

CITY OF LACEY, WASHINGTON

WATER AND SEWER UTILITY REVENUE REFUNDING BONDS, 1998

ORDINANCE NO. 1078

AN ORDINANCE OF THE CITY OF LACEY, WASHINGTON, AUTHORIZING THE ISSUANCE OF WATER AND SEWER REVENUE REFUNDING BONDS OF THE CITY IN THE PRINCIPAL AMOUNT OF \$7,030,000, FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING WATER AND SEWER REVENUE BONDS; PROVIDING THAT THE BONDS BE ISSUED ON A PARITY WITH CERTAIN OUTSTANDING WATER AND SEWER REVENUE BONDS OF THE CITY; FIXING THE DATE, FORM, MATURITIES, TERMS AND COVENANTS OF SUCH BONDS; AND AUTHORIZING THE SALE OF SUCH BONDS.

PASSED: FEBRUARY 12, 1998

PREPARED BY:

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* This Table of Contents is provided for reference only and does not constitute a part of the Ordinance for which it is provided.

ORDINANCE NO. 1078

AN ORDINANCE of the City of Lacey, Washington, authorizing the issuance of water and sewer revenue refunding bonds of the City in the principal amount of \$7,030,000, for the purpose of refunding certain outstanding water and sewer revenue bonds; providing that the bonds be issued on a parity with certain outstanding water and sewer revenue bonds of the City; fixing the date, form, maturities, terms and covenants of such bonds; and authorizing the sale of such bonds.

WHEREAS, the City Council of the City of Lacey, Washington (the "City") owns and operates a combined water supply and distribution system for the City (the "System"); and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of May 1, 1986 (the "1986A Bonds"), of which the principal amount of \$2,425,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of December 15, 1986 (the "1986B Bonds"), of which the principal amount of \$595,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of November 1, 1989 (the "1989 Bonds"), of which the principal amount of \$2,530,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of November 1, 1991 (the "1991 Bonds"), of which the principal amount of \$2,570,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenues bonds under date of September 1, 1995 (the "1995 Bonds"), of which the principal amount of \$2,285,000 is currently outstanding; and

WHEREAS, it appears to the City that the 1986A, 1986B and 1989 Bonds and the callable portion of the 1991 Bonds may be refunded to realize a savings by the issuance of

\$7,030,000 aggregate principal amount of revenue bonds (the "Bonds") to be issued with a lien on the revenues of the System on a parity with the non-refunded 1989 and 1991 Bonds and the 1995 Bonds;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, ORDAINS as follows:

Section 1. Definitions. As used in this ordinance, the following words shall have the following meanings:

"Acquired Obligations" means the obligations acquired pursuant to Section 20 hereof to refund the Refunded Bonds.

"Advance Refunding Account" means the City of Lacey Water and Sewer Revenue Bond Advance Refunding Account established by Section 20 hereof.

"Annual Debt Service" means the amount required to be paid in any calendar year for (1) interest on all Parity Bonds then outstanding (once the Outstanding Bonds are no longer outstanding excluding interest paid from proceeds of such bonds); (2) principal of all Parity Bonds then outstanding but excluding any outstanding Parity Bonds for which a Sinking Fund Account has been established; and (3) payments into any Sinking Fund Account for the amortization of outstanding Parity Bonds.

"Arbitrage and Tax Certificate" means the certificate executed by the Finance Director pertaining to the calculation of any Rebate Amount with respect to the Bonds.

"Assessment Income" means the principal of and interest on assessments levied in ULIDs and pledged to be paid into the Bond Fund. Assessment Income shall be allocated to the years in which it would be received if the unpaid balance of each assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the assessment roll.

"Assessments" means all assessments levied in any ULID of the City created for the acquisition or construction of additions and improvements to and extensions of the System, if

such assessments are pledged to be paid into the Bond Fund. "Assessments" include any installments of Assessments and any interest or penalties which may be due thereon.

"Bond Fund" means the City of Lacey Water and Sewer Revenue Bond Fund created in the office of the Finance Director of the City by Ordinance No. 460.

"Bond Registrar" means the fiscal agency of the State of Washington in either Seattle, Washington, or New York, New York, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds and paying interest on and principal of (and any premium pursuant to call on) the Bonds.

"1986A Bonds" means the \$3,250,000 principal amount of Water and Sewer Utility Revenue Bonds, 1986 (Series A) issued under the date of May 1, 1986.

"1986B Bonds" means the \$962,500 principal amount of Water and Sewer Utility Revenue Bonds, 1986 (Series B) issued under the date of December 15, 1986.

"1989 Bonds" means the \$3,300,000 principal amount of Water and Sewer Utility Revenue Bonds, 1989 issued under the date of November 1, 1989.

"1991 Bonds" means the \$3,600,000 principal amount of Water and Sewer Utility Revenue Bonds, 1991 issued under the date of November 1, 1991.

"1995 Bonds" means the \$2,500,000 principal amount of Water and Sewer Utility Revenue Bonds, 1995 issued under the date of September 1, 1995.

"Bonds" means the \$7,030,000 principal amount of water and sewer utility revenue refunding bonds of the City issued pursuant to this ordinance.

"City" means the City of Lacey, Washington, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington.

"Code" means Section 103 of the Internal Revenue Code of 1986 and applicable regulations thereunder.

"Commission" means the Securities and Exchange Commission.

"Cost of Maintenance and Operation" means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs and insurance and

administrative expenses, but excludes depreciation, payments for debt service or into reserve accounts, costs of capital additions to or replacements of the System, municipal taxes or payments to the City in lieu of taxes.

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

"Debt Service Account" means the account of that name created in the Bond Fund by Section 6 of Ordinance No. 460 of the City.

"DTC" means The Depository Trust Company, New York, New York.

"Escrow Agreement" means the agreement between the City and the Escrow Agent entered into pursuant to Section 21 hereof.

"Future Parity Bonds" means any revenue bonds, notes or warrants which may be issued by the City in the future as Parity Bonds.

"Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.

"Insurance Policy" means the policy of bond insurance issued with respect to the Bonds by the Insurer.

"Letter of Representation" means the agreement between the City and DTC.

"Maximum Annual Debt Service" means as of the date of calculation the maximum amount of Annual Debt Service required to be paid in any calendar year thereafter for the then outstanding Parity Bonds.

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

"Net Revenue" means the Revenue of the System less the Cost of Maintenance and Operation.

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

"Outstanding Bonds" means the nonrefunded 1989 Bonds, the nonrefunded 1991 Bonds and the 1995 Bonds. The Outstanding Bonds are the only Parity Bonds of the City for which the Revenue of the System has been pledged for repayment.

"Parity Bonds" means the Outstanding Bonds, the Bonds and any revenue bonds, notes, warrants or other obligations issued by the City which have a lien upon the Revenue of the System for the payment of the principal thereof and interest thereon equal to the lien created upon the Revenue of the System for the payment of the principal of and interest on the Outstanding Bonds and the Bonds.

