

CITY OF LACEY, WASHINGTON
WATER AND SEWER REVENUE BOND, SERIES 2017
(UTILITY LOCAL IMPROVEMENT DISTRICT NO. 24)

ORDINANCE NO. 1504

AN ORDINANCE of the City of Lacey, Washington, providing for the issuance and sale of not to exceed \$1,400,000 principal amount of a water and sewer revenue bond to obtain funds to make improvements to the parcels in Utility Local Improvement District No. 24 connecting them to the City's sewer system; fixing or setting parameters with respect to certain terms and covenants of the bond; appointing the City's designated representative to approve the final terms of the sale of the bond; and providing for other related matters.

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WHEREAS, the City of Lacey, Washington (the "City") owns, operates and maintains water, sewer and stormwater systems, which systems are collectively referred to as the "Waterworks Utility" or the "System"; and

WHEREAS, the City issued its Water and Sewer Revenue Bonds, 2013 in the original aggregate principal amount of \$8,290,000 (the "2013 Bonds") pursuant to Ordinance No. 1420; and

WHEREAS, pursuant to Ordinance No. 1420, the City may issue debt that is a charge upon the money in the Revenue Fund on a parity with the 2013 Bonds, if certain conditions are met; and

WHEREAS, the City issued its Water and Sewer Revenue Bond, 2015 in the original aggregate principal amount of \$502,001.13 (the "2015 Bond") pursuant to Ordinance No. 1475 on a lien junior to the payments required to be made for the 2013 Bonds and any bonds issued on a parity with the 2013 Bonds; and

WHEREAS, pursuant to Ordinance No. 1443, the City created Utility Local Improvement District No. 24 ("ULID No. 24") to install sewer facilities to properties within ULID No. 24 (the "Improvements"); and

WHEREAS, pursuant to Ordinance No. 1497, the City confirmed the assessment roll for ULID No. 24 in the amount of \$1,939,639.15 and prepayments in the amount of \$760,766.64 have been made; and

WHEREAS, for the purpose of funding the Improvements, it is in the best interest of the City to issue a Water and Sewer Revenue Bond, 2017 (the "Bond") authorized herein on a parity with the 2013 Bonds, and senior to the 2015 Bond;

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:

“Annual Debt Service” for any fiscal year or calendar year means the sum of:

- (A) the interest due in such year on all outstanding Parity Bonds excluding, however, interest to be paid from the proceeds of Parity Bonds, and any Payment Agreement Payments due in such year and less the federal credit for a portion of interest on Future Parity Bonds if permitted to be deducted as provided in Section 11(B),
- (B) the principal of all outstanding Serial Bonds due in such year, and
- (C) the Sinking Fund Requirement, if any, for such year.

If the interest rate on any such bonds is other than a fixed rate, the rate shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate (the “assumed RBI-based rate”) that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; except that, for purposes of determining actual compliance with the rate coverage requirement set forth in Section 15(A)(ii) of this ordinance in any past fiscal year, the actual amount of interest paid on any issue of variable interest rate bonds shall be taken into account.

Notwithstanding the foregoing, debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be calculated by the City to reflect the net economic effect on the City intended to be produced by the terms of such Parity Bonds and the terms of such Payment Agreement, in accordance with the requirements applicable to such Payment Agreement.

“Assessments” means assessments (including interest and penalties) levied in any utility local improvement district of the City for the acquisition or construction of additions and improvements to and extension of the System, if such assessments are pledged to be paid into the Bond Fund, including assessments in ULID No. 24, 23 and 21.

“Average Annual Debt Service” means the amount determined by dividing (A) the sum of all interest and principal to be paid on all Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (B) the number of fiscal years or calendar years from and including the fiscal year or calendar year in which the determination is made to the last fiscal year or calendar year in which any of such Parity Bonds will be outstanding.

“Bond Counsel” means the firm of Foster Pepper PLLC, its successor, or any other attorney or firm of attorneys selected by the City with a nationally recognized standing as bond counsel in the field of municipal finance.

“Bond Fund” means the special funds of the City known as the Water Debt Service, Wastewater Debt Service Funds, which have been created, and the Stormwater Debt Service Fund, authorized to be created pursuant to this ordinance, for the payment of principal of and interest on the Bond, the 2013 Bonds and any Future Parity Bonds.

“Bond Register” means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of the Bond.

“*Bond Registrar*” means the City Finance Director, or any successor bond registrar selected by the Finance Director.

“*Bond*” means the Water and Sewer Revenue Bond, 2017 issued pursuant to and for the purposes provided in this ordinance.

“*City*” means the City of Lacey, Washington, a municipal corporation duly organized and existing under the laws of the State.

“*City Council*” means the legislative authority of the City, as duly and regularly constituted from time to time.

“*Code*” means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

“*Contract Resource Obligation*” means an obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 14 of this ordinance, to make payments for water or sewer supply, transmission or service to another person or entity.

“*Debt Service Account*” means the account of that name in the Bond Fund created pursuant to this ordinance.

“*Designated Representative*” means the officer of the City appointed in Section 4 of this ordinance to serve as the City’s designated representative in accordance with RCW 39.46.040(2).

“*Final Terms*” means the terms and conditions for the sale of the Bond including, but not limited to the amount, date or dates, denominations, interest rate or rates (or mechanism for determining interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms or covenants.

“*Future Parity Bonds*” means all revenue bonds or other revenue obligations of the City issued after the date of the issuance of the Bond and having a lien upon Gross Revenue for the payment of the principal thereof and interest thereon equal to the lien upon Gross Revenue for the payment of the principal of and interest on the Bond and the 2013 Bonds.

“*Government Obligations*” has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended.

“*Gross Revenue*” means all earnings, revenue and money, except Assessments, received by the City from or on account of the operation of the System, including proceeds from the sale, lease or other disposition of any of the properties or facilities of the System, and the income from investments of money in the Revenue Fund and any 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. The words “Gross Revenue” shall not include grants or bond proceeds, but shall include federal or state reimbursements of operating expenses to the extent such expenses are included as “Operation and Maintenance Expenses.”

“Improvements” means the improvements to the parcels in ULID No. 24 connecting them to the City’s sewer system.

“Issue Date” means, with respect to the Bond, the date of initial issuance and delivery of the Bond to the Purchaser in exchange for the purchase price of the Bond.

“Net Revenue” means Gross Revenue less the Operation and Maintenance Expenses.

