

**CITY OF LACEY, WASHINGTON
WATER AND SEWER UTILITY REVENUE BONDS, 1991
\$3,600,000**

ORDINANCE NO. 922

TABLE OF CONTENTS¹

Section 1. Definitions	3
(a) "Annual Debt Service	3
(b) "Assessment Income	4
(c) "Assessments	4
(d) "Bond Fund	4
(e) "Bond Registrar	4
(f) "1977 Bonds	4
(g) "1981 Bonds	5
(h) "1986 Bonds (Series A)	5
(i) "1986 Bonds (Series B)	5
(j) "1989 Bonds"	5
(k) "Bonds	5
(l) "City	5
(m) "Code	5
(n) "Construction Fund	5
(o) "Cost of Maintenance and Operation	5
(p) "Council	6
(q) "Debt Service Account	6
(r) "Future Parity Bonds	6
(s) "Maximum Annual Debt Service	6
(t) "Net Revenue	6
(u) "Outstanding Bonds	6
(v) "Parity Bonds	7
(w) "Reserve Account	7
(x) "Revenue of the System	7
(y) "Revenue Fund	8
(z) "Sinking Fund Account	8
(aa) "Surety Bond	8
(bb) "System	9
(cc) "Term Bonds	10
(dd) "ULID	10
Section 2. Compliance with Parity Conditions	10
Section 3. Description of Improvements	12
Section 4. Financing Plan	13

¹ This Table of Contents is provided for reference only and does not constitute a part of the Ordinance for which it is provided.

Section 5.	Authorization of Bonds	13
Section 6.	Description of Bonds	13
Section 7.	Optional and Mandatory Redemption; Open Market Purchase	15
Section 8.	Revenue Fund	17
Section 9.	Construction Fund; Disposition of Bond Proceeds .	18
Section 10.	Bond Fund	20
Section 11.	Defeasance	27
Section 12.	Adequacy of Revenues	28
Section 13.	Lien Position of Bondowners	28
Section 14.	General Covenants	29
	A. Maintenance and Operation Standards	29
	B. Collection and Application of Assessments	29
	C. Establishment and Collection of Rates and Charges; Coverage	30
	D. Provision for Cost of Maintenance and Operation . .	31
	E. Sale or Disposition of System or Property	31
	F. Liens and Encumbrances	32
	G. Insurance	33
	H. Books and Accounts	33
	I. No Free Service	34
	J. Improvements Standards	34
	K. Tax Code Covenant	34
Section 15.	Findings and Designation	34
Section 16.	Future Parity Bonds	35
Section 17.	Lost or Destroyed Bonds	39
Section 18.	Form of the Bonds	39
Section 19.	Execution and Authentication of Bonds	45
Section 20.	Sale of Bonds	46
Section 21.	Authorization to City Officials	46
Section 22.	Additional or Supplemental Ordinances	46
Section 23.	Severability	49
Section 24.	Effective Date	49

ORDINANCE NO. 922

AN ORDINANCE of the City of Lacey, Washington, authorizing the issuance and sale of water and sewer utility revenue bonds of the City in the principal amount of \$3,600,000, for the purpose of financing part of the cost of acquiring, constructing, installing and equipping certain additions and improvements to the sewage collection and disposal facilities and water supply and distribution facilities of the combined water and sewerage system of the City; providing for creation of a 1991 sinking fund account; providing that said bonds will 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 Finance Director to seek proposals for the purchase of such bonds.

WHEREAS, the City Council of the City of Lacey, Washington (the "City"), has, by Resolution No. 646, passed on July 27, 1989, approved a plan of improvements for the sewage collection and disposal system of the City (the "Sewerage Plan") and ordered the improvements contained therein to be made; and

WHEREAS, the City Council has, by Resolution No. 605, passed on July 24, 1986, approved a plan of improvements for the water supply and distribution system of the City (the "Water Plan"); and

WHEREAS, the City Council, by Ordinance No. 858, passed May 25, 1989, created Utility Local Improvement District ("ULID") No. 11 and ordered certain improvements to be made to the sewage collection and disposal system to carry out a portion of the Sewerage Plan, and the improvements in ULID No. 11 have been completed, and by Ordinance No, 919, passed October 24, 1991, confirmed the final assessment roll therein; and