"Permitted Investments" means any legal investments for funds of the City.

"Rebate Amount" means the amount, if any, determined to be payable with respect to the Bonds by the City to the United States of America in accordance with Section 148(f) of the Code.

"Refunded Bonds" means the 1986A Bonds, the 1986B Bonds, the 1989 Bonds maturing on and after December 1, 1999 and the 1991 Bonds maturing on and after December 1, 2002.

"Reserve Account" means the Bond Reserve Account created in the Bond Fund by Section 6 of Ordinance No. 460 of the City.

"Revenue of the System" means all earnings, revenue and moneys, except Assessments, received by the City from or on account of the operation of the System, including general facility charges, the income from the investment of money in the Revenue Fund and Bond Fund, or from any other investment thereof, except the income from investments irrevocably pledged to the payment of revenue bonds pursuant to a plan of retirement or refunding. "Revenue of the System" shall also include federal or state reimbursements of operating expenses to the extent such expenses are included as a Cost of Maintenance and Operation of the System.

"Revenue Fund" means the City of Lacey Water and Sewer Revenue Fund created by Ordinance No. 102.

"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.

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

"Sinking Fund Account" means an account created in the Bond Fund to amortize the principal of Term Bonds.

"Surety Bond" means any letter of credit, insurance policy, surety bond or other equivalent credit facility or any combination thereof issued to the City to satisfy all or part of the amount required to be maintained in the Reserve Account, the proceeds of which shall be used only to prevent deficiencies in the payment of the principal of or interest on the Parity Bonds resulting from insufficient amounts being on deposit in the Debt Service Account or any Sinking Fund Account to make such payments of principal and interest as the same become due at maturity or on any mandatory redemption date. Such Surety Bond shall be provided by an institution or entity whose credit facility would not adversely affect the rating of the Parity Bonds by Moody's Investors Service, Inc. and by Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc., if the Parity Bonds were so rated, and if not so rated, a rating shall be secured from one of such entities or any other entity whose ratings are generally relied upon by investors in municipal bonds as necessary to demonstrate that substitution of a Surety Bond for any portion of the Reserve Account requirement will not adversely affect the security of the Parity Bonds. "Surety Bond Payment" means an amount equal to the payment required to be made by the City on any interest or principal payment date or mandatory redemption date minus that portion of such payment made by the City to the Bond Registrar for payment to the bondholders on such date, all as certified by the Bond Registrar in a demand for payment made pursuant to the terms of any Surety Bond.

"System" means the combined water and sewer system as it now exists, any storm water drainage utility and/or any garbage and refuse collection and disposal system which may hereafter be combined with the water and sewer system in the manner permitted by law, together with any additions, extensions and improvements made thereto, for so long as any Parity Bonds remain outstanding.

"Term Bonds" means the 1991 Term Bonds and any Parity Bonds designated by the Council as "Term Bonds" pursuant to an ordinance which authorizes the issuance of Parity Bonds and provides for mandatory payments into a sinking fund account established for the Term Bonds so designated and provides for mandatory redemption of such Term Bonds from such sinking fund account.

"ULID" means a utility local improvement district in which Assessments have been or will be levied for improvements financed in whole or in part from proceeds of any Parity Bonds.

Section 2. Compliance with Parity Conditions. The Council hereby makes the following findings and determinations as required by Section 16 of Ordinance No. 863, Section 16 of Ordinance No. 922, and Section 16 of Ordinance No. 1016 (the "Outstanding Bond Ordinances"):

First, the Bonds are issued for the purpose of refunding revenue bonds payable out of the Revenue of the System;

Second, at the time of the passage of this ordinance and at the time of the issuance of the Bonds, there is not nor will there be any deficiency in the Bond Fund or the Reserve Account, and all payments to said Fund required to be made by the Outstanding Bond Ordinances shall have been made;

Third, both the principal of and interest on the Bonds are payable out of the Bond Fund, and this ordinance provides for the payments into the Reserve Account required by the Outstanding Bond Ordinances; and

Fourth, the issuance of the Bonds will result in a debt service savings and will not require an increase of more than \$5,000 in any calendar year for principal of and interest on the Bonds.

The limitations and conditions contained in the respective Outstanding Bond Ordinances having been complied with in the matter of the issuance of the Bonds, the payments required by this ordinance to be made into the Bond Fund and accounts therein for the purpose of paying and securing the payment of the principal of and interest on the Bonds shall constitute a lien upon the Revenue of the System and money in the Revenue Fund equal in rank to the lien and charge

thereon of the payments required to be made into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Bonds.

Section 3. Authorization of Bonds. In order to refund the Refunded Bonds the City shall issue its "Water and Sewer Utility Revenue Refunding Bonds, 1998" in the principal amount of \$7,030,000 (the "Bonds"). The Bonds shall be dated March 1, 1998, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Bond shall represent more than one maturity), shall be registered as to both principal and interest, shall bear interest from their date until the Bond bearing such interest has been paid or its payment duly provided for, payable June 1, 1998, and semiannually thereafter on the first days of each December and June. The Bonds shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification and shall mature on December 1 of the following years and in the following amounts and shall bear interest at the following rates:

<u>Date</u>	<u>Amount</u>	<u>Interest Rate</u>
1998	\$ 180,000	4.00%
1999	495,000	4.00
2000	510,000	4.00
2001	535,000	4.00
2002	835,000	4.00
2003	870,000	4.10
2004	905,000	4.20
2005	945,000	4.25
2006	985,000	5.00
2007	245,000	4.35
2008	255,000	4.40
2009	270,000	4.50

Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. For so long as outstanding Bonds are registered in the name of CEDE & Co., or its registered assigns, as nominee of DTC, payments of principal of and interest on the Bonds shall be made in same day funds on the date such payment is due and payable at the place and in the manner provided in the Letter of Representation. In the event that Bonds are no longer

immobilized by DTC, interest on the Bonds shall be paid by check or draft mailed to the registered owners or their nominees at the addresses appearing on the bond register as of the 15th day of the month preceding the interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners or their nominees at the principal offices of either of the fiscal agencies of the State of Washington in the cities of Seattle, Washington or New York, New York, at the option of such owners or nominees.

The Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Bonds shall not be general obligations of the City.

Upon surrender thereof to the Bond Registrar, the Bonds are interchangeable for other Bonds in any authorized denomination of an 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. The Bond Registrar shall not be obligated to transfer or exchange any Bond during the fifteen days preceding any interest payment date or the date on which notice of redemption of such Bond is to be given nor after such notice has been given.

The City may deem the person in whose name each Bond is registered to be the absolute owner thereof for the purpose of receiving payment of the principal of and interest on such Bond and for any and all other purposes whatsoever.

