; provided, however, that nothing in this ordinance or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay from Net Revenues the principal of and interest on Parity Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payment.

Section 11.10. Remedies Granted in Ordinance not Exclusive.

No remedy by the terms of this ordinance conferred upon or reserved to the Bondowners' Trustee or the owners of Parity Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this ordinance or existing at law or in equity or by statute on or after the date of approval of this ordinance.

ARTICLE XII  
AMENDMENTS AND BONDOWNERS MEETINGS

The provisions of this Article XII shall become effective from and after the New Covenant Date.

Section 12.1. Call of Bondowners Meetings.

The City, the Bondowners' Trustee or the owners of not less than 20% in principal amount of Parity Bonds then outstanding may at any time call a meeting of the owners of the Bonds. Every such meeting shall be held at such place in the City of New York, State of New York, or in the City of Seattle, State of Washington, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be transacted, shall be mailed to the bondowners by the City, the Bondowners' Trustee or the bondowners calling such meeting not less than 30 nor more than 60 days before such meeting, and shall be published at least once a week for four successive calendar weeks on any

day of the week, the date of first publication to be not less than 30 nor more than 60 days preceding the meeting; provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. The expenses of publication of such notice shall be paid or reimbursed by the City. Any meeting of bondowners shall, however, be valid without notice if the owners of all Parity Bonds then outstanding are present in person or by proxy or if notice is waived before or within 30 days after the meeting by those not so present.

Section 12.2. Notice to Bondowners.

Except as otherwise provided in this ordinance, any provision in this ordinance for the mailing of a notice or other paper to bondowners shall be fully complied with if it is mailed by first class mail, postage prepaid, to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the Bond Register; and any provision in this ordinance contained for publication of a notice or other matter shall require the publication thereof in *The Daily Bond Buyer* in the City of New York, State of New York (or in lieu of publication in *The Daily Bond Buyer*, in a daily newspaper printed in the English language and customarily published on each business day of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the City of Seattle, State of Washington.

Section 12.3. Proxies; Proof of Ownership of Bonds.

Attendance and voting by bondowners at such meetings may be in person or by proxy. Owners of Parity Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power and substitution, as their proxy to vote at any meeting for them. Officers or nominees of the City may be present or represented at such meeting and take part therein but shall not be entitled to vote thereat, except as such officers or nominees are bondowners or proxies for bondowners.

Any registered owner of Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Bonds registered in his name without producing such Bonds, and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspectors of Votes and filed with the Secretary of the meeting.

The vote at any such meeting of the owner of any Parity Bond entitled to vote thereat shall be binding upon such owner and upon every such subsequent owner of such Parity Bond (whether or not such subsequent owner has notice thereof).

#### Section 12.4. Execution of Instruments by Bondowners.

Any request, direction, consent or other instrument in writing required or permitted by this ordinance to be signed or executed by bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such bondowners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this ordinance if made by either (a) an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or (b) an affidavit of a witness to such execution sworn to before such a notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

The foregoing shall not be construed as limiting the City to such proof, it being intended that the City may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the owner of any Parity Bond shall bind every future owner of the same Parity Bond in respect of anything done by the City in pursuance of such request, direction or consent.

The right of a proxy for a bondowner to act may be proved (subject to the City's right to require additional proof) by a written proxy executed by such bondowner as aforesaid.

#### Section 12.5. Appointment of Officers at Bondowners Meetings.

Persons named by the City or elected by the owners of a majority in principal amount of Parity Bonds represented at the meeting in person or by proxy in the event the City is not represented at such meeting, shall act as temporary Chair and temporary Secretary of any meeting of bondowners. A permanent Chair and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent Chair of the meeting shall appoint two Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chair and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting and with the City their verified report of all such votes cast at the meeting.

#### Section 12.6. Quorum at Bondowners Meetings.

The owners of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the

announcement thereof at the meeting; provided, however, that, if such meeting is adjourned by less than a quorum for more than ten days, notice thereof shall be published by the City at least five days prior to the adjourned date of the meeting.

Section 12.7. Vote Required to Amend Ordinance.

Any amendment to the provisions of this ordinance, in any particular except the percentage of bondowners the approval of which is required to approve such amendment, may be made by a Supplemental Ordinance of the City and an ordinance duly adopted by the affirmative vote at a meeting of bondowners duly convened and held, or with written consent as hereinafter provided in Section 12.9, of the owners of not less than 66 2/3% in principal amount of the Parity Bonds outstanding when such meeting is held or such consent is given; provided, however, that no such amendment shall (a) extend the date of payment of the principal of any Parity Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Parity Bond may first be called for redemption prior to its fixed maturity date; (b) give to any Parity Bond or Parity Bonds any preference over any other Parity Bond or Parity Bonds secured equally and ratably therewith; (c) reduce the aforesaid percentage of Parity Bonds the owners of which are required to consent to any such ordinance amending the provisions of this ordinance; or (d) authorize the creation of any pledge prior to or, except as provided in Article IV hereof for the issuance of Future Parity Bonds, on a parity with the pledge afforded by this ordinance, without the consent of the owner of each such Parity Bond affected thereby.

Section 12.8. Obtaining Approval of Amendments at Bondowners Meeting.