“Operation and Maintenance Expenses” means all of those expenses incurred in the operation and maintenance of the System, including but not limited to general administrative expenses, amounts due under Contract Resource Obligations and payments to the LOTT Clean Water Alliance or any other governmental or private entity for the purchase of water supply and sewage treatment and disposal services, but not including depreciation and City imposed taxes and payments to be made in lieu of City taxes.

“Parity Bonds” means the Bond, the 2013 Bonds and any Future Parity Bonds.

“Payment Agreement” means, to the extent permitted from time to time by applicable law, a written agreement entered into by the City (A) in connection with or incidental to the issuance, incurring or carrying of any Parity Bonds; (B) for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes; (C) with a Qualified Counterparty; and (D) which provides, on either a current or forward basis, for an exchange of payments determined in accordance with a formula specified therein.

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement. The term “Payment Agreement Payments” does not include any termination payment required to be paid with respect to a Payment Agreement.

“Payment Agreement Receipts” means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

“Permitted Investments” means any investments or investment agreements permitted for cities under the laws of the State of Washington as amended from time to time.

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

“Project Fund” means the funds or accounts created or designated by the Finance Director for the purpose of depositing Bond proceeds to carry out the Improvements.

“Purchaser” means the corporation, firm, association, partnership, trust, bank, financial institution or other legal entity or group of entities selected by the Designated Representative to serve as purchaser in a private placement, or underwriter in a negotiated sale.

“Qualified Counterparty” means with respect to a Payment Agreement an entity (A) whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability or whose payment obligations under a Payment Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability are rated (at the time the Payment Agreement is entered into) at least as high as A3 by Moody’s and A- by S&P, or the equivalent thereof by any successor thereto, and (B) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

“Qualified Insurance” means any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation, as of the time of issuance of such policy or surety bond, is rated in one of the two highest rating categories by Moody’s Investors Service and Standard & Poor’s Ratings Services, a Division of the McGraw Hill Companies, or their comparably recognized business successors.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of any Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest rating categories by Moody’s Investors Service or Standard & Poor’s Ratings Services, a Division of the McGraw Hill Companies, Inc., or their comparably recognized business successors.

“Rate Stabilization Account” means the account of that name authorized to be created within the Revenue Fund pursuant to Section 10 of this ordinance.

“Reserve Account” means the account of that name created in the Bond Fund pursuant to this ordinance to secure the payment of principal of and interest on the Parity Bonds.

“Reserve Account Requirement” means with respect to all outstanding Parity Bonds the lesser of (A) 125% of Average Annual Debt Service or (B) maximum Annual Debt Service; provided, however, that at the time of issuance of any series of Parity Bonds, the Reserve Account Requirement allocable to a series of Parity Bonds shall not exceed 10% of the initial principal amount of that series of Parity Bonds.

“Revenue Fund” means collectively the special funds of the City known as the Water Utility, Wastewater Utility and Stormwater Utility Funds into which the City will pay all of the Gross Revenue of the System as collected.

“Serial Bonds” means Parity Bonds other than Term Bonds.

“Sinking Fund Requirement” means, for any fiscal year or calendar year, the principal amount of Term Bonds required to be purchased, redeemed or paid at maturity in such year as established by the ordinance of the City authorizing the issuance of such Term Bonds.

“State” means the State of Washington.

“*System*” or “*Waterworks Utility*” means the combined water, sewer and stormwater systems of the City, as the same may be added to, improved and extended for as long as any of the Parity Bonds are outstanding.

“*Term Bonds*” means the 2013 Bonds and any Future Parity Bonds identified as Term Bonds in the ordinance authorizing the issuance thereof, the payment of the principal of which is provided for by a mandatory schedule of deposits of money equal (in the aggregate) to the full principal amount of such Term Bonds, into the Bond Fund, and by a mandatory redemption schedule corresponding (as to time and amounts) to such mandatory schedule of deposits.

“*2013 Bonds*” means the City’s Water and Sewer Revenue Bonds, 2013 in the aggregate principal amount of \$8,290,000 pursuant to Ordinance No. 1420.

“*2015 Bond*” means the City’s Water and Sewer Revenue Bond, 2015 in the aggregate principal amount of \$502,001.13 pursuant to Ordinance No. 1475.

“*ULID No. 24*” means Utility Local Improvement District No. 24.

Section 2. Compliance with Parity Conditions. The City Council hereby finds, as required by Section 17 of Ordinance No. 1420, as follows:

First, the City is issuing the Bond to finance improvements to the parcels in ULID No. 24 connecting them to the City’s sewer system;

Second, that at the time of adoption of this ordinance and at the time of the issuance and delivery of the Bond there is not nor will there be any deficiency in the Bond Fund;

Third, Section 13 of this ordinance provides that all Assessments in ULID No. 24 shall be paid directly into the Debt Service Account of the Bond Fund;

Fourth, Section 11 of this ordinance provides for the deposit into the Reserve Account of the amount necessary to fund the Reserve Account Requirement upon the issuance of the Bond; and

Fifth, on or before the Issue Date of the Bond there shall be on file with the City a certificate of the Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to 1.20 times Annual Debt Service for all Parity Bonds plus the Bond (and assuming that the debt service of the Bond for that twelve-month period was the average Annual Debt Service for the Bond).

The parity conditions contained in Ordinance No. 1475 having been complied with or assured, the payments required in this ordinance to be made out of the Revenue Fund into the Bond Fund and Reserve Account to pay and secure the payment of the principal of and interest on the Bond shall constitute a lien and charge upon the money in the Revenue Fund equal in rank with the lien and charge thereon for the payments required to be made into the Bond Fund to pay and secure the payment of the principal of and interest on the 2013 Bonds.

Section 3. Authorization of the Bond. For the purpose of providing financing for the Improvements within ULID No. 24, to finance a Reserve Account, and to pay costs of issuance, the City authorizes the issuance of its water and sewer revenue bond in the principal amount of not to exceed \$1,400,000 (the "Bond"). The Bond shall be designated as the "City of Lacey, Washington Water and Sewer Revenue Bond, 2017," shall be dated as of the date of delivery thereof to the Purchaser. The Bond will be payable upon receipt of Assessments from ULID No. 24 and other Gross Revenue in the Revenue Fund as provided in Section 9.

Section 4. Description of the Bond; Appointment of Designated Representative. The Finance Director, or City Manager in the absence of the Finance Director, is appointed as the City's Designated Representative and is authorized and directed to conduct the sale of the Bond in the manner and upon the terms deemed most advantageous to the City, and to approve the Final Terms of the Bond, with such additional terms and covenants as he deems advisable, within the following parameters:

(A) *Principal Amount.* The Bond shall not exceed the aggregate principal amount of \$1,400,000.