WHEREAS, the City Council, by Ordinance No. 891, passed August 9, 1990, created Utility Local Improvement District ("ULID") No. 14 and ordered certain improvements to be made to the water supply and distribution system and to the sewage collection and disposal system to carry out portions of the Water Plan and the Sewerage Plan, the improvements in ULID No. 14 have not been completed; and

WHEREAS bond anticipation notes dated December 18, 1990, in the principal amount of \$3,150,000 were issued to provide construction financing for ULID No. 11, which notes together with interest are due December 1, 1991, and an interfund loan has been made from the 1977 sinking fund component of the Water and Sewer Reserve Fund of the City to pay the principal and interest on bond anticipation notes issued to provide construction financing for the improvements in ULID No. 14 in anticipation of the issuance of water and sewer revenue bonds; and

WHEREAS, the City Council now deems it necessary and in the best interests of the City that water and sewer revenue bonds of the City be issued to carry out a portion of the Plan to provide financing for portions of the cost thereof; and

WHEREAS, the City has issued its water and sewer revenue refunding bonds under date of August 1, 1977, of which the principal amount of \$1,700,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer revenue bonds under date of July 1, 1981, of which the principal amount of \$580,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of May 1, 1986, of which the principal amount of \$3,250,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of December 15, 1986, of which the principal amount of \$835,000 is currently outstanding; and

WHEREAS, the City has issued its water and sewer utility revenue bonds under date of November 1, 1989, of which the principal amount of \$3,300,000 is currently outstanding; and

WHEREAS, the City Council deems it in the best interest of the City to authorize the issuance of its water and sewer utility revenue bonds in the principal amount of \$3,600,000 on a parity with the aforesaid bonds and to obtain proposals for the purchase of such 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:

(a) "Annual Debt Service" means the amount required to be paid in any calendar year for (1) interest on all Parity Bonds then outstanding; (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.

(b) "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.

(c) "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" includes any installments of Assessments and any interest or penalties which may be due thereon.

(d) "Bond Fund" means the 1977 City of Lacey Water and Sewer Revenue Bond Fund created in the office of the Finance Director of the City by Section 5 of Ordinance No. 460.

(e) "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.

(f) "1977 Bonds" means the \$3,925,000 principal amount of Water and Sewer Revenue Refunding Bonds, 1977 issued under date of August 1, 1977, pursuant to Ordinance No. 460 of the City.

(g) "1981 Bonds" means the \$1,380,000 principal amount of Water and Sewer Revenue Bonds, 1981 issued under date of July 1, 1981, pursuant to Ordinance No. 623 of the City.

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

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

(j) "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.

(k) "Bonds" means the \$3,600,000 principal amount of water and sewer utility revenue bonds of the City issued pursuant to this ordinance for the purposes herein provided.

(l) "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.

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

(n) "Construction Fund" means the City of Lacey Water and Sewer Construction Fund created by Ordinance No. 102.

(o) "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.

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

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

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

(s) "Maximum Annual Debt Service" means as of the date of calculation the maximum amount of Annual Debt Service (excluding the principal amount of the 1977 Term Bonds) required to be paid in any calendar year thereafter for the then outstanding Parity Bonds.

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

(u) "Outstanding Bonds" means the presently outstanding water and sewer revenue bonds of the City:

<u>Series</u>	<u>Date of Issue</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding on 10/15/91</u>	<u>Authorizing Ordinance</u>
Water & Sewer Revenue Refunding Bonds, 1977	08/01/77	\$3,925,000	\$1,700,000	No. 460
Water & Sewer Revenue Bonds, 1981	07/01/81	\$1,380,000	\$ 580,000	No. 623

<u>Series</u>	<u>Date of Issue</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding on 10/15/91</u>	<u>Authorizing Ordinance</u>
Water & Sewer Utility Revenue Bonds, 1986 (Series A)	05/01/86	\$3,250,000	\$3,250,000	No. 778
Water & Sewer Utility Revenue Bonds, 1986 (Series B)	12/15/86	\$962,500	\$ 835,00	No. 797
Water & Sewer Utility Revenue Bonds, 1989	11/01/89	\$3,300,000	\$3,300,000	No. 863

The Outstanding Bonds are the only Parity Bonds of the City for which the Revenue of the System has been pledged for repayment.