The City may at any time adopt an ordinance amending the provisions of this ordinance to the extent that such amendment is permitted by the provisions of Section 12.7 hereof, to take effect when and as provided in this Section. At any time thereafter such ordinance may be submitted by the City for approval to a meeting of the bondowners duly convened and held in accordance with the provisions of this ordinance. A record in duplicate of the proceedings of each meeting of the bondowners shall be prepared by the permanent Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of this ordinance. Such a record shall be signed and verified by the affidavits of the permanent Chairman and the permanent Secretary of the meeting, and one duplicate thereof shall be delivered to the City. Any record so signed and verified shall be proof of the matters therein stated. If the ordinance of the City making such amendment shall be approved by an ordinance duly adopted at such meeting of

bondowners by the affirmative vote of the owners of the required percentages of Parity Bonds, a notice stating that an ordinance approving such amendment has been so adopted shall be mailed by the City to each bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such ordinance) and shall be published at least once in the manner provided in Section 12.2 hereof. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the City. Such ordinance of the City making such amendment shall be deemed conclusively to be binding upon the City, the Bond Registrar, and the owners of all Parity Bonds at the expiration of 30 days after the publication of the notice provided for in this Section, except in the event of a final decree of a court of competent jurisdiction setting aside such ordinance or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the City and any Bond Registrar during such 30-day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such ordinance as they may deem expedient. Nothing in this ordinance contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of bondowners or of any right conferred hereunder to make such a call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Bond Registrar or the bondowners under any of the provisions of this ordinance.

Section 12.9. Alternate Method of Obtaining Approval of Amendments.

The City may at any time adopt an ordinance amending the provisions of this ordinance, or of any Bonds, to the extent that such amendment is permitted by the provisions of this Article, to take effect when and as provided in this Section. Upon passage of such ordinance, a request that bondowners consent thereto shall be mailed by the City to the bondowners and notice that the City is requesting bondowners to consent to such amendment shall be published at least once in the manner provided in Section 12.2 hereof. Such ordinance shall not be effective unless and until there shall have been filed with the City the written consents of the percentages of owners of outstanding Parity Bonds specified in Section 12.7 hereof and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of Parity Bonds for which such consent is given, which proof shall be such as is permitted by Section 12.3 hereof. A certificate or certificates of the City Clerk that he has examined such proof and that such proof is sufficient shall be conclusive that the consents have been given by the owners of Parity Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of Parity Bonds giving such consent and on every subsequent owner of such Parity Bonds (whether or not such subsequent owner has notice thereof). A notice stating that the ordinance

has been consented to by the owners of the required percentages of bonds and will be effective as provided in this Section, may be given to the bondowners by mailing such notice to the bondowners, and shall be given by publishing the same at least once in the manner provided in Section 12.2 hereof. A record, consisting of the papers required by this Section to be filed with the City shall be proof of the matters therein stated, and the ordinance shall be deemed conclusively to be binding upon the City and the owners of all Parity Bonds at the expiration of 30 days after the notice last provided for in this Section, except in the event of a final decree of a court of competent jurisdiction setting aside such consent or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period.

Section 12.10. Amendment of Ordinance In Any Respect by Approval of All Bondowners.

Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the City and of the owners of the Parity Bonds and the terms and provisions of the Parity Bonds and of this ordinance may be amended in any respect with the consent of the City, by the affirmative vote of the owners of all said Parity Bonds then outstanding at a meeting of bondowners called and held as hereinabove provided, or upon the adoption of an ordinance by the City and the consent of the owners of all the Parity Bonds then outstanding, such consent to be given as provided in Section 12.9 except that no notice to bondowners either by mailing or publication shall be required, and the amendment shall be effective immediately upon such unanimous vote or written consent of all of the bondowners.

Section 12.11. Parity Bonds Owned by City.

Parity Bonds owned or held by or for the account of the City shall not be deemed outstanding for the purpose of any vote or consent or other action or any calculation of outstanding Parity Bonds in this ordinance provided for, and shall not be entitled to vote or consent or take any other action in this ordinance provided for.

Section 12.12. Endorsement of Amendment on Parity Bonds.

Parity Bonds delivered after the effective date of any action amending this ordinance taken as hereinabove provided may bear a notation by endorsement or otherwise as to such action, and in that case, upon demand of the owner of any Parity Bond outstanding at such effective date and presentation of his Parity Bond for the purpose at the principal office of the Bond Registrar, suitable notation shall be made on such Bond by the Bond Registrar as to any such action. If the City shall so determine, new Parity Bonds so modified as in the opinion of the City and its counsel to conform to such action shall be prepared, delivered and upon demand of the owner of any Parity Bond then outstanding shall be



exchanged without cost to such bondowner for Parity Bonds then outstanding hereunder, upon surrender of such Parity Bonds.

ARTICLE XIII  
FORM OF PARITY BONDS

Section 13.1. Form of Future Parity Bonds.

The bonds of each series of Future Parity Bonds shall, unless or except as is otherwise provided in the Supplemental Ordinance or Ordinances authorizing their issuance, be in substantially the form provided in Section 13.2 of this ordinance, with such modifications, additions or deletions as may be necessary or advisable to reflect the details and provisions of the issuance of such Parity Bonds and the provisions of this ordinance authorizing the same or as otherwise required or permitted by the provisions of such ordinance.

Section 13.2. Form of Bonds. The Bonds shall be in substantially the following form:

**STATEMENT OF INSURANCE**

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to The Bank of New York, New York, New York, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.

UNITED STATES OF AMERICA

NO. \_\_\_\_\_ \$ \_\_\_\_\_

STATE OF WASHINGTON

CITY OF KIRKLAND

WATER AND SEWER REVENUE REFUNDING BOND, 1996

Interest Rate:                      Maturity Date:                      CUSIP No.