(B) *Date or Dates.* The Bond shall be dated as of its Issue Date, which date may not be later than December 31, 2017.

(C) *Interest Rate(s).* The Bond shall bear interest at fixed rate(s) per annum (computed on the basis of a 360-day year of twelve 30-day months) from their date or from the most recent interest payment date for which interest has been paid or duly provided for, whichever is later. One or more rates of interest may be fixed for the Bond, provided that the rate of interest for the Bond may not exceed 4.50%, and the true interest cost to the City for the Bond may not exceed 4.50%. In addition, the Designated Representative may approve any increased rate of interest in connection with any Event of Default.

(D) *Payment Dates.* Interest must be payable at fixed rates annually on each February 1 or such dates as are acceptable to the Designated Representative, commencing on February 1, 2018, or such date that is no later than one year following the Issue Date. Principal payments shall commence on February 1, 2018, or such payment date acceptable to the Designated Representative and must be payable at maturity and annually on such dates as are acceptable to the Designated Representative.

(E) *Final Maturity.* The Bond shall mature no later than February 1, 2032.

(F) *Price.* The purchase price for the Bond may be in an amount acceptable to the Designated Representative.

(G) *Other Terms and Conditions.*

(i) The Bond may be sold in accordance with Section 22 of this ordinance.

(ii) The Designated Representative may determine whether it is in the City's best interest to provide for bond insurance or other credit enhancement; and may accept

such additional terms, conditions and covenants as he may determine are in the best interests of the City, consistent with this ordinance.

Section 5. Bond Registrar; Registration and Transfer of the Bond. Pursuant to RCW 39.46.030(4) the City's Finance Director shall serve as initial fiscal agent for the City (the "Bond Registrar") with respect to the Bond and is authorized, on behalf of the City, to authenticate and deliver the Bond in accordance with the provisions of the Bond and this ordinance. The Bond shall be issued only in registered form as to both principal and interest and shall be recorded on books or records maintained by the Bond Registrar (the "Bond Register"). The Bond Register shall contain the name and mailing address of the owner of the Bond.

Upon a determination by the Finance Director that maintenance of the duties of the Bond Registrar is no longer convenient, the fiscal agent of the State shall act as Bond Registrar.

The Bond Registrar shall keep, or cause to be kept, at its office, sufficient books for the registration, assignment or transfer of the Bond. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the Bond transferred or exchanged in accordance with the provisions of the Bond and this ordinance, to serve as the City's paying agent for the Bond 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 registration certificate on the Bond.

The Bond may be assigned or transferred only in whole by the Bank to a single investor that is a financial institution or a person who is reasonably believed to be a qualified institutional buyer or accredited investor within the meaning of the applicable federal securities laws. Any transfer shall be without cost to the owner or transferee, except for governmental charges imposed on any such transfer or exchange. The Bond Registrar shall not be obligated to exchange or transfer the Bond during the 15 days preceding any installment or prepayment date. When the Bond has been paid in full, both principal and interest, the Bond shall be surrendered to the Bond Registrar, who shall cancel the Bond.

Section 6. Prepayment. The City reserves the right and option to prepay and redeem any or all of the outstanding principal on the Bond prior to the Maturity Date, or on or after a date determined by the Designated Representative, with five days notice to the Purchaser, at par plus accrued interest on the principal portion to be redeemed to the date fixed for prepayment, whenever there shall be sufficient money in the Bond Fund. Interest on the principal portion of the Bond so prepaid shall cease to accrue on the date of such prepayment.

Section 7. Payment of the Bond. Principal of and interest on the Bond shall be payable in lawful money of the United States of America. Principal of a Bond shall be payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar. The Bond is not subject to acceleration under any circumstances.

Section 8. Failure to Pay the Bond. If the Bond is not redeemed when properly presented at its maturity or prepayment date, the City shall be obligated to pay interest on the Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until the Bond, both principal and interest, is paid in full or until sufficient money for

its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Section 9. Revenue Fund. The City pledges to pay all of the Gross Revenues of the Waterworks Utility into the Revenue Fund as collected.

The Gross Revenue deposited in the Revenue Fund shall be used only for the following purposes and in the following order of priority:

FIRST, to pay the Operation and Maintenance Expenses, including payments for Contract Resource Obligations, and to maintain a balance in the Revenue Fund sufficient in amount to enable the City to continuously meet Operation and Maintenance Expenses on a current basis;

SECOND, to make all payments required to be made into the Bond Fund to pay interest on any Parity Bonds;

THIRD, to make all payments required to be made into the Bond Fund to pay the maturing principal of any Serial Bonds, to make all payments required to be made into the Bond Fund to satisfy the Sinking Fund Requirement and to make any Payment Agreement Payments with respect to any Payment Agreements;

FOURTH, to make all payments required to be made pursuant to a reimbursement agreement or agreements (or other equivalent documents) in connection with Qualified Insurance or a Qualified Letter of Credit; provided that if there is not sufficient money to make all payments under any reimbursement agreements the payments will be made on a pro rata basis;

FIFTH, to make all payments required to be made into the Reserve Account to secure the payment of the principal of and interest on outstanding Parity Bonds;

SIXTH, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or bond retirement account created to pay and secure the payment of the principal of and interest on any revenue bonds, or revenue warrants or other revenue obligations of the City having a lien upon Gross Revenue junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds, including the 2015 Bond; and

SEVENTH, to retire by redemption or purchase in the open market any outstanding water and sewer revenue bonds, water and sewer revenue warrants or other water and sewer revenue obligations of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, to make deposits into a Rate Stabilization Account, or for any other lawful City purposes.

Section 10. Rate Stabilization Account. A special account of the City to be designated the "Water and Sewer Rate Stabilization Account" (the "Rate Stabilization Account") is hereby authorized to be created within the Revenue Fund, at the discretion of the Finance Director, to cope with future increases in revenue requirements of the System. In accordance with the provisions of Section 9 of this ordinance, the City may from time to time appropriate or budget

amounts in the Revenue Fund for deposit in the Rate Stabilization Account and may from time to time withdraw amounts therefrom to prevent or mitigate water and sewer rate increases or for other lawful purposes of the City related to the System. Amounts withdrawn from the Rate Stabilization Account shall increase Gross Revenue for the period for which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Gross Revenue for the period for which they are deposited. Credits to or from the Rate Stabilization Account that occur within 90 days after the end of a fiscal year may be treated as occurring within such fiscal year. Earnings on the Rate Stabilization Account shall be credited to the Revenue Fund.