Section 4. Initial Immobilization of Bonds; Depository Provisions. The Bonds initially shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the Letter of Representation. The City Finance Director is authorized to execute a Letter of Representation. Neither the City nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal or redemption price of or interest on the Bonds, or any notice which is permitted or required to be given to registered owners under this ordinance (except such notice as is required to be given by the City to the Bond Registrar or to DTC).

The Bonds initially shall be issued in denominations equal to the aggregate principal amount of each maturity and initially shall be registered in the name of CEDE & Co. as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository. For so long as any Bonds are held in fully immobilized form, DTC, its successor or any substitute depository appointed by the City, as applicable, shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, or owners shall mean DTC or its nominees and shall not mean the owners of any beneficial interests in the Bonds. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except:

1. To any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it;
2. To any substitute depository appointed by the City pursuant to this subsection or such substitute depository's successor; or
3. To any person as herein provided if the Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the City that it is no longer in the best interests of the City to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the City may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

In the case of any transfer pursuant to clause 1 or 2 of the second paragraph of this subsection, the Bond Registrar, upon receipt of all outstanding Bonds together with a written request on behalf of the City, shall issue a single new Bond for each maturity of Bonds then outstanding, registered in the name of such successor or such substitute depository or their nominees, as the case may be, all as specified in such written request of the City.

In the event that DTC or its successor (or substitute depository or its successor) resigns from its functions as depository and no substitute depository can be obtained or the City determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain Bond certificates, the ownership of Bonds may be transferred to any person as herein provided, and the Bonds shall no longer be held in fully immobilized form. The City shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt of all then outstanding Bonds by the Bond Registrar, together with a written request on behalf of the City to the Bond Registrar, new Bonds shall be issued in such denominations and registered in the names of such persons as are requested in such a written request.

Section 5. Optional Redemption; Open Market Purchase. The City reserves the option to redeem the Bonds maturing on and after December 1, 2008, in whole or in part (maturities to be selected by the City and by lot within a maturity in such manner as the Bond Registrar or DTC shall determine) on December 1, 2007 and on any date thereafter, at par plus accrued interest to the date fixed for redemption.

Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

All official notices of redemption shall be dated and shall state: (1) the redemption date, (2) the redemption price, (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed, (4) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and (5) the place where such Bonds are to be

surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The requirements of this Section shall be deemed to be complied with when notice is mailed as provided, whether or not it is actually received by the owner of any Bond.

In addition to the foregoing notice, further notice shall be given by the Bond Registrar on behalf of the City as set forth 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 described.

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

2. Each further notice of redemption shall be sent at least 30 days before the redemption date to the SID, if any, and to each NRMSIR or to the MSRB in accordance with Section 23 and to the Insurer at 113 King Street, Armonk, New York 10504, Attention: Surveillance.

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

The City further reserves the right to use at any time any surplus Revenue of the System available after providing for the payments required by paragraphs First, Second, Third, Fourth,

and Fifth of Section 6 of this ordinance, to purchase any of the Bonds in the open market at any price.

Section 6. Revenue Fund. There has heretofore been established in the office of the Finance Director of the City by Ordinance No. 102 a special fund of the City now designated as the "Water and Sewer Revenue Fund" (the "Revenue Fund"). The Revenue of the System shall be deposited in the Revenue Fund as collected. The Revenue Fund shall be held separate and apart from all other funds and accounts of the City and the Revenue of the System deposited therein shall be used only for the following purposes and in the following order of priority:

First, to pay the Cost of Maintenance and Operation of the System;

Second, to make all payments required to be made into the Debt Service Account to pay the interest on any Parity Bonds;

Third, to make all payments required to be made into the Debt Service Account to pay the principal of any Parity Bonds and to make all payments required to be made into any sinking fund or bond retirement account heretofore or hereafter created for the payment of the principal of Term Bonds;

Fourth, to make all payments required to be made into the Reserve Account to secure the payment of any Parity Bonds;

Fifth, to make all payments required to be made into any other revenue obligation redemption fund and debt service account or reserve account created to pay and secure the payment of the principal of and interest on any revenue obligations of the City having a lien upon the Revenue of the System and the money in the Revenue Fund junior and inferior to the lien thereon for the payment of the principal of and interest on Parity Bonds;

Sixth, to retire by redemption or purchase in the open market any outstanding obligations of the City or to make necessary additions, betterments, improvements and repairs to or extension and replacements of the System, or any other lawful City purposes.

Once the 1991 Bonds and 1995 Bonds are no longer outstanding, the City may create a Rate Stabilization Account in the Revenue Fund. The City may, at any time, deposit in and withdraw from the Rate Stabilization Account Revenue of the System.

Section 7. Disposition of Bond Proceeds. The proceeds of the Bonds shall be applied as follows:

1. Any accrued interest shall be deposited into the Bond Fund.
2. The amount, if any, required to meet the Reserve Account Requirement shall be deposited into the Reserve Account.
3. The remaining Bond proceeds shall be used to accomplish the refunding of the Refunded Bonds and to pay costs of issuing the Bonds.

Section 8. Bond Fund. A special fund of the City known as the "1977 City of Lacey Water and Sewer Revenue Bond Fund" (the "Bond Fund") has heretofore been created in the office of the Finance Director of the City for the purpose of paying and securing the payment of Parity Bonds.

A. A Debt Service Account has heretofore been created in the Bond Fund for the purpose of paying the principal of, premium if any, and interest on Parity Bonds. As long as any of the Bonds remain outstanding, the City obligates itself to set aside and pay from the Revenue Fund into the Debt Service Account those amounts necessary, together with Assessments and such other funds as are on hand and available in the Debt Service Account, to pay the interest or principal and interest next coming due on the Bonds. Such payments from the Revenue Fund shall be made on or before the twentieth day of each month amounts as follows: (i) beginning March, 1998 an amount, together with other amounts in the fund, equal to at least one-third of the interest to become due and payable on the next interest payment date on all of the Bonds then outstanding; (ii) beginning June, 1998, together with other money available in the fund, equal to one-sixth of the interest next coming due on the Bonds; and (iii) beginning March, 1998 an amount, together with other amounts in the fund, equal to at least one-ninth of the principal of the Bonds to become due and payable on the next principal payment date; and (iv) beginning

December, 1998 an amount, together with other amounts in the fund, equal to at least one-twelfth of the principal amount of the Bonds to become due and payable on the next principal payment date.

Once the Outstanding Bonds are no longer outstanding, monthly deposits into the Bond Fund shall not be required and the City shall deposit money into the Bond Fund on or prior to an interest or principal payment date.

B. A Reserve Account has heretofore been created in the Bond Fund for the purpose of securing the payment of the principal of and interest on Parity Bonds. The City covenants and agrees that upon the issuance of the Bonds it will have on deposit in the Reserve Account a total amount which will be equal to the Maximum Annual Debt Service on the Outstanding Bonds and the Bonds. Once the Outstanding Bonds are no longer outstanding, the City will maintain on deposit in the Reserve Account with respect to any Parity Bonds, an amount equal to the lesser of (a) 125% of Average Annual Debt Service on such bonds, (b) 10% of the net proceeds of such series of bonds, and (c) maximum Annual Debt Service (the "Reserve Account Requirement").