(v) "Parity Bonds" means 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.

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

(x) "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 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 "Maintenance and Operation Cost of the System".

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

(z) "Sinking Fund Account" means an account created in the Bond Fund to amortize the principal of Term Bonds. "1991 Sinking Fund Account" means the account of that name which may be created in the Bond Fund pursuant to Section 10 of this ordinance to amortize the principal of any 1991 Term Bonds.

(aa) "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 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 Bonds by Moody's Investors Service, Inc. and by Standard & Poor's Corporation, if the Bonds were so rated, and if not so rated, 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 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.

(bb) "System" means the combined water and sewer system of the City as it now exists and as it may be later added to, extended and improved for as long as the Outstanding Bonds, the Bonds and any Future Parity Bonds remain outstanding. From and after the earliest date on which occurs (i) the redemption or defeasance of all outstanding 1977 Bonds and 1981 Bonds or (ii) the consent of 65% or more of the owners of all then outstanding 1977 Bonds and of all then outstanding 1981 Bonds to the following change in definition of the System or (iii) the City obtains from its bond counsel a written opinion that the following change in definition of the System will not adversely affect the owners of the Outstanding Bonds, "System" shall mean 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 as long as any Parity Bonds remain outstanding.

(cc) "Term Bonds" means the 1977 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. Any of the Bonds which are Term Bonds, if any, shall be so designated in the resolution hereafter adopted by the Council accepting a proposal for purchase of the Bonds.

(dd) "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 12 of Ordinances No. 460 and 623, respectively, Section 14 of Ordinance No. 778, Section 17 of Ordinance No. 797, and Section 16 of Ordinance No. 865, (the "Outstanding Bond Ordinances"):

First, the Bonds are issued for the purpose of financing part of the cost of acquisition, construction and installation of additions, betterments and capital improvements to 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, the City has, by Sections 10A and 14B of this ordinance, required that all outstanding Assessments levied in ULIDs Nos. 3, 4, 6, 7, 9, 10, 11 and 14 of the City will be paid directly into the Bond Fund (except any assessment payments received prior to delivery of the Bonds to the extent they are applied to pay costs of the improvements in ULIDs Nos. 11 and 14), which are the only existing ULIDs for which any Assessments are outstanding;

Fourth, 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

Fifth, the City will, prior to the time of delivery of the Bonds to the purchaser thereof, have on file in the office of the Clerk of the City a certificate from Economic and Engineering Services, Inc., an independent engineering firm, showing (i) that the Net Revenue determined and adjusted as provided by the Outstanding Bond Ordinances for each calendar or fiscal year after the issuance of the Bonds (the "Adjusted Net Revenue") together with Assessment Income will equal at least 1.20 times the Maximum Annual Debt Service on all outstanding Parity Bonds, including the Bonds and (ii) that Adjusted Net Revenue and Assessment Income remaining after the payment of the principal of and interest on Parity Bonds other than Term Bonds will be sufficient to retire (by redemption prior to maturity or when due) and to pay until such retirement on all outstanding Term Bonds.

The Adjusted Net Revenue shall be determined in the manner provided in the respective Outstanding Bond Ordinances. The certificate shall have attached thereto financial statements of the System certified by the City Finance Director showing income and expenses for the period used in the calculation of Adjusted Net Revenue.

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. Description of Improvements.

By Ordinance No. 858 passed on May 25, 1989, Utility Local Improvement District No. 11 was formed and sanitary sewer system improvements including the construction and installation of sewage collection mains, sewer interceptors connecting such mains to the City's sewer system and related facilities were ordered ("ULID No. 11 Improvements"). By Ordinance No. 891 passed on August 9, 1990, Utility Local Improvement District No. 14 was formed and water and sanitary sewer system improvements, including the construction and installation of a water distribution line, fire hydrants, sewage collection mains, sewer interceptors connecting

such mains to the City's sewer system and related facilities were ordered ("ULID No. 14 Improvements").

Section 4. Financing Plan.