Section 11. Bond Fund. There has been created in the office of the Finance Director funds of the City known as the Water Debt Service and Wastewater Debt Service Funds, and is hereby authorized to be created the Stormwater Debt Service Fund (collectively, the "Bond Fund"), which funds shall be drawn upon for the sole purpose of paying the principal of, premium if any, and interest on the Bond, the 2013 Bonds and any Future Parity Bonds. The money in the Bond Fund shall be kept separate and apart from all other funds and accounts of the City.

(A) *Debt Service Account.* A special account known as the Debt Service Account is hereby created in the Bond Fund for the purpose of paying the principal of, premium, if any, and interest on the Parity Bonds.

As long as the Bond remains outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Debt Service Account, on or before the date due, those amounts necessary, together with Gross Revenue collected and deposited and such other money as is on hand and available therefor in the Debt Service Account, to pay the interest or principal and interest next coming due on the Bond.

The City covenants and agrees that in the event it issues any Future Parity Bonds that are Term Bonds, it will provide in each ordinance authorizing the issuance of the same for annual payments to be made from the Revenue Fund into the Debt Service Account sufficient, together with Gross Revenue collected and deposited and such other money as is on hand and available therefor in such account, to satisfy the Sinking Fund Requirement with respect to such Term Bonds.

(B) *Reserve Account.* A Reserve Account is hereby created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Bond, the 2013 Bonds and any Future Parity Bonds. The City hereby covenants and agrees that it will satisfy the Reserve Account Requirement for the Bond with Bond proceeds or other City funds.

The City further covenants and agrees that in the event it issues any Future Parity Bonds it will provide in each ordinance authorizing the issuance of such Future Parity Bonds for the payment into the Reserve Account out of Future Parity Bond proceeds, Gross Revenue or Assessments (or, at the option of the City, out of any other funds on hand and legally available therefor) approximately equal additional annual installments so that by five years from the date of issuance of such Future Parity Bonds there will have been paid into the Reserve Account an amount that, together with money already on deposit therein, will be at least equal to the Reserve Account Requirement. The City may substitute Qualified Insurance or a Qualified Letter of

Credit for amounts required to be deposited into the Reserve Account. Such Qualified Letter of Credit or Qualified Insurance shall not be cancellable on less than five years' notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the provisions of this section providing for payment in the event of a deficiency therein, as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

The City further covenants and agrees that when the required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Account Requirement, as redetermined in each calendar year with respect to the Parity Bonds secured by such Reserve Account. Whenever there is a sufficient amount in the Bond Fund, including all accounts therein, 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 the principal of, premium, if any, and interest on the Parity Bonds secured thereby. Money in the Reserve Account may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on the outstanding Parity Bonds secured by such Reserve Account, as long as the money remaining on deposit in such Reserve Account is at least equal to the Reserve Account Requirement determined with respect to the Parity Bonds then outstanding.

The City may recalculate the Reserve Account Requirement from time to time and the City may transfer out of the Reserve Account any amount in excess of the Reserve Account Requirement.

In the event the Parity Bonds outstanding are ever refunded, the money set aside in the Reserve Account to secure the payment thereof may be used to retire such bonds or may be transferred to any other reserve account that may be created to secure the payment of any bonds issued to refund such bonds.

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 money therefrom and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. If more than one Qualified Letter of Credit or Qualified Insurance is available, draws shall be made ratably thereon to make up the deficiency. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up within 12 months from money in the Revenue Fund first available after making the payments required to be made under paragraphs "FIRST" through "FOURTH" of Section 9 of this ordinance.

In calculating the Reserve Account Requirement the City may deduct the direct payment the City is expected to receive in respect of any Future Parity Bonds for which the federal government will provide the City with a direct payment of a portion of the interest from the interest portion of Annual Debt Service.

With the consent of the owners of not less than 51% in aggregate principal amount of outstanding Parity Bonds, as provided in Section 28, the ordinance authorizing any Future Parity Bonds may establish a separate debt service reserve account for any such Future Parity Bonds and set forth the reserve account requirement for such bonds or provide that some or all of such Future Parity Bonds be secured by the Reserve Account. The owner of the Bond by taking and holding the same shall be deemed to have consented to the adoption by the City of such supplemental ordinance.

(C) *Lien of Bond Fund.* The Bond, together with the interest thereon, shall be payable from Assessments and Gross Revenue, and such Gross Revenue is hereby pledged and set aside out of the Revenue Fund into the Bond Fund. Said amounts so pledged are hereby declared to be a lien and charge upon Assessments and Gross Revenue equal to the lien and charge thereon to secure and pay the principal of and interest on the 2013 Bonds any Future Parity Bonds and superior to all other charges of any kind or nature, except the Operation and Maintenance Expenses.

(D) *Investment of Money in Bond Fund.* All money in the Debt Service Account or Reserve Account may be kept in cash or invested in Permitted Investments maturing not later than the maturity of the Parity Bonds outstanding at the time of such purchase. Interest earned on or profits made from the sale of such investments shall be deposited in and become a part of the Bond Fund or the Revenue Fund.

Section 12. Adequacy of Revenue. The City Council hereby declares that in fixing the amounts to be paid into the Bond Fund it has considered and has due regard for the Operation and Maintenance Expenses and has not obligated the City to set aside and pay into the Bond Fund more money from the Revenue Fund than in its judgment will be available over and above such Operation and Maintenance Expenses.

Section 13. Collection of Assessments. The City shall promptly collect all Assessments levied in ULID No. 24 created to secure the payment of the principal of and interest on the Bond and shall pay the same into the Debt Service Account of the Bond Fund.

Section 14. Contract Resource Obligations. The City may at any time enter into one or more contracts or other obligations for the acquisition, from facilities to be constructed, of water or sewer supply, transmission, or service relating to the Waterworks Utility. The City may determine that such contract or other obligation is a Contract Resource Obligation, and may provide that all payments under that Contract Resource Obligation (including payments prior to the time that supply, transmission, or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and Maintenance Expenses if the following requirements are met at the time such Contract Resource Obligation is entered into:

(a) No Event of Default (as defined in Section 26 of this ordinance) has occurred and is continuing.