Registered Owner:

Principal Amount:

See Reverse side for Additional Provisions

THE CITY OF KIRKLAND, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the City known as the "City of Kirkland Revenue Bond Interest and Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from February 1, 1996, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable on June 1, 1996, and semiannually thereafter on the first days of each June and December. Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid by mailing a check or draft to the Registered Owner or assigns at the address shown on the Bond Register on the 15th day of the month prior to the interest payment date. Principal shall be paid to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of the fiscal agency of the State of Washington in either Seattle, Washington, or New York, New York (collectively the "Bond Registrar").

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

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance (as hereinafter defined) until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Bond Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and ordinances of the City and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the City of Kirkland, Washington, has caused this bond to be executed by the facsimile signature of the Mayor and attested by the facsimile signature of the Clerk of the City, and a facsimile corporate seal of the City to be imprinted hereon as of the 1st day of March, 1996.

[SEAL]

CITY OF KIRKLAND, WASHINGTON

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

ATTEST:

\_\_\_\_\_/s/  
Clerk or Director of  
Administration and Finance

#### ADDITIONAL BOND PROVISIONS

This bond is one of an issue of \$3,725,000 of bonds of the City of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to Ordinance No. 3523 of the City Council (the "Bond Ordinance") to refund certain outstanding water and sewer revenue bonds of the City and to pay costs of issuance.

The bonds of this issue maturing on or after June 1, 2007 are subject to redemption at the option of the City on and after June 1, 2006, in whole or in part on any date, with maturities to be selected by the City and by lot within a maturity in such manner as the Bond Registrar shall determine at a price of 100% of principal amount thereof, plus accrued interest to the date of redemption.

Notice of any such intended redemption shall be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of any bond to be redeemed at the address appearing on the bond register. The requirements of the Bond Ordinance shall be deemed to be complied with when notice is mailed as therein provided, regardless of whether or not it is actually received by the owner of any bond. Interest on any such bond so called for redemption shall cease to accrue on the date fixed for redemption unless such bond or bonds so called for redemption are not redeemed upon presentation made pursuant to such call.

The bonds of this issue are interchangeable for bonds of any denomination authorized by the Bond Ordinance of an equal aggregate principal amount and of the same interest rate and maturity. Portions of the principal sum of this bond in installments of \$5,000 or any integral multiple thereof may also be redeemed in accordance with the schedule set forth above, and if less than all of the principal sum hereof is to be redeemed, upon the surrender of this bond at the principal office of the Bond Registrar there shall be issued to the registered owner, without charge therefor, for the then unredeemed balance of the principal sum hereof, at the option of the owner, a bond or bonds of like maturity and interest rate in any of the denominations authorized by the Bond Ordinance.

The bonds of this issue are not general obligations of the City. The City hereby covenants and agrees with the owner and holder of this

bond that it will keep and perform all the covenants of this bond and the Bond Ordinance.

The bonds of this issue are not "private activity bonds" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). The bonds of this issue have been designated by the City as qualified tax-exempt obligations under Section 265(b) of the Code.

The City does hereby pledge and bind itself to set aside from the Revenue of the System, and to pay into said Bond Fund and the Reserve Fund and subaccounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in said Fund and Account, all within the times provided by said Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid out of the Revenue of the System into the Bond Fund and the Reserve Fund shall be a prior lien and charge upon the Revenue of the System superior to all other charges of any kind or nature whatsoever except the Operating Expenses, and except that said amounts are equal in rank to the lien and charge upon such Revenue of any amounts required to pay and secure the water and sewer revenue (and refunding) bonds of the City issued under dates of July 1, 1987, September 15, 1990, June 1, 1992 and August 1, 1995 and any water and sewer revenue bonds of the City hereafter issued on a parity therewith and with the bonds of this issue (herein and in the Bond Ordinance called "Parity Bonds").

The City has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to fix, maintain and collect rates and charges for as long as any of the bonds of this issue are outstanding that will maintain the Rate Covenant.

The pledge of Revenues of the System and other obligations of the City under the Bond Ordinance may be discharged at or prior to the maturity or redemption of the bonds of this issue upon the making of provisions for the payment thereof on the terms and conditions set forth in the Bond Ordinance.

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

UNIF GIFTS (TRANSFERS) MIN ACT - \_\_\_\_\_ Custodian \_\_\_\_\_  
(Cust) (Minor)

under Uniform Gifts (Transfers) to  
Minors Act

\_\_\_\_\_  
(State)

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

The Bond Registrar's Certificate of Authentication on the Bonds  
shall be in substantially the following form:

**CERTIFICATE OF AUTHENTICATION**

Date of Authentication:

This bond is one of the bonds described in the within-mentioned  
Bond Ordinance and is one of the City of Kirkland, Washington, Water  
and Sewer Revenue Refunding Bonds, 1996, dated March 1, 1996.

WASHINGTON STATE FISCAL  
AGENCY, as Bond Registrar

By \_\_\_\_\_  
Authorized Signer

(form of assignment)

**ASSIGNMENT**

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

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER  
IDENTIFICATION NUMBER OF TRANSFEREE

\_\_\_\_\_

\_\_\_\_\_  
(Please print or typewrite name and address,  
including zip code of Transferee)

\_\_\_\_\_  
the within bond and does hereby irrevocably constitute and appoint  
\_\_\_\_\_ of \_\_\_\_\_,  
or its successor, as Bond Registrar to transfer said bond on the books  
kept for registration thereof with full power of substitution in the  
premises.

DATED: \_\_\_\_\_

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

SIGNATURE GUARANTEED:

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ARTICLE XIV  
MISCELLANEOUS, DEFEASANCE; SALE OF BONDS AND  
APPROVAL OF OFFICIAL STATEMENT

Section 14.1. Ordinance and Laws a Contract With Bondowners.