The cost of the ULID No. 11 Improvements and the ULID No. 14 Improvements, including engineering, design, administrative and legal costs, are estimated to be \$3,162,895 and, \$415,446, respectively, including the principal of and interest on the bond anticipation notes heretofore issued to provide construction financing for the Improvements (the "Notes"). The amount of \$3,600,000 of such costs, plus costs of issuance of the Bonds, is expected to be paid from the principal proceeds of the Bonds and the balance of which is expected to be paid from investment of the Note proceeds and Bond proceeds.

Section 5. Authorization of Bonds.

In order to pay part of the cost of carrying out the ULID No. 11 and ULID No. 14 Improvements the City shall issue its Water and Sewer Utility Revenue Bonds, 1991 in the principal amount of \$3,600,000 (hereinbefore defined as the "Bonds").

Section 6. Description of Bonds.

The Bonds shall be designated the "City of Lacey Water and Sewer Utility Revenue Bonds, 1991," shall be dated November 1, 1991, 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, 1992, 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 or be subject to mandatory redemption on December 1 of the following years and in the following amounts:

<u>Maturity or Mandatory Redemption Date*</u>	<u>Amount</u>
1992	\$145,000
1993	155,000
1994	165,000
1995	175,000
1996	190,000
1997	200,000
1998	215,000
1999	230,000
2000	245,000
2001	265,000
2002	280,000
2003	300,000
2004	320,000
2005	345,000
2006	370,000

* Designation of maturity and mandatory redemption dates, respectively, shall be made by the Council in its resolution hereafter adopted to accept a proposal for purchase of the Bonds.

Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. 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 7. Optional and Mandatory Redemption; Open Market Purchase.

A. The City reserves the right and option to redeem the 1991 Bonds maturing on and after December 1, 2002, in whole on December 1, 2001 and on any date thereafter, or in part on any interest payment date (maturities to be selected by the City and by lot within a maturity in such manner as the Bond Registrar shall determine) on December 1, 2001 and on any interest payment date

thereafter, at par plus accrued interest to the date fixed for redemption.

B. Any Bonds which are hereafter designated by resolution of the Council to be Term Bonds shall, unless previously redeemed as set forth in the foregoing Subsection, be subject to mandatory call by lot, solely from the payments required to be made therefor into the Debt Service Account and/or the 1991 Sinking Fund Account, at a price of par, plus accrued interest to the date fixed for redemption, in the amounts and on the dates set forth in such designating resolution. In the event of prior optional redemption of any 1991 Term Bonds, the mandatory sinking fund payments shall be reduced as provided in Subsection 10.B of this ordinance.

C. Interest on the Bonds called for redemption shall cease on the redemption date unless the same shall not be redeemed upon presentation made pursuant to such call.

Notice of any such intended redemption shall be given not less than thirty nor more than sixty days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the bond register. The requirements of this paragraph shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the owner of any Bond. In addition, such redemption notice shall also be mailed within the same time period, postage prepaid, to the initial purchaser of the Bonds, or to its successor in business, if any, at its main office, to Moody's Investors Service, Inc. in New York, New York, or to its business successors and to Standard & Poor's in

New York, New York, or to its business successors, but the mailing of these two notices shall not be a condition precedent to the call of any Bonds for redemption.

D. 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, Fifth and Sixth of Section 8 of this ordinance, to purchase any of the Bonds in the open market for retirement only, if the same may be purchased at a price not exceeding that at which they could be called for optional redemption on the first succeeding date on which they may be called, plus accrued interest.

Section 8. 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;

Fourth, 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 Parity Bonds;

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

Sixth, to make all payments required to be made into any other revenue bond redemption fund or revenue warrant 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 bonds or revenue warrants 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;

Seventh, to retire by redemption or purchase in the open market any outstanding revenue bonds or revenue warrants 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.

Section 9. Construction Fund; Disposition of Bond Proceeds.

A special fund of the City known as the "Water and Sewer Construction Fund" (the "Construction Fund") has heretofore been created in the office of the Finance Director of the City for the purpose of paying costs of capital improvements to the System.