(b) There shall be on file a certificate of a Professional Utility Consultant or an independent certified public accountant, stating that: (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply, transmission,

treatment, or other service rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply, transmission, treatment, or other service, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission or other service no later than a date set forth in the Professional Utility Consultant's, or independent certified public accountant's, certification; and (iii) the Net Revenue (further adjusted by the Professional Utility Consultant's, or independent certified public accountant's, estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Net Revenue is estimated by the Professional Utility Consultant, or independent certified public accountant (with such estimate based on such factors as he or she considers reasonable), will be at least equal to the rate coverage requirement set forth in Section 15(A)(ii) of this ordinance.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission, treatment, or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Expenses of the Waterworks Utility. Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission, treatment, or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 15. General Covenants. The City hereby covenants with the owner of the Bond for as long as any of the same remain outstanding as follows:

(A) *Rates and Charges.* The City covenants that it will establish, maintain and collect lawful rates and charges for the use of the services and facilities of the System, and shall adjust such rates and charges from time to time so that:

(i) Gross Revenue will at all times be sufficient (a) to pay all Operation and Maintenance Expenses and 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 other amounts that the City may now be and hereafter become obligated to pay from Gross Revenue by law or contract, and, together with Assessments actually collected, (b) to pay the principal of and interest on all outstanding Parity Bonds as and when the same become due and payable, to make all payments required to be made into the Bond Fund to satisfy the Sinking Fund Requirement, and to make when due all payments required to be made into the Reserve Account; and

(ii) the Net Revenue in each calendar year will equal at least 1.20 times Annual Debt Service for such year (after deducting Assessments actually collected for such year). For the purpose of meeting the requirement of this paragraph there may be added to Net Revenue for any calendar year any amount withdrawn from the Rate Stabilization Account

and credited to Gross Revenue as provided in Section 10 of this ordinance. There shall be subtracted from Net Revenue for any calendar year any amounts in such year withdrawn from the Revenue Fund and deposited into the Rate Stabilization Account in such calendar year.

Annual Debt Service shall be deemed to exclude from interest the amount the City is expected to receive in respect of any Future Parity Bonds for which the federal government will provide the City with a direct payment of a portion of the interest from the interest portion of annual debt service.

The failure of the City to comply with the rate covenants described above shall not be an Event of Default (as defined in Section 26 of this ordinance) if the City promptly retains a Professional Utility Consultant or an independent certified public accountant, to recommend to the City Council adjustments in the rates of the Waterworks Utility necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within 180 days of the date the failure become known to the City.

(B) *Maintenance of System.* The City covenants that it will at all times keep and maintain the System in good repair, working order and condition, and will at all times operate the same and the business in connection therewith in an efficient manner and at a reasonable cost.

(C) *Sale or Disposition of the System.* The City will not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the System, except as follows:

(i) The City may sell, mortgage, lease or otherwise dispose of all or substantially all of the System if, simultaneously with such sale, mortgage, lease or other disposition or encumbrance, provision is made for the payment into the Bond Fund of cash or Government Obligations sufficient together with interest to be earned thereon to pay the principal of and interest on all then outstanding Parity Bonds.

(ii) Except as provided in subsection (iii) below, the City will not sell, mortgage, lease or otherwise dispose of or encumber any part of the useful operating properties of the System in excess of 5% of the value of the net utility plant of the System unless prior to such sale, mortgage, lease or other disposition or encumbrance:

(a) there shall have been filed with the Finance Director a certificate of a Professional Utility Consultant stating that such sale, mortgage, lease or other disposition or encumbrance will not impair the ability of the City to comply with the rate covenants set forth in Section 15(A) of this ordinance; or

(b) provision is made for the payment, redemption or other retirement of a principal amount of outstanding Parity Bonds equal to the greater of the following amounts: (X) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of 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 12 preceding months bears to the total Net Revenue for such period; or (Y) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of

the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

(iii) 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 (a) with a value less than 5% of the net utility plant of the System, (b) 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, without making any deposit into the Bond Fund, or (c) has a value more than 5% of the net utility plant of the System and the City receives a Certificate of a Professional Utility Consultant that such disposition will not impair the ability of the City to comply with Section 15(A)(ii).

(D) *Collection of Assessments.* The City shall promptly collect all Assessments levied in any utility local improvement district now or hereafter created to secure the payment of the principal of and interest on any Parity Bonds and shall pay the same into the Bond Fund without allocation of such Assessments to any particular series of Parity Bonds. It is hereby provided further, however, that nothing in this ordinance or in this subsection shall be construed to prohibit the City from issuing revenue bonds having a lien on Gross Revenue junior to the lien on such revenue for the payment of the principal of and interest on Parity Bonds and pledging as security for the payments of such junior lien bonds assessments levied in any utility local improvement district that may have been created to pay part or all the cost of improvements to the System for which such junior lien revenue bonds were specifically issued.

(E) *Books and Accounts.* The City covenants that it will maintain complete books and records relating to the operation of the System and its financial affairs, and will cause such books and records to be audited annually, and cause to be prepared an annual financial and operating statement, said statement to be mailed to any owner of Parity Bonds upon request.

(F) *Insurance.* The City covenants that it will carry fire and extended coverage insurance on the System as is ordinarily carried on the property of similar public utilities by other municipal corporations engaged in the operation of the same if such insurance can be obtained at a reasonable cost, to the full insurable value thereof, and will also carry adequate public liability insurance and other kinds of insurance as under good practices are ordinarily carried on the properties of similar public utilities by private companies engaged in the operation of the same; provided, however, that the City may if deemed necessary and advisable by the City Council, institute or continue a self-insurance program with respect to any or all of the aforementioned risks. The premiums paid for all such insurance shall be regarded and paid as an Operation and Maintenance Expense.

(G) *Delinquencies.* The City covenants that it will promptly collect all service charges and Assessments, determine in a timely manner all delinquencies, and take all necessary legal action to enforce collection of such delinquencies.

(H) *No Free Service.* Except as permitted by law, the City will not furnish any service of the System to any customer free of charge.

Section 16. Tax Covenants; Designation of the Bond as a “Qualified Tax-Exempt Obligation.”

(A) *Preservation of Tax Exemption for Interest on the Bond.* The City covenants that it will take all actions necessary to prevent interest on the Bond from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bond or other funds of the City treated as proceeds of the Bond at any time during the term of the Bond which will cause interest on the Bond to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent the arbitrage rebate requirements of Section 148 of the Code are applicable to the Bond, take all actions necessary to comply (or to be treated as having complied) with those requirements in connection with the Bond, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bond from being included in gross income for federal income tax purposes.

(B) *Post-Issuance Compliance.* The Finance Director is authorized and directed to review and update the City’s written procedures to facilitate compliance by the City with the covenants in this Section 16 and the applicable requirements of the Code that must be satisfied after the issue date to maintain the tax treatment of the Bond and the receipt of interest thereon.