This ordinance is adopted under the authority of and in full compliance with the Constitution and laws of the State of Washington, as amended and supplemented. In consideration of the purchase and acceptance of Parity Bonds by those who shall hold the same from time to time, the provisions of this ordinance and of any Supplemental Ordinance authorizing the issuance of Future Parity Bonds and of said laws shall constitute a contract with the owner or owners of each Parity Bond and the obligations of the City and its Council under said acts and under this ordinance shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the owners of any and all of said Parity Bonds all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of said Parity Bonds over any others thereof except as expressly provided herein.

Section 14.2. Bonds Deemed No Longer to be Outstanding Hereunder.

In the event that the City, in order to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, held in trust by the City or by a qualified trustee, advance refunding bond proceeds or other money lawfully available or Government Obligations, or any combination of such proceeds, money and/or Government Obligations, in amounts which, together with known earned income from the investment thereof are sufficient to redeem, retire or pay such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such proceeds, money and/or Government Obligations are irrevocably set aside and

pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond, and the owner of such Bond shall cease to be entitled to any lien, benefit or security of this ordinance, or any other ordinance of the City, except the right to receive payment of principal, premium, if any, and interest from such special account, and such Bonds shall be deemed not to be outstanding hereunder. The City shall obtain an opinion of nationally recognized bond counsel to the effect set forth in the preceding sentence and that the tax-exempt status of such Bonds is not adversely affected, and a verification from a certified public accountant that the money when due or Government Obligations so set aside will be sufficient to pay the principal, premium, if any, and interest on Bonds to be refunded. Notice of any such defeasance shall be given to each NRMSIR and SID, if any.

Section 14.3. Moneys Held by Bond Registrar One Year After Due Date.

Moneys held by the Bond Registrar in trust for the payment and discharge of any of Parity Bonds which remain unclaimed for one year after the date when such Parity Bonds shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by such Bond Registrar at such date or for one year after the date of deposit of such moneys if deposited with the Bond Registrar after the date when such Parity Bonds become due and payable, shall at the written request of the City be repaid by the Bond Registrar to the City as the City's property and free from the trust created by this ordinance, or any other ordinance of the City, and the Bond Registrar shall thereupon be released and discharged with respect thereto, and the owners of the Parity Bonds payable from such moneys shall look only to the City for the payment of such Parity Bonds.

Section 14.4. Sale of Bonds.

Piper Jaffray, Inc. has presented a bond purchase contract dated February 6, 1996 (the "Purchase Contract") to the City by which it has offered to purchase the Bonds under the terms and conditions provided in the Purchase Contract, which written Purchase Contract is on file with the Clerk of the Council and is incorporated herein by this reference. The Council finds that entering into the Purchase Contract is in the City's best interest and, therefore, accepts the offer contained in the Purchase Contract and authorizes its execution by City officials. The proper City officials are authorized and directed to do everything necessary for the prompt authentication and delivery of the Bonds to the purchaser and for the proper application and use of the proceeds of the sale thereof.

Section 14.5. Approval of Official Statement.

The Director of Administration and Finance is authorized and directed to execute and deliver to the purchaser copies of an Official

Statement in the form presented at this meeting, and with such changes thereto as have been noted thereon; provided, however, that the Director of Administration and Finance is authorized to supplement or amend the Official Statement as the Director of Administration and Finance, with the approval of bond counsel to the City, deems necessary or appropriate. The City represents and warrants to the purchaser that such Official Statement is deemed final by the City as of the date thereof, and that the Preliminary Official Statement dated January 24, 1996, was deemed final by the City as of the date thereof for purposes of the Rule, except for the omission of the offering prices, interest rates, maturities, principal amounts, redemption provisions, ratings and related information.

The Council approves and authorizes the distribution and use of such Official Statement (including any such supplements and amendments thereto) in connection with the public offering and sale of the Bonds by the purchaser. The Council hereby ratifies, approves and confirms the distribution and use of the Preliminary Official Statement in connection with the public offering and sale of the Bonds.

Section 14.6. Benefits of Ordinance Limited to City, Bondowners, and Bond Registrar.

Nothing in this ordinance, expressed or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the City, the Bond Registrar, the Bond Insurer and the owners from time to time of the Bonds any rights, remedies or claims under or by reason of this ordinance or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in this ordinance contained by or on behalf of the City shall be for the sole and exclusive benefit of the City, the Bond Registrar, the Bond Insurer and the owners from time to time of Parity Bonds.

Section 14.7. Term "City" Includes Successors.

Whenever in this ordinance the City is named or referred to, it shall be deemed to include its successors and assigns, including any successor by merger or consolidation, and all the covenants and agreements in this ordinance contained by or on behalf of the City shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

Section 14.8. Severability.

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



Section 14.9. General Authorization.

The Mayor, the Director of Administration and Finance and the City Clerk and each of the other appropriate officers of the City are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance.

Section 14.10. Adjustment of Dollar Amounts.

The dollar amounts stated in Sections 9.6.B and 9.7 hereof may, at the option of the City, be adjusted according to the Federal Consumer Price Index applicable to the City, or, if such consumer price index is no longer published, such other similar governmentally published index of prices computed from January 1, 1986.

Section 14.11. Special Designation.

The Bonds are hereby designated as qualified tax-exempt obligations pursuant to Section 265(b) of the Code for investment by financial institutions. The City does not expect to issue more than \$10,000,000 in tax-exempt obligations during 1996.

Section 14.12. Prior Acts.

All acts taken pursuant to the authority of this ordinance but prior to its effective date are hereby ratified and confirmed.