Amounts received as proceeds of the sale of the Bonds (other than the amount received on the date of delivery of the Bonds as accrued interest, which shall be deposited in the Debt Service

Account of the Bond Fund) shall be deposited in the Construction Fund and shall be used to pay costs of the Improvements described in Section 3 of this ordinance including payment and redemption of bond anticipation notes issued in anticipation of the proceeds of the Bonds and including advances heretofore made to pay and redeem a portion of such notes (which notes were issued to pay costs of the Improvements) and to pay all costs incidental thereto, including the costs of issuance of the Bonds.

Pending their expenditure, the City may temporarily invest the proceeds of the Bonds in any investments permitted by law. The investment earnings shall be retained in the Construction Fund and expended for the purposes of such Fund.

Amounts in the Construction Fund equal to the principal proceeds and investment proceeds of the Bonds (as those terms are defined in the Code) shall be deemed to be spent for costs of the Improvements in the following order: First, the principal proceeds of the Bonds; second, the investment proceeds of the Bonds; third, from any other moneys at any time deposited in the Construction Fund and legally available to pay costs of the Improvements. If any principal or investment proceeds of the Bonds remain, the City Council, promptly by ordinance, shall make such determinations and shall direct the application of any such proceeds to other capital improvements of the System. To the extent that principal or investment proceeds of the Bonds are not expended within six months from the date of issuance of the Bonds, the City shall restrict the yield on the investment of such proceeds as necessary to comply with the covenants contained in Section 15 of this ordinance;

and/or such unexpended proceeds shall be transferred to the Bond Fund and promptly applied to pay debt service on Parity Bonds.

Section 10. 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.

The City Finance Director is hereby authorized and directed and the City hereby obligates and binds itself to set aside and pay into the Debt Service Account, as collected, all Assessments levied in the ULID Nos. 3, 4, 6, 7, 9 10, 11 and 14. In the event of prior optional redemption of any 1991 Term Bonds the mandatory sinking fund payments shall be reduced as provided in Subsection 10.B of this ordinance.

As long as any of the Bonds remain outstanding, the City further irrevocably obligates and binds 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 as follows:

1. Beginning with the month of December, 1991, and continuing for as long as any of the Bonds remain outstanding

and unpaid, an amount which together with other moneys available therefor in the Debt Service Account will be equal to at least one-sixth of the interest to become due and payable on the next interest payment date on all of the Bonds then outstanding.

2. Beginning with the month of December, 1991, and continuing for as long as any of the Bonds are outstanding and unpaid, an amount which together with other moneys available therefor and on hand in the Debt Service Account will be equal to at least one-twelfth of the principal of the Bonds to become due and payable on the following December 1, provided that, during any 12-month period immediately preceding a mandatory sinking fund payment date (as defined in the following Subsection B) for any 1991 Term Bonds, no payments for principal of the Bonds shall be required to be deposited into the Debt Service Account. Mandatory Sinking Fund payments for bonds other than 1991 Term Bonds shall be deposited in the Debt Service Account in the same manner as though bonds of equal aggregate principal amount were maturing on such date.

B. The City Finance Director is hereby authorized and directed to establish in the Bond Fund a special account to be designated the "1991 Sinking Fund Account" for the purpose of paying the principal and interest of any 1991 Term Bonds hereafter designated by resolution of the Council. In the event that any of the Bonds are so designated to be 1991 Term Bonds, for each term bond maturity date, the principal amounts indicated in the maturity

or mandatory redemption schedule set forth in Section 7 of this ordinance for each of the years preceding the term bond maturity year to, but not including, the next preceding serial or term bond maturity year shall constitute "mandatory sinking fund payments"; and December 1 of each such year shall constitute a "mandatory redemption date." On each mandatory redemption date, a portion of the principal of the 1991 Term Bonds shall be redeemed from moneys set aside in the 1991 Sinking Fund Account pursuant to this Subsection B for the amortization of the principal of such 1991 Term Bonds. If any of the Bonds are so designated, as long as any of the 1991 Term Bonds remain outstanding, the City further irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the 1991 Sinking Fund Account those amounts necessary, together with Assessments and such other funds as are on hand and available in the 1991 Sinking Fund Account, to pay the mandatory sinking fund payment next coming due on the 1991 Term Bonds. Such payments from the Revenue Fund shall be made on or before the twentieth day of each month as follows:

Beginning with the month of December next preceding each mandatory redemption date and continuing until such redemption date, an amount which together with other moneys available therefor and on hand in the 1991 Sinking Fund Account will be equal to at least one-twelfth of the mandatory sinking fund payment to become due and payable on the following December 1.