(C) *Designation of the Bond as a “Qualified Tax-Exempt Obligation.”* The Bond shall be designated as a “qualified tax-exempt obligation” for the purposes of Section 265(b)(3) of the Code, if the following conditions are met:

(i) the Bond is not a “private activity bond” within the meaning of Section 141 of the Code;

(ii) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) which the City and any entity subordinate to the City (including any entity that the City controls, that derives its authority to issue tax-exempt obligations from the City, or that issues tax-exempt obligations on behalf of the City) will issue during the calendar year in which the Bond is issued will not exceed \$10,000,000; and

(iii) the amount of tax-exempt obligations, including the Bond, designated by the City as “qualified tax-exempt obligations” for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bond is issued does not exceed \$10,000,000.

Section 17. Payment Agreements.

(A) *General.* To the extent, and for the purposes permitted from time to time by Chapter 39.96 RCW and other applicable provisions of State law, the City may enter into Payment Agreements with respect to any Parity Bonds, subject to the conditions set forth in this section and in other provisions of this ordinance.

(B) *Manner and Schedule of Payments.* Each Payment Agreement shall set forth the manner in which the Payment Agreement Payments and the Payment Agreement Receipts shall be calculated and a schedule of payment dates.

(C) *Authorizing Ordinance.* Prior to entering into a Payment Agreement, the City Council shall pass an ordinance authorizing such agreement and setting forth such provisions as the City Council deems necessary or desirable and are not inconsistent with the provisions of this ordinance.

(D) *Calculation of Payment Agreement Payments and Debt Service on Junior Lien Obligations with Respect to which a Payment Agreement is in Force.* It is the intent of the City, for purposes of the rate coverage requirement set forth in Section 15(A)(ii) of this ordinance and the Future Parity Bonds test set forth in Section 18(A)(v) of this ordinance, that debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be calculated to reflect the net economic effect on the City intended to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement. In calculating such amounts, the City shall be guided by the following requirements:

(i) The amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts.

(ii) For any period during which Payment Agreement Payments are not taken into account in calculating interest on any outstanding Parity Bonds because the Payment Agreement is not then related to any outstanding Parity Bonds, Payment Agreement Payments on that Parity Payment Agreement shall be calculated based upon the following assumptions:

(a) *City Obligated to Make Payments Based on Fixed Rate.* If the City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, payments by the City will be based on the assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made; and

(b) *City Obligated to Make Payments Based on Variable Rate Index.* If the City is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement.

(E) *Prior Notice to Rating Agency.* The City shall give notice to any Rating Agency that issued a rating on any outstanding Parity Bonds 30 days prior to the date it intends to enter into a Payment Agreement with respect to any Parity Bonds.

Section 18. Future Parity Bonds. The City hereby further covenants and agrees with the owner of the Bond for as long as any of the same remain outstanding as follows:

(A) That it will not issue any bonds with a lien on Gross Revenue superior to the lien on such revenues of the Bond and the 2013 Bonds. The City may issue Future Parity Bonds for:

FIRST, the purpose of acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for, or making necessary replacements or repairs and capital improvements to the System, or for any other lawful purpose; or

SECOND, the purpose of refunding or purchasing and retiring at or prior to their maturity any outstanding revenue bonds or other obligations payable out of Gross Revenue; and to pledge that payments be made into the Bond Fund for the payment of the principal thereof and interest thereon out of the Revenue Fund sufficient to pay the principal of and interest on such Future Parity Bonds and to maintain the reserves required therefor, which such payments may rank equally with the payments out of such Revenue Fund into the Bond Fund and the Reserve 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:

(i) That at the time of the issuance of such Future Parity Bonds there is no deficiency in the Bond Fund.

(ii) If there are Assessments levied in any utility local improvement district 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 shall require that such assessments be paid into the Bond Fund.

(iii) 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 such Future Parity Bonds shall require such Assessments to be used for the refunding or paid into the Bond Fund.

(iv) The principal of and interest on the Future Parity Bonds shall be payable out of the Bond Fund, and the ordinance authorizing their issuance shall further provide for payments into the Bond Fund to satisfy the Sinking Fund Requirement and payments into the Reserve Account to satisfy the Reserve Account Requirement, all as required by Section 11 of this ordinance.

(v) Prior to the delivery of any Future Parity Bonds, the City shall have on file in the office of the Finance Director either

(a) a certificate of the Finance Director showing that the Net Revenue determined as hereafter provided for each calendar or fiscal year after the issuance of

such Future Parity Bonds will equal at least 1.20 times the Annual Debt Service (after deducting Assessments allocated to the years in which they 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) for each such calendar or fiscal year for all Parity Bonds plus the Future Parity Bonds (which may include amounts withdrawn from the Rate Stabilization Account, as provided in Section 10 of this ordinance) proposed to be issued. For purposes this certificate, "Net Revenue" shall be the Net Revenue for a period of any 12 consecutive months (which may include amounts withdrawn from the Rate Stabilization Account, as provided in Section 10 of this ordinance) out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds.

(b) a certificate of a Professional Utility Consultant showing that the Net Revenue determined and adjusted as hereafter provided for each calendar or fiscal year after the issuance of such Future Parity Bonds (the "Adjusted Net Revenue") will equal at least 1.20 times the Annual Debt Service (after deducting Assessments, allocated to the years in which they 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) for each such calendar or fiscal year for all Parity Bonds plus the Future Parity Bonds proposed to be issued.

The Adjusted Net Revenue shall be the Net Revenue for a period of any 12 consecutive months (which may include amounts withdrawn from the Rate Stabilization Account, as provided in Section 10 of this ordinance) out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds as adjusted by such Professional Utility Consultant 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:

(X) the additional Net Revenue that 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 12-month period, had been in force during the full 12-month period;

(Y) the additional Net Revenue that would have been received if any facility of the System that became fully operational after the beginning of such 12-month period had been so operating for the entire period; and

(Z) the additional Net Revenue estimated by such Professional Utility Consultant to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System that are (1) under construction at the time of such certificate or (2) will be constructed from the proceeds of the Future Parity Bonds to be issued.

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

(B) 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 will result in a debt service savings and does not require an increase of more than \$5,000 in any fiscal or calendar year for principal of and interest on such refunding Future Parity Bonds over and above the amount required in such year for the principal of and interest on the bonds being refunded thereby, the condition stated in subsection (A)(v) of this section need not be met.