The City hereby further covenants and agrees that in the event it issues any Future Parity Bonds it will provide in the ordinance authorizing the issuance of the same that it will pay into the Reserve Account out of Assessments and the Revenue of the System (or, at the option of the City, out of any other funds legally available for such purpose) not less than approximately equal additional annual future payments so that by five years from the date of such Future Parity Bonds there will have been paid into the Reserve Account an amount which, with the money already on deposit therein, will be equal to the Maximum Annual Debt Service, or the Reserve Account Requirement, as applicable, in any calendar year thereafter to pay the principal of and interest on all outstanding Parity Bonds.

The City further covenants and agrees that when said required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Maximum Annual Debt Service, or the Reserve Account Requirement, as applicable, as redetermined in each calendar year with respect to the bonds secured by the Reserve Account.

Whenever there is a sufficient amount in the Bond Fund, including the Reserve Account, the Debt Service Account and any Sinking Fund Accounts, to pay the principal of, premium if any, and interest on all outstanding Parity Bonds, the money in the Reserve Account may be used to pay such principal, premium, if any, and interest. Money in the Reserve Account may be withdrawn to redeem and retire, and to pay the interest due to the date of such redemption and premium, if any, on any outstanding Parity Bonds, as long as the money left remaining on deposit in the Reserve Account is equal to the Maximum Annual Debt Service or the Reserve Account Requirement, as applicable. Investments in the Reserve Account shall be valued at their market price at least annually.

In the event there shall be a deficiency in the Debt Service Account to meet maturing installments of either interest on or principal of and interest on the outstanding Parity Bonds payable out of such Account, such deficiency shall be made up from the Reserve Account by the withdrawal of moneys therefrom. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up out of Assessments and Revenue of the System after making necessary provision for the payments required to be made by paragraphs First, Second, and Third of Section 6 of this ordinance.

The City may at any time and from time to time obtain one or more Surety Bonds in lieu of maintaining all or part of the reserve requirement, in which event the reserve limitation defined in Subsection E of this Section 8 shall apply only to amounts held on deposit in the Reserve Account. In the event any such Surety Bonds are obtained, the City covenants and agrees to maintain an amount in the Reserve Account at least equal to the difference between the Maximum Annual Debt Service or the Reserve Account Requirement, as applicable, and the aggregate limit on the amount payable under such Surety Bonds to pay debt service on the Parity Bonds (the "Surety Bond limit"), the amount of said difference at any time and from time to time is hereinafter referred to as the "adjusted reserve requirement." In the event that the Surety Bond limit shall be expected to be reduced by reason of expiration of the Surety Bond on a fixed date or the end of a fixed term, the City hereby covenants and agrees to replenish the Reserve Account to

an amount equal to the reserve requirement or the applicable adjusted reserve requirement no later than such date of expiration. In the event that the Surety Bond limit is reduced by reason of payment made under a Surety Bond to the Bond Registrar to pay any principal of or interest on the Parity Bonds, the City hereby covenants and agrees to make payments to the issuer of such Surety Bond pursuant to the terms of a reimbursement agreement effective to reinstate the maximum Surety Bond limit; and to the extent there is no applicable reimbursement agreement, the City covenants and agrees to deposit in the Reserve Account from moneys first available therefor pursuant to Section 6 of this ordinance such amounts as are necessary to provide a balance therein equal to the then applicable adjusted reserve requirement.

C. Money in the Bond Fund not needed to pay the interest on or principal of and interest on any outstanding Parity Bonds next coming due or to maintain required reserves therefor may be used to redeem and retire Parity Bonds.

D. Money in the Debt Service Account, any Sinking Fund Account and Reserve Account may be invested in Permitted Investments. Investments in the Debt Service Account and any Sinking Fund Account shall mature prior to the date on which such money shall be needed for required interest or principal payments. Investments in the Reserve Account shall mature not later than the last maturity of any then outstanding Parity Bonds. All interest earned and income derived by virtue of such investments shall remain in the Bond Fund and be used to meet the required deposits into any account therein.

Section 9. Defeasance. In the event that money and/or Government Obligations maturing or having guaranteed redemption prices at the option of the holder at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Bonds in accordance with their terms are irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for, and such Bonds shall then cease to be entitled to any lien, benefit or security of this ordinance, except the right to receive the funds so set aside and pledged, and such

Bonds shall no longer be deemed to be outstanding hereunder. Within 30 days of any defeasance of Bonds, the City shall provide notice of defeasance of Bonds to registered owners and to each NRMSIR and SID, if any, in accordance with Section 23.

Section 10. Adequacy of Revenues. The Council hereby declares, in fixing the amounts to be paid into the Bond Fund and the accounts therein out of money in the Revenue Fund and out of the Revenue of the System, that it has exercised due regard for Cost of Maintenance and Operation and charges necessary to pay the principal of and interest on the Outstanding Bonds and the Bonds and has not obligated the City to set aside and pay into said fund and accounts a greater amount of the Revenue of the System and Assessments than in its judgment will be available over and above such Cost of Maintenance and Operation.

Section 11. Pledge; Lien Position of Bondowners. The Net Revenue, Assessments, and money in the Bond Fund are hereby pledged to the repayment of the Parity Bonds. The amounts so pledged to be paid by this ordinance out of the Revenue of the System and Assessments into the Bond Fund are hereby declared to be a prior lien and charge upon such Revenue of the System superior to all other charges of any kind or nature except for the Cost of Maintenance and Operation of the System, except that amounts so pledged are equal in rank to the lien and charge thereon heretofore made to pay and secure the payment of the principal of and interest on the Outstanding Bonds and which may hereafter be made to pay and secure the payment of the principal of and interest on any Future Parity Bonds.

Section 12. General Covenants. The City hereby covenants and agrees with the owners of each of the Bonds for as long as any of the same remain outstanding as follows:

A. Maintenance and Operation Standards. The City shall at all times maintain, preserve and keep the properties of the System in good repair, working order and condition and will from time to time make all necessary and proper repairs, renewals, replacements, extensions and betterments thereto, so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and the City will at all times operate or cause to be

operated said properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

B. Collection and Application of Assessments. The City shall determine by March 1 of each year all Assessments which have become delinquent during the preceding calendar year and bring the necessary actions of foreclosure upon the property against which such Assessments were levied by June 1 of such year or, if later, the earliest date permitted by law. The City shall promptly take action to enforce the payment of delinquent service charges by such means as are legally available.