Section 14.13. Effective Date of Ordinance.

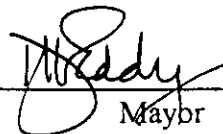
This ordinance shall be in effect from and after its passage in accordance with law.

Section 14.14. Repealer.

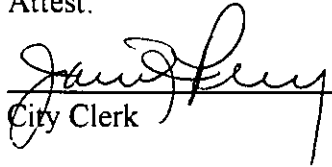
All ordinances and parts of ordinances in conflict herewith are hereby repealed to the extent of such conflict.

PASSED by majority vote of the Kirkland City Council in regular, open meeting this 6th day of February, 1996.

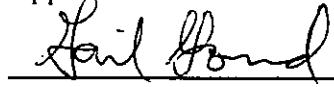
SIGNED in authentication thereof this 6th day of February, 1996.

  
\_\_\_\_\_  
Mayor

Attest:

  
\_\_\_\_\_  
City Clerk

Approved as to Form:

  
\_\_\_\_\_  
City Attorney

## CERTIFICATE

I, the undersigned, the duly chosen, qualified and acting City Clerk of the City of Kirkland, Washington (the "City"), and keeper of the records of the City, DO HEREBY CERTIFY:

1. That the attached Ordinance is a true and correct copy of Ordinance No. 3523 (the "Ordinance") adopted by the City Council of the City (the "City Council"), at a regular open public meeting of the City Council held on the 6th day of February, 1996, and the Ordinance has been duly recorded in my office.

2. That said meeting was duly convened on a regularly scheduled meeting date and held in all respects in accordance with law; that a quorum was present throughout the meeting and a legally sufficient number of members of the City Council voted in the proper manner for the adoption of the Ordinance; that all other requirements and proceedings incident to the proper adoption of the Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City as of this 6th day of February, 1996.

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JANICE J. PERRY, City Clerk

**EXHIBIT A**

**ESCROW DEPOSIT AGREEMENT  
CITY OF KIRKLAND, WASHINGTON**

**WATER AND SEWER REVENUE REFUNDING BONDS, 1996**

**THIS ESCROW AGREEMENT**, dated as of \_\_\_\_\_, 1996 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between City of Kirkland, Washington (herein called the "City") and First Trust Washington, Seattle, Washington, as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The notice addresses of the City and the Escrow Agent are shown on Exhibit A attached hereto and made a part hereof.

**WITNESSETH:**

**WHEREAS**, the City heretofore has issued and there presently remain outstanding the obligations described in Exhibit B attached hereto (the "Refunded Bonds"); and

**WHEREAS**, Pursuant to Ordinance No. 3523 adopted on February 6, 1996 (the "Bond Ordinance"), the City has determined to issue its Water and Sewer Revenue Refunding Bonds, 1996 (the "Refunding Bonds") for the purpose of providing funds to pay the costs of refunding the Refunded Bonds; and

**WHEREAS**, the Escrow Agent has reviewed the Bond Ordinance and this Agreement, and is willing to serve as Escrow Agent hereunder.

**WHEREAS**, Causey, Demgen & Moore, Certified Public Accountants, of Denver, Colorado, have prepared a verification report which is dated \_\_\_\_\_, 1996 (the "Verification Report") relating to the source and use of funds available to accomplish the refunding of the Refunded Bonds, the investment of such funds and the adequacy of such funds and investments to provide for the payment of the debt service due on the Refunded Bonds.

**WHEREAS**, pursuant to the Bond Ordinance, the Refunded Bonds have been designated for redemption prior to their scheduled maturity dates and, after provision is made for such redemption, the Refunded Bonds will come due in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit C attached hereto and made a part hereof; and

**WHEREAS**, when Escrowed Securities have been deposited with the Escrow Agent for the payment of all principal and interest of the Refunded Bonds when due, then the Refunded Bonds shall no longer be

regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

**WHEREAS**, the issuance, sale, and delivery of the Refunding Bonds have been duly authorized to be issued, sold, and delivered for the purpose of obtaining the funds required to provide for the payment of the principal of, interest on and redemption premium (if any) on the Refunding Bonds when due as shown on Exhibit C attached hereto; and

**WHEREAS**, the City desires that, concurrently with the delivery of the Refunding Bonds to the purchasers thereof, the proceeds of the Refunding Bonds, together with certain other available funds of the City, shall be applied to purchase certain direct obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

**WHEREAS**, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Bonds as it accrues and becomes payable and the principal of the Refunded Bonds as it becomes due and payable; and

**WHEREAS**, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the City desires to establish the Escrow Fund at the principal corporate trust office of the Escrow Agent; and

**WHEREAS**, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

**NOW, THEREFORE**, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest on the Refunded Bonds, the City and the Escrow Agent mutually undertake, promise and agree for themselves and their respective representatives and successors, as follows:

#### Article 1.

##### Section 1.1. Definitions.

Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

"Escrow Fund" means the fund created by this Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of this Agreement.

"Escrowed Securities" means the noncallable Government Obligations described in Exhibit D attached to this Agreement, or cash or other noncallable obligations substituted therefor pursuant to Section 4.3 of this Agreement.

"Government Obligations" means direct, noncallable (a) United States Treasury Obligations, (b) United States Treasury Obligations - State and Local Government Series ("SLGS"), (c) non-prepayable obligations which are unconditionally guaranteed as to full and timely payment of principal and interest by the United States of America or (d) REFCORP debt obligations unconditionally guaranteed by the United States.