(C) Nothing herein contained shall prevent the City from issuing any revenue bonds, warrants or other obligations that are a charge upon the money in the Revenue Fund junior or inferior to the payments required by this ordinance to be made into the Bond Fund and the Reserve Account.

Section 19. Form of the Bond. The Bond shall be in substantially the following form:

No. R-1 \$ _____

UNITED STATES OF AMERICA
STATE OF WASHINGTON
CITY OF LACEY

WATER AND SEWER REVENUE BOND, 2017

INTEREST RATE: _____%

MATURITY DATE: FEBRUARY 1, 2032

OWNER: _____

PRINCIPAL AMOUNT: _____ AND ___/100 DOLLARS

The City of Lacey, Washington (the "City"), for value received, hereby promises to pay to the Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from _____, 2017, 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 February 1, 2018, and annually thereafter on the first days of each February. The principal of and interest on this Bond are payable solely out of a subaccount of the City's Water Debt Service, Wastewater Debt Service and Stormwater Debt Service Funds (collectively, the "Bond Fund").

Both principal of and interest on this Bond are payable in lawful money of the United States of America.

This Bond is issued by the City under and pursuant to the laws of the State of Washington and the Bond Ordinance for the purpose of providing funds to pay the cost of sewer improvements to the Waterworks Utility of the City, to fund the Reserve Account and pay costs of issuance, all as specified in Ordinance No. 1504 (the "Bond Ordinance").

The Bond is subject to prepayment prior to its maturity date as provided in the Bond Ordinance.

Principal and interest are payable solely out of the Bond Fund, into which fund the City hereby irrevocably binds itself to pay certain fixed amounts out of the Gross Revenue of the System, as the same is defined in the Bond Ordinance, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Bond, the City's outstanding Water and Sewer Revenue Bonds, 2013 (the "2013 Bonds") and any additional and/or refunding water and sewer revenue bonds issued on a parity of lien with the Bond and the 2013 Bonds and to accumulate a reserve, all at the times and in the manner set forth in the Bond Ordinance. Reference is made to the Bond Ordinance for definitions of capitalized terms not otherwise defined herein.

The Gross Revenue is hereby pledged to the payment of principal of and interest on the Bond, and the Bond constitutes a charge or lien upon such revenues prior and superior to any other charges whatsoever, excluding charges for Operation and Maintenance Expenses of the System, and equal to the lien and charge thereon of the City's outstanding 2013 Bonds and any Future Parity Bonds. The Bond is not a general obligation of the City.

The City hereby covenants and agrees with the Owner of the Bond to carry out fully all covenants and meet all obligations of the City as set forth herein and in the Bond Ordinance, and reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication set forth hereon has been signed by the Bond Registrar.

This Bond is transferable only upon the registry books of the Bond Registrar by surrender of this certificate to the Bond Registrar, duly assigned and executed as indicated below. Such exchange or transfer shall be without cost to the owner or transferee.

It is hereby certified and declared that the Bond is issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and the 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, have been done and have been performed as required by law.

IN WITNESS WHEREOF, the City has caused this Bond to be signed by the manual or facsimile signature of its Mayor and attested by the manual or facsimile signature of its City Clerk, and its corporate seal to be impressed or a facsimile thereof imprinted hereon this ____ day of _____, 2017.

CITY OF LACEY, WASHINGTON

By _____ /s/ _____
Mayor

ATTEST:

_____/s/_____
City Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This is one of the City of Lacey, Washington, Water and Sewer Revenue Bond, Series 2017 (Utility Local Improvement District No. 24), dated _____, 2017, described in the Bond Ordinance.

CITY FINANCE DIRECTOR, as Bond Registrar

By: _____
Authorized Officer

Section 20. Execution and Authentication of the Bond. The Bond shall be signed on behalf of the City by the manual or facsimile signature of the Mayor and attested by the manual or facsimile signature of the City Clerk and shall have the seal of the City impressed or a facsimile thereof imprinted thereon.

Only such Bond as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, 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 Bond so authenticated has 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 Bond shall cease to be an officer or officers of the City before the Bond shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bond 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. The 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 21. Lost or Stolen Bond. In case the Bond shall be lost, stolen or destroyed, the Bond Registrar may deliver a new bond to the Purchaser upon paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar evidence satisfactory to said Bond Registrar that such bond was actually lost, stolen or destroyed and or ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Section 22. Sale and Delivery of the Bond.

(A) *Manner of Sale of the Bond; Delivery of the Bond.* The Designated Representative is authorized to sell the Bond by negotiated sale or private placement based on the assessment of the Designated Representative of market conditions, in consultation with appropriate City officials and staff, Bond Counsel and other advisors. In determining the method

of sale and accepting the Final Terms, the Designated Representative shall take into account those factors that, in the judgment of the Designated Representative, may be expected to result in the lowest true interest cost to the City.

(B) *Procedure for Negotiated Sale or Private Placement.* If the Designated Representative determines that the Bond is to be sold by negotiated sale or private placement, the Designated Representative shall select one or more Purchasers with which to negotiate such sale. The Designated Representative is authorized to execute a bond purchase contract or term sheet on behalf of the City, so long as the terms provided therein are consistent with the terms of this ordinance.

(C) *Preparation, Execution and Delivery of the Bond.* The Bond will be prepared at City expense and will be delivered to the Purchaser, with the approving legal opinion of Bond Counsel regarding the Bond.

Section 23. Reporting Requirements. With respect to the Bond, the City is exempt from the official statement and ongoing disclosure requirements of the Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934.

The City covenants and agrees for as long as the Bond remains outstanding, it will provide annually to the registered owner of the Bond copies of its (a) audited financial statements of the City promptly upon receipt, (b) the budget of the City within 30 days of publication of such budget, and (c) other information as may be reasonably requested by the Bank.

Section 24. Project Fund. There has been created a special account of the City known as the ULID No. 24 Wastewater Capital Fund (the "Project Fund"). Money in the Project Fund shall be used for the purpose of paying or reimbursing the cost of the Improvements described in Section 3 and paying costs of issuing the Bond, if necessary. Bond proceeds deposited in the Project Fund and not immediately needed to pay the costs of the Improvements described in Section 3 and costs incidental thereto may be temporarily invested in Permitted Investments that will mature prior to the date on which the money so invested shall be needed. All Bond proceeds and all interest earned and income or profits derived by virtue of such investments shall remain in the Project Fund and be used for the acquisition, installation and construction of such projects or other improvements to the System. Any Bond proceeds and investment earnings thereon not required for such purposes shall be deposited in the Bond Fund and used to repay the Bond.