C. Establishment and Collection of Rates and Charges; Coverage. The City shall fix, maintain and collect rates and charges for the use of the services and facilities and all commodities sold, furnished or supplied by the System, which shall be fair and nondiscriminatory and shall adjust such rates and charges from time to time so that:

1. the Revenue of the System derived therefrom, together with Assessments collected, will at all times be sufficient (a) to pay all costs of and charges and expenses in connection with the proper operation and maintenance of the System, (b) to pay the principal of and interest on the outstanding Parity Bonds, as and when the same shall become due and payable, (c) to make when due all payments which the City is obligated to make into the Reserve Account and all other payments which the City is obligated to make pursuant to this ordinance and (d) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the Revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now and hereafter become obligated to pay from the Revenue of the System by law or contract; and

2. the Net Revenue together with Assessment Income in each calendar year will equal at least 1.20 times the Maximum Annual Debt Service. Once the Outstanding Bonds are no longer outstanding, the City covenants that it will establish, maintain and collect rates and charges for water and sanitary sewage collection and disposal service in an amount to provide Net Revenue together with Assessment Income at least equal to the sum of (a) 120% of the amounts

required in such calendar year to be paid as Annual Debt Service on the Parity Bonds minus the amount of Assessments collected in such year and (b) 100% of the amount of Assessments collected in such year. In determining whether the rate covenant has been met, the City shall subtract from Net Revenue deposits into the Rate Stabilization Account and add withdrawals from the Rate Stabilization Account in such year.

D. Provision for Cost of Maintenance and Operation. After making or providing for the monthly payments from the Revenue Fund as required by Section 8 hereof, there shall be maintained in the Revenue Fund sufficient moneys to enable the City to meet continuously the Cost of Maintenance and Operation of the System on a current basis.

E. Sale or Disposition of System or Property. 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 into the Bond Fund of cash or "government obligations" (as now or hereafter defined in RCW 39.53) sufficient to pay the principal of and interest on all then outstanding Parity Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the System (once the Outstanding Bonds are no longer outstanding, in excess of 5% of the net utility plant of the System) unless provision is made for payment into the Bond Fund of the greatest of the following:

1. An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (defined as the total amount of the Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Net Revenue from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenue of the System for such period; or

2. An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) that the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire System immediately prior to such sale or disposition.

The proceeds of any such sale or disposition of a portion of the properties of the System (to the extent required above) shall be paid into the Reserve Account of the Bond Fund.

Notwithstanding the preceding paragraphs of this Subsection 12.E, the City may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the same which 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.

F. Liens and Encumbrances. The City will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the System or the Revenue, or any part thereof, prior or superior to the lien thereon for the payment of Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Revenue of the System, or any part thereof, or upon any funds in the hands of the City, prior to or superior to the lien of Parity Bonds, or which might impair the security of Parity Bonds.

G. Insurance. The City will keep the works, plants and facilities comprising the System insured, and will carry such other insurance, with responsible insurers, with policies payable to the City, against, risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties. In the event of any loss or damage, the City will promptly repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy for that purpose; or, in the event the City should determine not to repair or reconstruct such damaged portion of the properties of the System, the proceeds of such insurance shall be paid into the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in said Reserve Account and the balance, if any, shall at the option of the City, be used either for repairs, renewals, replacements or capital additions to the System or for the redemption of Parity Bonds.

H. Books and Accounts. The City shall keep proper books of account which shall be kept in accordance with any applicable rules and regulations prescribed by the State of

Washington. The City shall prepare, and any Bondowner may obtain copies of, balance sheets and profit and loss statements showing in reasonable detail the financial condition of the System as of the close of each year, and the income and expenses of such year, including the amounts paid into the Revenue Fund, the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of this ordinance, and the amounts expended for maintenance, renewals, replacements and capital additions to the System.

I. No Free Service. The City will not furnish or supply or permit the furnishing or supplying of any 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, so long as any Parity Bonds are outstanding and unpaid.

J. Improvements Standards. The City will not expend any of the revenues derived by it from the operation of the System or the proceeds of any indebtedness payable from Revenue of the System for any 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 System in an efficient and economical manner.

K. Tax-Exemption. The City hereby covenants that it will not make any use of the proceeds from the 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 and the applicable regulations thereunder which will cause the Bonds to be "arbitrage bonds" within the meaning of said Section and said regulations. The City will comply with the applicable 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 13. Special Designation. The City Council hereby designates the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of said Code relating to financial

institutions. The City does not expect to issue more than \$10,000,000 of qualified obligations (including the Bonds) in 1998.

Section 14. Arbitrage Rebate. The City will pay the Rebate Amount, if any, to the United States of America at the times and in the amounts necessary to meet the requirements of the Code to maintain the federal income tax exemption for interest on the Bonds, in accordance with the Arbitrage and Tax Certification.

Section 15. Future Parity Bonds. The City hereby further covenants and agrees with the owners of each of the Bonds for as long as any of the same remain outstanding as follows:

A. The City reserves the right to issue Future Parity Bonds for the purpose of:

First, providing funds to acquire, construct, reconstruct, install or replace any equipment, facilities, additions, betterments or other capital improvements to the System for which it is authorized by law to issue revenue bonds, or

Second, refunding at or prior to their maturity any revenue bond anticipation notes, or outstanding revenue bonds or other obligations payable out of the Revenue of the System, and to pledge that payments will be made out of the Revenue of the System and into the Bond Fund and the Reserve Account therein to pay and secure the payment of the principal of and interest on such Future Parity Bonds on a parity with the payments required herein to be made out of such Revenue into such Fund and Account to pay and secure the payment of the principal of and interest on any Parity Bonds then outstanding, upon compliance with the following conditions:

1. At the time of the issuance of any Future Parity Bonds there is no deficiency in the Bond Fund or the Reserve Account.

2. If there are Assessments levied in any ULID in which additions and improvements to and extensions of the System will be constructed from the proceeds of such Future Parity Bonds, the ordinance authorizing such Future Parity Bonds requires that such Assessments shall be paid into the Bond Fund.

3. If there are Assessments pledged to be paid into a warrant or bond redemption fund for revenue bonds or warrants being refunded by Future Parity Bonds, the ordinance authorizing the Future Parity Bonds requires such Assessments shall be paid into the Bond Fund.

4. The principal of and interest on the Future Parity Bonds is payable out of the Bond Fund and the requirements for Reserve Account payments in Section 8 of this ordinance are met.

5. Prior to the delivery of any Parity Bonds the City shall have on file in the office of the Clerk a certificate of an independent engineer or certified public accountant showing that the Net Revenue determined and adjusted as hereafter provided for each calendar or fiscal year after the issuance of such Parity Bonds (the "Adjusted Net Revenue") together with Assessment Income will equal at least 1.20 times the Maximum Annual Debt Service required to be paid out of the Revenue Fund in any such year on all Parity Bonds then outstanding, including the Parity Bonds proposed to be issued (once the Outstanding Bonds are no longer outstanding, Adjusted Net Revenue together with Assessment Income shall be equal to at least the sum of (a) 120% of the amounts required in each year to be paid as Annual Debt Service on all Parity Bonds outstanding plus the Parity Bonds proposed to be issued minus the amount of Assessments due in each year and (b) 100% of the amount of Assessments due in each year) (the "Coverage Requirement").