Securities described in (c) above shall be limited to those listed below which are defined as government obligations by Section 39.53.010(9), Revised Code of Washington:

- (a) U.S. Export-Import Bank (Eximbank)  
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
- (c) Federal Financing Bank
- (d) General Services Administration  
Participation certificates
- (e) U.S. Maritime Administration  
Guaranteed Title XI financing
- (f) U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures -- U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds --  
U.S. government guaranteed public housing notes  
and bonds.

"Paying Agent" means the fiscal agency of the State of Washington, as the paying agent for the Refunded Bonds.

"Securities Purchase Agreement" means the Securities Purchase Agreement dated as of \_\_\_\_\_, 1996 among the City, \_\_\_\_\_ and the Escrow Agent.

#### Section 1.2. Other Definitions.

The terms "Agreement," "City," "Escrow Agent," "Bond Ordinance," "Verification Report," "Refunded Bonds," and "Refunding Bonds" when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

#### Section 1.3. Interpretations.

The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Bonds in accordance with applicable law.

### Article 2. Deposit of Funds and Escrowed Securities

#### Section 2.1. Deposits in the Escrow Fund.

Concurrently with the sale and delivery of the Refunding Bonds the City shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds sufficient to purchase the Escrowed Securities and pay costs of issuance described in Exhibit D attached hereto, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the City in writing.

### Article 3. Creation and Operation of Escrow Fund

#### Section 3.1. Escrow Fund.

The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the Advance Refunding Account (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit D attached hereto and will make the purchases required by the Securities Purchase Agreement and deposit those to the credit of the Escrow Fund. Such deposit, all proceeds

therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.2 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Bonds, any balance then remaining in the Escrow Fund shall be transferred to the City, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

### Section 3.2. Payment of Principal and Interest.

The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Bonds at their respective redemption dates and interest thereon to such redemption dates in the amounts and at the times shown in Exhibit C attached hereto.

### Section 3.3. Sufficiency of Escrow Fund.

The City represents that, based upon the information provided in the Verification Report, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Bonds as such interest comes due and the principal of the Refunded Bonds as the Refunded Bonds are paid on an optional redemption date prior to maturity, all as more fully set forth in Exhibit E attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by the Paying Agent to make the payments set forth in Section 3.2. hereof, the City shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the City's failure to make additional deposits thereto.

### Section 3.4. Trust Fund.

The Escrow Agent shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of



the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Bonds; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Bonds shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Bonds. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the City, and the Escrow Agent shall have no right to title with respect thereto except as a trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the City or, except to the extent expressly herein provided, by the Paying Agent.

#### Article 4. Limitation on Investments

##### Section 4.1. Investments.

Except for the initial investment in the Escrowed Securities, and except as provided in Section 4.2 hereof or in Sections 1(e) and 1(f) of the Securities Purchase Agreement, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer, or otherwise dispose of the Escrowed Securities.

##### Section 4.2. Substitution of Securities.

At the written request of the City, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall utilize cash balances in the Escrow Fund, or sell, transfer, otherwise dispose of or request the redemption of the Escrowed Securities and apply the proceeds therefrom to purchase Refunded Bonds or Government Obligations which do not permit the redemption thereof at the option of the obligor. Any such transaction may be effected by the Escrow Agent only if (a) the Escrow Agent shall have received a written opinion from a firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount sufficient to provide for the full and timely payment of principal of and interest on all of the remaining Refunded Bonds as they become due, taking into account any optional redemption thereof exercised by the City in connection with such transaction; and (b) the Escrow Agent shall have received the unqualified written legal opinion of its bond counsel or tax counsel to the effect that such transaction will not cause any of the Refunding Bonds or Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended or, if applicable, Section 103(c) of the Internal Revenue Code of 1954, as amended. This Section 4.2 shall not apply to purchases made

pursuant to Sections 1(e) or 1(f) of the Securities Purchase Agreement or to the purchase by the Escrow Agent on \_\_\_\_\_, \_\_\_\_\_ of an SLGS maturing on \_\_\_\_\_, \_\_\_\_\_ in the par amount of \$\_\_\_\_\_ or an SLGS maturing on \_\_\_\_\_, \_\_\_\_\_ in the par amount of \$\_\_\_\_\_. The Escrow Agent is hereby directed to acquire such SLGS on \_\_\_\_\_, \_\_\_\_\_.

## Article 5. Application of Cash Balances

### Section 5.1. In General.

Except as provided in Section 3.2 and 4.2 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund. Cash balances shall be held by the Escrow Agent in U.S. currency and as cash balances as shown on the books and records of the Escrow Agent and shall not be reinvested by the Escrow Agent.

## Article 6. Redemption of Refunded Bonds

### Section 6.1. Call for Redemption.

The City hereby irrevocably calls the Refunded Bonds for redemption on their earliest redemption dates, as shown in the Verification Report and on Appendix A attached hereto.

### Section 6.2. Notice of Redemption.

The Escrow Agent agrees to give notice of the redemption of the Refunded Bonds pursuant to the terms of the Refunded Bonds and in substantially the form attached hereto as Appendix A attached hereto and as described on said Appendix A. The Escrow Agent hereby certifies that provision satisfactory and acceptable to the Escrow Agent has been made for the giving of notice of redemption of the Refunded Bonds.

## Article 7. Records and Reports

### Section 7.1. Records.

The Escrow Agent will keep books of record and account in which complete and accurate entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection during business hours and after reasonable notice.

### Section 7.2. Reports.

While this Agreement remains in effect, the Escrow Agent annually shall prepare and send to the City a written report summarizing all transactions relating to the Escrow Fund during the preceding year,

including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Bonds or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

## Article 8. Concerning the Paying Agents and Escrow Agent

### Section 8.1. Representations.

The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

### Section 8.2. Limitation on Liability.

The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Bonds shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the City promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Refunding Bonds shall be taken as the statements of the City and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent.