Section 25. Application of Bond Proceeds. The proceeds of the Bond shall be applied as follows:

(A) The amount necessary to satisfy the Reserve Account Requirement shall be deposited into the Reserve Account.

(B) The remaining portion of the Bond proceeds shall be deposited into the Project Fund and applied to pay costs of the Improvements and costs of issuing the Bond.

Section 26. Events of Default. The City hereby covenants and agrees with the owner of the Bond, in order to protect and safeguard the covenants and obligations undertaken by the City securing the Bond, that the following shall constitute "Events of Default":

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

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

(C) If the City shall fail to purchase or redeem Term Bonds, if any, in an aggregate principal amount at least equal to the Sinking Fund Requirement for the applicable fiscal year;

(D) If the City shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in this ordinance and the default or defaults shall have continued for a period 90 days after the City shall have received from the owners of not less than 20% in principal amount of Parity Bonds outstanding, a written notice specifying and demanding the cure of such default;

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

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

Section 27. Authorization to Officials and Agents. The proper City officials are hereby authorized and directed to approve an official statement or other disclosure document, and to do everything necessary and proper for the prompt issuance, execution and delivery of the Bond in conformance with the provisions of this ordinance and for the proper use and application of the proceeds of the sale thereof as provided in this ordinance.

Section 28. Supplements and Amendments.

(A) The City Council from time to time and at any time may adopt an ordinance or ordinances supplementing or amending this ordinance, which ordinance or ordinances thereafter shall become a part of this ordinance, for any one or more or all of the following purposes:

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

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

(iii) To amend or supplement any provision contained in this ordinance for the purpose of obtaining or maintaining a rating on the Bonds so long as such amendment or supplement is not inconsistent with this ordinance and will not adversely affect the interests of the owners of any Parity Bonds in any material respect.

Any such supplemental ordinance of the City Council may be adopted without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection B of this section; provided, however, that the City shall obtain an opinion of nationally recognized bond counsel to the effect that such supplemental ordinance complies with this subsection A and will not adversely affect the interests of the owners of any Parity Bonds in any material respect.

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

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

(ii) Reduce the aforesaid percentage of owners of Parity Bonds required to approve any such supplemental ordinance, without the consent of the owners of all 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 adoption of any supplemental ordinance pursuant to the provisions of this section, this ordinance shall be deemed modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this ordinance and the owner of the Bond 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 29. 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 of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bond.

Section 30. Ratification. Any action consistent with the authority but prior to the effective date of this ordinance is hereby ratified and confirmed.

Section 31. Effective Date. This ordinance shall take effect five days after its passage, approval and publication as required by law.

PASSED by the City Council of the City of Lacey, Washington, at an open public meeting thereof, this 26th day of January, 2017, and signed in authentication of its passage this 26th day of January, 2017.



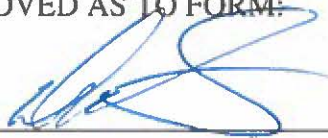
Mayor

ATTEST:



City Clerk

APPROVED AS TO FORM:



City Attorney

CERTIFICATION

I, the undersigned, City Clerk of the City of Lacey, Washington (the "City"), hereby certify as follows:

1. The attached copy of Ordinance No. 1504 (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a regular meeting of the City Council of the City held at the regular meeting place thereof on January 26, 2017, as that ordinance appears on the minute book of the City.

2. The Ordinance will be in full force and effect five days after publication in the City's official newspaper, which publication date is January 30, 2017.

3. A quorum of the members of the City Council was present throughout the meeting and a majority of the members voted in the proper manner for the passage of the Ordinance.

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of January, 2017.

CITY OF LACEY, WASHINGTON



City Clerk

SUMMARY FOR PUBLICATION

ORDINANCE NO. 1504

CITY OF LACEY

The City Council of the City of Lacey, Washington, passed on January 26, 2017, Ordinance No. 1504, entitled "AN ORDINANCE OF THE CITY OF LACEY, WASHINGTON, PROVIDING FOR THE ISSUANCE AND SALE OF NOT TO EXCEED \$1,400,000 PRINCIPAL AMOUNT OF A WATER AND SEWER REVENUE BOND TO OBTAIN FUNDS TO MAKE IMPROVEMENTS TO THE PARCELS IN UTILITY LOCAL IMPROVEMENT DISTRICT NO. 24 CONNECTING THEM TO THE CITY'S SEWER SYSTEM; FIXING OR SETTING PARAMETERS WITH RESPECT TO CERTAIN TERMS AND COVENANTS OF THE BOND; APPOINTING THE CITY'S DESIGNATED REPRESENTATIVE TO APPROVE THE FINAL TERMS OF THE SALE OF THE BOND; AND PROVIDING FOR OTHER RELATED MATTERS."

The main points of the Ordinance are described as follows:

- Section 1. Defines terms used throughout the ordinance.
- Section 2. Compliance with parity conditions.
- Section 3. Authorization of the Bond.
- Section 4. Description of the bond and appointment of the designated representative.
- Section 5. The Bond Registrar responsibilities and the transfer and exchange of the bond are described.
- Section 6. Describes prepayment rights and option.
- Section 7. Description of payment method and timing.
- Section 8. Actions in the event of failure to redeem bond.
- Section 9. Authorization and intent to establish special funds and priority of gross revenue.
- Section 10. Authorization of a rate stabilization account for future revenue requirements.
- Section 11. Creation and purpose of bond fund.

- Section 12. Declaration of adequacy of revenue.
- Section 13. Requirement of collection of assessments.
- Section 14. Contract resource obligations authorized.
- Section 15. Description of general covenants.
- Section 16. The City covenants that it will take all actions necessary to preserve the tax-exempt status of the bonds and designation of the bonds as "Qualified Tax-Exempt Obligations".
- Section 17. Payment agreements authorized.
- Section 18. Future parity bonds.
- Section 19. The form of the bonds is set forth.
- Section 20. Execution and authentication of the bond.
- Section 21. Lost or stolen bond.
- Section 22. Sale and delivery of the bond.
- Section 23. Reporting requirements.
- Section 24. Description and purpose of project fund.
- Section 25. Application of bond proceeds.
- Section 26. Events of default
- Section 27. General authorization of officials and agents.
- Section 28. Supplemental and amendatory ordinances.
- Section 29. Describes the severability provisions.
- Section 30. Ratification
- Section 31. Sets the effective date of this ordinance as five (5) days after its publication.

A copy of the full text of this Ordinance will be mailed without charge to any person requesting the same from the City of Lacey.

Published: January 30, 2017.