The Adjusted Net Revenue shall be the Net Revenue (excluding amounts in the Rate Stabilization Account) for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds as adjusted by such engineer or accountant to take into consideration changes in Net Revenue estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding;

(i) the additional Net Revenue which would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of such 24 month period, had been in force during the full 24 month period;

(ii) the additional Net Revenue which would have been received if any facility of the System which became fully operational after the beginning of such 24 month period had been so operating for the entire period;

(iii) the additional Net Revenue estimated by such engineer or accountant to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System which (a) are under construction at the time of such certificate or (b) will be constructed from the proceeds of the Future Parity Bonds to be issued;

(iv) the additional Net Revenue which would have been received if any customers added to the System during such 24 month period were customers for the entire period.

Such engineer or accountant may rely upon, and his certificate shall have attached thereto, financial statements of the System, certified by the City Finance Director showing income and expenses for the period upon which the same is based.

The certificate of such engineer or accountant shall be conclusive and the only evidence required to show compliance with the provisions and requirements of this Subsection A(5).

Once the Outstanding Bonds are no longer outstanding, in lieu of such certificate of an engineer or accountant, prior to the issuance of Future Parity Bonds, the City may have on file a certificate of an appropriate financial officer of the City stating that the Coverage Requirement will be met based on the Net Revenues for a period of any 12 consecutive months out of the 24 months preceding the delivery of such bonds for any future year on all outstanding Parity Bonds and the Future Parity Bonds to be issued.

Notwithstanding the foregoing requirement, if Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds results in a debt service savings

and does not require an increase of more than \$5,000 in any fiscal or calendar year for principal and interest on such refunding Future Parity Bonds, the condition stated in Subsection A(5) of this Section need not be met.

B. Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Revenue of the System junior or inferior to the payments required by this ordinance to be made out of such Revenue into the Bond Fund and Reserve Account to pay and secure the payment of any outstanding Parity Bonds.

C. Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Section 16. Lost or Destroyed Bonds. In case any of the Bonds shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, tenor and effect to the registered owner or nominee thereof upon payment to the City for the expenses and charges in connection therewith and upon his or her filing with the Bond Registrar evidence satisfactory to said Bond Registrar that such Bond or Bonds were actually lost, stolen or destroyed and of his ownership thereof, and upon furnishing the City with indemnity satisfactory to them both.

Section 17. Form of the Bonds. The Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at the principal office of the Fiscal Agency of the State of Washington in Seattle, Washington, or New York, New York.

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the City of Lacey (the "Issuer") to the Fiscal Agency of the State of Washington, or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund

payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

\$7,030,000

CITY OF LACEY, WASHINGTON
WATER AND SEWER UTILITY REVENUE REFUNDING BONDS, 1998

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA Insurance Corporation

No. _____

\$ _____

UNITED STATES OF AMERICA

STATE OF WASHINGTON

CITY OF LACEY

WATER AND SEWER UTILITY REVENUE REFUNDING BOND, 1998

INTEREST RATE:

MATURITY DATE:

CUSIP NO:

Registered Owner:

Principal Amount: _____ DOLLARS

The City of Lacey, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City"), for value received, hereby promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from March 1, 1998, or the most recent date to which interest has been paid or duly provided for until payment of this bond at the Interest Rate set forth above, payable on June 1, 1998, and semiannually thereafter on the first days of each December and June and with full obligation on the part of the City to pay interest at the same rate from and after the maturity date until this bond with interest is paid in full, or funds are available in the "1977 City of Lacey Water and Sewer Revenue Bond Fund" created by Ordinance No. 460 of the City (the "Bond Fund") for payment in full.

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 (on the date such interest is due) to the Registered Owner or assigns at the address shown on the Bond Register as of the 15th day of the month preceding the interest payment date. Principal shall be paid to the Registered Owner or assign upon presentation and surrender of this bond at the office of either of the fiscal agencies of the State of Washington in the cities of Seattle, Washington, or New York, New York.

Said principal and interest are payable solely out of the Bond Fund. Reference is made to Ordinance No. 1078 of the City (the "Bond Ordinance") for definitions of capitalized terms used herein.

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

By the Bond Ordinance, the City has designated the bonds of this issue to be qualified tax-exempt obligations pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986 relating to financial institutions.

It is hereby certified and declared that 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 as required by law.

This bond shall not become valid or obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance until the certificate of authentication set forth hereon has been manually signed by the Bond Registrar.

IN WITNESS WHEREOF, the City has caused this bond to be signed by the manual or facsimile signature of the Mayor and to be attested by the manual or facsimile signature of the City Clerk and its corporate seal to be impressed or a facsimile thereof imprinted hereon this 1st day of March, 1998.

CITY OF LACEY, WASHINGTON

By _____
Mayor

ATTEST:

City Clerk

Date of Authentication: _____

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered Water and Sewer Utility Revenue Refunding Bonds, 1998 of the City of Lacey, Washington, described in the within-mentioned Bond Ordinance.

WASHINGTON STATE FISCAL AGENCY

By _____
Authorized Signer

ADDITIONAL PROVISIONS

This bond is one of a total issue of \$7,030,000 aggregate principal of bonds of like date, tenor and effect, except as to denomination, interest rate, maturity and redemption provisions, all payable from the Bond Fund and all issued by the City under and pursuant to the laws of the State of Washington and the Bond Ordinance for the purpose of refunding certain outstanding water and sewer revenue bonds as described in the Bond Ordinance.

The bonds of this issue maturing on or after December 1, 2008, may be redeemed as a whole or in part in integral multiples of \$5,000 (maturities to be selected by the City and by lot within a maturity in such manner as the Bond Registrar or DTC shall determine) on December 1, 2007 or any date thereafter, at a price of par plus accrued interest to the date of redemption. Interest on any bonds so called for optional redemption shall cease on such redemption date unless the same shall not be redeemed upon presentation made pursuant to such call.

Notice of any such redemption shall be given not less than 30 days nor more than 60 days prior to the date fixed for redemption by first class mail, postage prepaid, to the Registered Owner of any bonds to be redeemed at the address appearing on the registration books of the Bond Registrar. The requirements of this Section shall be deemed to be complied with when notice is mailed as herein provided whether or not it is actually received by the owner.

The City hereby covenants and agrees with the owner of this bond that it will keep and perform all the covenants and meet all the obligations of the City as set forth herein and as in the Bond Ordinance, and reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

The City does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenue of the System and pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in said fund and accounts, all within the times provided by said ordinance, and the amounts so pledged constitute a lien and charge upon the Revenue of the System superior to all other charges of any kind or nature whatsoever except the Cost of Maintenance and Operation of the System and except that said amounts are equal in rank to the lien and charge upon such Revenue of the amounts required to pay and secure the payment of the outstanding water and sewer utility revenue bonds dated November 1, 1989, the outstanding water and sewer utility revenue bonds dated November 1, 1991, the outstanding water and sewer utility revenue bonds dated September 1, 1995 and any Future Parity Bonds which may be hereafter issued in accordance with the provisions of the Bond Ordinance.