The Escrow Agent is not a party to the proceedings authorizing the Refunding Bonds or the Refunded Bonds and is not responsible for nor bound by any of the provisions thereof (except to the extent that the Escrow Agent may be a place of payment and paying agent and/or a paying agent/registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the City thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur

personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own action, neglect or default, nor for any loss unless the same shall have been through its negligence or want of good faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the City with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the City or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the City at any time.

### Section 8.3. Compensation.

The City shall pay to the Escrow Agent fees for performing the services hereunder and for the expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement pursuant to the terms of the Fee Schedule attached hereto as Appendix B. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses as Escrow Agent or in any other capacity.

### Section 8.4. Successor Escrow Agents.

If at any time the Escrow Agent or its legal successor or successors should become unable, through operation or law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a

vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the City, by appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the City within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Bonds then outstanding by an instrument or instruments in writing filed with the City, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Bond may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent. The Escrow Agent may also be replaced for cause by the insurer of the Refunding Bonds.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Washington, authorized under such laws to exercise corporate trust powers, having its principal office and place of business in the State of Washington, having a combined capital and surplus of at least \$100,000,000 and subject to the supervision or examination by federal or state authority.

Any successor Escrow Agent shall execute, acknowledge and deliver to the City and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the City shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties.

The obligations assumed by the Escrow Agent pursuant to this Agreement may be transferred by the Escrow Agent to a successor Escrow Agent if (a) the requirements of this Section 8.3 are satisfied; (b) the successor Escrow Agent has assumed all the obligations of the Escrow Agent under this Agreement; and (c) all of the Escrowed Securities and money held by the Escrow Agent pursuant to this Agreement have been duly transferred to such successor Escrow Agent.

## Article 9. Miscellaneous

### Section 9.1. Notice.

Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the City or the Escrow Agent at the address shown

on Exhibit A attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten days prior notice thereof.

Section 9.2. Termination of Responsibilities.

Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities hereunder to the City, the owners of the Refunded Bonds or to any other person or persons in connection with this Agreement.

Section 9.3. Binding Agreement.

This Agreement shall be binding upon the City and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Bonds, the City, the Escrow Agent and their respective successors and legal representatives.

Section 9.4. Severability.

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 9.5. Washington Law Governs.

This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Washington.

Section 9.6. Time of the Essence.

Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 9.7. Notice to Moody's and S&P.

In the event that this agreement or any provision thereof is severed, amended or revoked, the City shall provide written notice of such severance, amendment or revocation to Moody's Investors Service at 99 Church Street, New York, New York, 10007, Attention: Public Finance Rating Desk/ Refunded Bonds, and to Standard & Poor's Corporation at 25 Broadway, New York, New York 10004, Attention: Municipal Finance Department.

Section 9.8. Amendments.

This Agreement shall not be amended except to cure any ambiguity or formal defect or omission in this Agreement. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto. No such amendment shall adversely affect the rights of the holders of the Refunded Bonds. No such amendment shall be made without first receiving written confirmation from the rating agencies, (if any) which have rated the Refunded Bonds that such administrative changes will not result in a withdrawal or reduction of its rating then assigned to the Refunded Bonds. If this Agreement is amended, prior written notice and copies of the proposed changes shall be given to the rating agencies which have rated the Refunded Bonds.

**EXECUTED** as of the date first written above.

**CITY OF KIRKLAND,  
WASHINGTON**

\_\_\_\_\_  
Director of Finance

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Vice President

- Exhibit A - Addresses of the City and the Escrow Agent
- Exhibit B - Description of the Refunded Bonds
- Exhibit C - Schedule of Debt Service on Refunded Bonds
- Exhibit D - Description of Beginning Cash Deposit (if any) and Escrowed Securities
- Exhibit E - Escrow Fund Cash Flow
- Appendix A - Notices of Redemption - 1992 Bonds
- Appendix B - Fee Schedule

**EXHIBIT A**  
**Addresses of the City and Escrow Agent**

**City:** City of Kirkland  
123 Fifth Avenue  
Kirkland, Washington 98033-6189  
Attention: Director of Finance

**Escrow Agent:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



**EXHIBIT B**  
**Description of the Refunded Bonds**

**Refunded Bonds**

Maturity Years (June 1)	Principal Amounts	Interest Rates
2002	\$	%

**EXHIBIT C**  
**Schedule of Debt Service on Refunded Bonds**

<u>Period Ending</u>	<u>Interest</u>	<u>Principal Redeemed</u>	<u>Total</u>
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**EXHIBIT D**  
**Escrow Deposit**

**I. Cash - \$**

**II. Other Obligations**

<u>Description</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Total Cost</u>
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<u>Purchase Date</u>	<u>Cost of Securities</u>	<u>Float Contract</u>	<u>Cash Deposit</u>	<u>Total Escrow Cost</u>	<u>Yield</u>
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**III. Costs of Issuance - \$ \_\_\_\_\_**

**EXHIBIT E**  
**Escrow Fund Cash Flow**

<u>Date</u>	<u>Escrow Requirements</u>	<u>Escrow Receipts</u>	<u>Excess Receipts</u>	<u>Excess Balance</u>
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**APPENDIX A**  
**Notice of Redemption\***  
**City of Kirkland, Washington**  
**Water and Sewer Revenue Refunding Bonds, 1992**

NOTICE IS HEREBY GIVEN that the City of Kirkland, Washington has called for redemption on June 1, 2002, a portion of the outstanding principal maturities of its outstanding Water and Sewer Revenue Refunding Bonds, 1992 (the "Bonds").