Reference to the Bond Ordinance and any and all modifications and amendments thereof is made for a complete description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

This bond is transferable only on the records maintained by the Bond Registrar for that purpose by surrender of this certificate to the Bond Registrar duly assigned and executed as indicated hereon. This bond is 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 amount of this bond in increments of \$5,000 may also be redeemed as set forth above, and if less than all of the principal amount 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 thereof or, the then unredeemed principal balance hereof a bond or bonds, at the option of the owner, of like maturity and interest rate in any of the denominations authorized by the Bond Ordinance. The Bond Registrar is not obligated to transfer or exchange this bond during the fifteen days preceding any interest payment date or the date on which notice of redemption of such bond is to be given nor after such notice has been given.

The City may deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of and interest on the bond and for any and all purposes whatsoever.

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 type name and address, including zip code of Transferee)

the within bond and does hereby irrevocably constitute and appoint _____

_____ 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: _____

SIGNATURE GUARANTEED:

NOTICE: Signature(s) must be guaranteed pursuant to law.

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.

Section 18. Execution and Authentication of Bonds. The Bonds shall be signed on behalf of the City with the manual or facsimile signature of the Mayor, shall be attested by the manual or facsimile signature of the City Clerk and shall have the corporate seal of the City impressed or a facsimile thereof imprinted thereon.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited and 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 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this ordinance.

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

Section 19. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Bonds that 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 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.

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 registered owners of the Bonds.

Section 20. Advance Refunding Account. There is hereby authorized and established a special account of the City to be maintained with the Escrow Agent to be known as the "City of Lacey Water and Sewer Revenue Bond Advance Refunding Account" (the "Advance Refunding Account"), which account shall be drawn upon for the sole purpose of paying the principal of and interest on the Refunded Bonds and of paying costs related to issuance of the Bonds and refunding the Refunded Bonds.

Money in the Advance Refunding Account shall be used immediately upon receipt thereof to defease the Refunded Bonds and discharge the other obligations of the City relating thereto under Ordinance Nos. 778, 797, 863 and 922 of the City, by providing for the payment of the principal of and interest on the Refunded Bonds as set forth below. The City shall defease such bonds and discharge such obligations by the use of money in the Advance Refunding Account to purchase certain "Government Obligations" as such obligations are defined in Chapter 39.53 RCW as now or hereafter amended (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) the interest on the 1986A and 1986B Bonds due on April 1, 1998;
 - (b) the redemption price (100% of the principal amount) of the 1986A and 1986B Bonds due on April 1, 1998;
 - (c) the interest on the 1989 Refunded Bonds due on and prior to December 1, 1998;
 - (d) the redemption price (100% of the principal amount) due on December 1, 1998, of the 1989 Refunded Bonds;
 - (e) the interest on the 1991 Refunded Bonds due on and prior to December 1, 2001;
- and

(f) the redemption price (100% of the principal amount) due on December 1, 2001, of the 1991 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.

In order to carry out the advance refunding and defeasance of the Refunded Bonds, the Finance Director is hereby authorized to appoint a bank as escrow agent to perform the duties described herein (the "Escrow Agent"). Any beginning cash balance and the Acquired Obligations shall be irrevocably deposited with the Escrow Agent in an amount sufficient to defease and redeem the Refunded Bonds in accordance with this Section 20 and Section 21 of this ordinance. Any amounts described in subparagraphs (a) through (f) of this Section that are not provided for in full by such beginning cash balance and the purchase and deposit of the Acquired Obligations described in this Section shall be provided for by the irrevocable deposit of the necessary amount out of the proceeds of sale of the Bonds or any other money of the City legally available therefor with the Escrow Agent. 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 the costs of issuing the Bonds. The City may, from time to time, transfer, or cause to be transferred, from the Advance Refunding Account any money not thereafter required for the purposes set forth in subparagraphs (a) through (f) above, subject to verification in writing by an independent certified public accountant that such transfer will not result in inadequate funds being available to make the required payments therefrom. The City reserves the right to substitute other securities for the Acquired Obligations in the event it may do so pursuant to Section 148 of the Code and applicable regulations thereunder, upon compliance with the conditions set forth in the Escrow Agreement.

Section 21. Redemption of Refunded Bonds. The City hereby irrevocably sets aside sufficient funds through the purchase of Acquired Obligations and an initial cash deposit to make the payments specified in subparagraphs (a) through (f) of Section 20 above.

The City hereby irrevocably calls for redemption on April 1, 1998, the 1986A and 1986B Bonds, on December 1, 1998, the 1989 Refunded Bonds and on December 1, 2001, the 1991 Refunded Bonds in accordance with the provisions of the ordinances authorizing their issuance.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the final establishment of the Advance Refunding Account and delivery of the Acquired Obligations and the requisite cash deposit, if any, to the Escrow Agent, except as provided herein relating to the substitution of securities.

The Escrow Agent is hereby authorized and directed to notify the fiscal agent to give notice of the redemption of the Refunded Bonds in accordance with the applicable provisions of Ordinance Nos. 778, 797, 863 and 922. The Finance Director is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notice therefor. The costs of publication of such notice shall be an expense of the City.

The Escrow Agent is hereby authorized and directed to pay to the fiscal agency or agencies of the State of Washington, sums sufficient to pay, when due, the payments specified in subparagraphs (a) through (f) of Section 20 above. All such sums shall be paid from the money and Acquired Obligations deposited with the Escrow Agent pursuant to Section 20 of this ordinance, and the income therefrom and proceeds thereof. All such sums so paid shall be credited to the Advance Refunding Account. All money and Acquired Obligations deposited with said bank and any income therefrom shall be held, invested 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 shall be paid when due. The proper officers and agents of the City are directed to obtain from the Escrow Agent an agreement setting

forth the duties, obligations and responsibilities of the Escrow Agent in connection with the redemption and retirement of the Refunded Bonds as provided herein and making provision for payment of the fees, compensation and expenses of such Escrow Agent as may be satisfactory to it. Such agreement shall be in substantially the form on file with the City. The Finance Director is authorized to execute and deliver such agreement on behalf of the City.

Section 22. Sale of Bonds; Official Statement. The written offer of Seattle-Northwest Securities Corporation, Seattle, Washington, dated February 12, 1998, which is attached to this ordinance, to purchase the Bonds at the price specified therein, plus accrued interest, if any, and under the terms and conditions provided in said offer and in this ordinance is hereby in all respects accepted and approved.

The Finance Director and other appropriate officers of the City are authorized and directed to execute and deliver to the Purchaser copies of an Official Statement in substantially the form of the Preliminary Official Statement; provided, however, that the Finance Director is authorized to supplement or amend the Preliminary Official Statement as the Finance Director, with the approval of bond counsel to the City, deems necessary or appropriate. The City hereby deems the Preliminary Official Statement as final for purposes of the Rule. The Council approves and authorizes the 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.

Section 23. Undertaking to Provide Ongoing Disclosure.

A. Contract/Undertaking. 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. Financial Statements/Operating Data. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, 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 1998 for the fiscal year ended December 31, 1997):

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) and generally of the type included in the official statement for the Bonds under the tables "Statement of Historical Revenue and Expenditures," "Water Operating Statistics, and "Sewer Operating Statistics";

2. Principal amount of outstanding Parity Bonds;
3. Debt service coverage for outstanding Parity Bonds; and
4. Rates for the System.

Such annual information and operating data described above shall be available on or before the expiration of seven months after the end of the City's fiscal year. The City's current fiscal year ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year 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 provided to the NRMSIR, 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. Material Events. 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 and to the Insurer 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 the rights of Bondholders;
 8. Optional redemption of Bonds prior to their maturity;
 9. Defeasances;
 10. Release, substitution or sale of property securing repayment of the Bonds;
- and
11. Rating changes.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that no property secures repayment of the Bonds.

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 to 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 notices of material events shall terminate upon the legal 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 23, and any provision of this Section 23 may be waived, with an approving opinion of nationally recognized bond counsel in accordance with the Rule.

In the event of any amendment or waiver of a provision of this Section 23, 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, (i) notice of such change shall be given in the same manner as for a material event under subsection C, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, 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 or Beneficial 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. For purposes of this section, Beneficial Owner means any person who has the power directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 24. Authorization to City Officials. The proper City officials are hereby authorized to enter into such agreements, to execute such instruments, to print bonds, to approve an official statement, to provide certifications, and to take all actions they deem reasonable, necessary and proper to carry out the Improvements and issuance of the Bonds in conformance with the provisions of this ordinance.

Section 25. Additional or Supplemental Ordinances.

A. The Council from time to time and at any time may pass an ordinance or ordinances supplemental hereto, 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 contained 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 reserved to or conferred upon the City.

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 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 the interest of the owners of the Parity Bonds. Any such supplemental ordinance of the City may be passed 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 Insurer and owners of not less than 65% in aggregate principal amount of the Parity Bonds at the time outstanding, the Council of the City 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 times of payment of interest thereon from their due dates, 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 Bondowners 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 of 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 the 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.

Section 26. Bond Insurance.

A. Payments Under the Insurance Policy.

1. In the event that, on the second business day, and again on the business day, prior to the payment date on the Bonds, the Bond Registrar has not received sufficient money to pay all principal of and interest on the Bonds due on the second following or following, as the case may be, business day, the Bond Registrar shall immediately notify the Insurer or its designee on the same business day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

2. If the deficiency is made up in whole or in part prior to or on the payment date, the Bond Registrar shall so notify the Insurer or its designee.

3. In addition, if the Bond Registrar has notice that any bondowner has been required to disgorge payments of principal or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such bondowner within the meaning of any applicable bankruptcy laws, then the Bond Registrar shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

4. The Bond Registrar is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for owners of the Bonds as follows:

a. If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Bond Registrar shall (i) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the insurance policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are

paid by the Insurer, (ii) receive as designee of the respective owners (and not as Bond Registrar) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective owners; and

b. If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Bond Registrar shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such owner in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Bond Registrar and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective owners (and not as Bond Registrar) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such owner.

5. Payments with respect to claims for interest on and principal of Bonds disbursed by the Bond Registrar from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the City with respect to such Bonds, and the Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

6. Irrespective of whether any such assignment is executed and delivered, the City and the Bond Registrar hereby agree for the benefit of the Insurer that:

a. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Bond Registrar), on account of principal of or interest on the Bonds, the Insurer will be subrogated to the rights of such owners to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in this ordinance and the Bonds; and

b. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this ordinance and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to owners, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

B. Rights of Insurer.

1. In connection with the issuance of Future Parity Bonds, the City shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such Future Parity Bonds.

2. The Insurer shall receive copies of the City's audited financial statements and annual budget.

3. Copies of any amendments made to the documents executed in connection with the issuance of the Bonds which are consented to by the Insurer shall be sent to Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc.

4. The City shall receive notice of the resignation or renewal of the Bond Registrar and the appointment of a successor, other than the designated state fiscal agent.

5. Any notices required to be given by any party under this ordinance shall also be given to the Insurer, Attention: Insured Portfolio Management.

6. The Insurer shall be recognized as the registered owner of each Bond it insures for the purposes of exercising all rights and privileges available to bondholders and shall have the right to institute any proceeding under this ordinance under the same terms as a bondholder of a Bond it insures.

Section 27. Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or

agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this ordinance and shall in no way affect the validity of other provisions of this ordinance or of any Parity Bonds.

Section 28. Effective Date. This ordinance shall be effective five days from and after its passage and publication as provided by law.

PASSED by the Council of the City of Lacey at a regular meeting held this 12th day of February, 1997.

By Nancy Peterson
Mayor

ATTEST:

Carol Little
DEPUTY City Clerk

APPROVED AS TO FORM:

[Signature]
City Attorney


CERTIFICATE

I, the undersigned, Clerk of the City of Lacey, Washington, (the "City") and keeper of the records of the City Council (herein called the "Council"), DO HEREBY CERTIFY:

1. That the attached ordinance is a true and correct copy of Ordinance No. 1078 of the Council (herein called the "Ordinance"), duly passed at a regular meeting thereof held on the 12th day of February, 1998.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Ordinance; that all other requirements and proceedings incident to the proper passage of said 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 this 13TH day of February, 1998.



DEPUTY City Clerk

Notice is hereby given that the City of Lacy passed the following ordinances on February 12, 1998:

Ordinance No. 1078 authorizing the issuance of water and sewer revenue refunding bonds in the principal amount of \$7,030,000 to refund certain outstanding water and sewer revenue bonds to take advantage of lower interest rates and realize a debt service savings. The ordinance provides the terms of the bonds, the covenants for repaying the bonds, the terms of the refunding of the outstanding bonds and authorizes the bonds to be sold to Seattle-Northwest Securities Corporation in Seattle, Washington.

Ordinance No. 1079 authorizing the issuance of unlimited tax general obligation refunding bonds in the principal amount of \$1,635,000 and limited tax general obligation refunding bonds in the principal amount of \$1,200,000. The bonds are being issued to refund certain outstanding general obligation bonds to take advantage of lower interest rates and realize a debt service savings. The ordinance provides the terms of the bonds and the terms of the refunding of the outstanding bonds and authorizes the bonds to be sold to Seattle-Northwest Securities Corporation in Seattle, Washington.

Copies of Ordinance Nos. 1078 and 1079 may be obtained by calling (360) 491-3214 or at City Hall, 420 College St. S.E.

Summary Published: February 17, 1998