The Bonds will be redeemed at a price of one hundred percent (100%) of their principal amount, plus interest accrued to June 1, 2002. The redemption price of the Bonds is payable on presentation and surrender of the Bonds at the office of:

The Bank of New York Fiscal Agency Department Ground Floor 101 Barclay Street 7 East New York, NY 10286	-or-	First Interstate Bank of Washington, N.A. Corporate Trust Department 14th Floor - M/S 257 999 Third Avenue Seattle, WA 98104
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Interest on all Bonds or portions thereof which are redeemed shall cease to accrue on June 1, 2002.

The following Bonds are being redeemed:

Maturity Years (June 1)	Principal Amounts	Interest Rates	CUSIP Nos.
2003	\$ 165,000	6.10%	497494GB(4)
2004	190,000	6.20	497494GC(2)
2005	210,000	6.30	497494GD(0)
2006	245,000	6.35	497494GE(8)
2007	300,000	6.40	497494GF(5)
2012	2,185,000	6.60	497494GG(3)

**By Order of City of Kirkland, Washington**

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\* This notice shall be given not more than 60 nor less than 30 days prior to June 1, 2002 by first class mail to each registered owner of the Refunded Bonds. In addition notice shall be mailed to The Depository Trust Company of New York, New York, Midwest Securities Company of Chicago, Illinois, Pacific Securities Depository Trust Company of San Francisco, California, Philadelphia Depository Trust Company of Philadelphia, Pennsylvania and \_\_\_\_\_, Seattle, Washington.

**The Bank of New York, as Paying Agent**

Dated: \_\_\_\_\_

Under the Interest and Dividend Tax Compliance Act of 1983, payor may be required to withhold 31% of the redemption price from any Bondowner who fails to provide to payor and certify under penalties of perjury, a correct taxpayer identifying number (employer identification number or social security number, as appropriate) or an exemption certificate on or before the date the Bonds are presented for payment. Bondowners who wish to avoid the application of these provisions should submit a completed Form W-9 when presenting their Bonds.

**APPENDIX B  
Fee Schedule**

Escrow Agent Fee: \$ \_\_\_\_\_

SUMMARY OF ORDINANCE NO. 3523

AN ORDINANCE of the City of Kirkland, Washington, approving a plan of refunding for certain outstanding water and sewer revenue bonds; authorizing the issuance of \$3,725,000 par value Water and Sewer Revenue Refunding Bonds, 1996, of the City; fixing the date, form, terms, interest rates, maturities and covenants of those bonds; providing for the issuance of bonds in the future on a parity therewith; appointing an escrow agent; and providing for the sale and delivery of the bonds to Piper Jaffray Inc. of Seattle, Washington.

Article I. Definitions. Article I sets forth definitions of certain capitalized terms used in the ordinance.

Article II. Findings and Determinations. Article II authorizes the sale of water and sewer refunding bonds to refund certain principal amounts of the outstanding water and sewer bonds.

Article III. Authorization and Issuance of Bonds. For the purpose of carrying out the refunding plan and to pay for the costs of issuing the Bonds, there are hereby authorized to be issued \$3,725,000 aggregate principal amount of Water and Sewer Revenue Refunding Bonds, 1996 (the "Bonds"), which shall bear interest from their date at such rates per annum and shall mature on June 1 of years and in such amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1998	\$ 20,000	3.90%
1999	35,000	4.00
2000	35,000	4.10
2001	35,000	4.15
2002	40,000	4.25
2003	210,000	4.30
2004	225,000	4.40
2005	250,000	4.50
2006	280,000	4.65
2007	330,000	4.70
2008	345,000	4.80
2009	360,000	4.90
2010	375,000	5.00
2011	580,000	5.10
2012	605,000	5.20

Article III also outlines the redemption provisions and purchase of Bonds.

Article IV. Issuance of Future Parity Bonds. Article IV sets forth the conditions that must be complied with for the issuance of bonds in the future with a parity lien on water/sewer revenues.



Article V. General Terms and Provisions of Parity Bonds. Article V outlines the terms and conditions that apply generally to all parity bonds.

Article VI. Redemption of Parity Bonds. Article VI sets forth the requirements for notice of bond redemption.

Article VII. Creation of Special Funds and Accounts and Payments Therefrom. Article VII creates the special City funds and accounts for the Bonds.

Article VIII. Disposition of Proceeds. Article VIII directs the deposit and use of Bond proceeds.

Article IX. Covenants. Article IX sets forth the general operating covenants of the water/sewer utility. Certain new covenants will take effect only after all outstanding bonds have been retired.

Article X. Supplemental and Amendatory Ordinances. Article X sets forth the conditions and purposes that must be met for approval of supplemental and amendatory ordinances.

Article XI. Defaults and Remedies. Article XI sets forth what shall constitute an Event of Default and the remedies that are provided for.

Article XII. Amendments and Bondowners Meetings. Article XII describes the procedures for Bondowners meetings.

Article XIII. Form of Parity Bonds. Article XIII sets forth the form of Bonds to be printed and delivered to the purchasers.

Article XIV. Miscellaneous, Defeasance, Sale of Bonds and Approval of Official Statement. Article XIV sets forth various provisions relating to the sale and administration of the Bonds. The Bonds are being purchased by Piper Jaffray Inc.

SIGNED in authentication thereof this 6th day of February, 1996.

  
\_\_\_\_\_  
City Clerk