In the event that 1991 Term Bonds maturing on a particular term bond maturity date are redeemed at the option of the City pursuant

to Subsection 7.A of this ordinance, the remaining sinking fund payments applicable to such term bond maturity date shall be reduced pro rata to the nearest \$5,000.

C. 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 commencing with the month of October, 1992, and annually thereafter, it will pay into the Reserve Account out of Assessments and/or Revenue of the System (or, at the option of the City, out of any funds legally available for such purpose) such additional amount, if any, required in not less than approximately equal annual payments sufficient with other money in the Reserve Account to have on deposit therein by November 1, 1996, a total amount which will be equal to the Maximum Annual Debt Service on the outstanding Parity Bonds.

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 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. 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 moneys left remaining on deposit in the Reserve Account are equal to the Maximum Annual Debt Service.

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, Third and Fourth of Section 8 of this ordinance.

If all outstanding 1977 and 1981 Bonds are redeemed or defeased or if the consent of 65% or more of the owners of the then outstanding 1977 Bonds and of the then outstanding 1981 Bonds is obtained, 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 10 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 and the aggregate limit on the amount payable under such Surety Bonds to pay debt service on the Bonds and any Future 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 Bonds or any 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 8 of this ordinance such amounts as are necessary to provide a

balance therein equal to the then applicable adjusted reserve requirement.

D. 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.

E. Money in the Debt Service Account, any Sinking Fund Account and Reserve Account may be invested as permitted by law. 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.

F. In the event that the amount in the Reserve Account allocable to the Bonds under the Code shall at any time exceed the lowest of (1) 1.25 times the average annual debt service on the Bonds, (2) the maximum annual debt service on the Bonds or (3) ten percent of the original proceeds of the Bonds, the City covenants to restrict the yield on the investments of such excess amount in the manner required by the Act to prevent the Bonds from becoming "arbitrage bonds." For the purpose of this Subsection E, "annual debt service" shall mean the amount required to be paid in any year beginning on April 1 and ending on the next succeeding March 31 for (1) interest on all Bonds then outstanding, (2) principal of all

Bonds then outstanding but excluding any outstanding Bonds for which a Sinking Fund Account has been established and (3) payments into any Sinking Fund Account for the amortization of any Bonds then outstanding; and "maximum annual debt service" shall mean the maximum amount of annual debt service in any future year on the Bonds then outstanding.

Section 11. Defeasance.

In the event that moneys are irrevocably set aside in a special escrow fund (the "Escrow Fund") on the terms and conditions set forth in this Section below to refund all or any part of the Bonds, with respect to the Bonds so refunded:

A. Payments into the Bond Fund for payment of principal of and interest on such Bonds shall be discontinued;

B. Such Bonds shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the moneys so set aside; and

C. Such Bonds shall be deemed not to be outstanding under this ordinance; provided, that any such Bonds shall be deemed to be outstanding for the purpose of transfers, exchanges or the replacement of lost or destroyed Bonds pursuant to this ordinance.

The Escrow Fund shall be established with a corporate fiduciary qualified to do business in the State of Washington and:

(1) Moneys set aside in said Escrow Fund shall be irrevocably pledged to pay principal of and redemption premium, if any, and interest on the refunded Bonds; and

(2) Said moneys shall be held in cash and/or "government obligations" as now or hereafter defined in Chapter 39.53 RCW;

(3) Such government obligations shall mature at such time or times and bear interest at such rates to provide without any reinvestment thereof sufficient amounts to pay interest on the refunded Bonds when due and to redeem and retire the refunded Bonds at their respective maturity dates, mandatory redemption dates, and/or pursuant to an irrevocable call of any or all such refunded Bonds for redemption in accordance with their terms; and

(4) The sufficiency of such cash and government obligations to make such payments shall have been verified by an independent certified public accountant.

Section 12. 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 herein a greater amount of the Revenue of the System than in its judgment will be available over and above such Cost of Maintenance and Operation.

Section 13. Lien Position of Bondowners.

The amounts so pledged to be paid by this ordinance out of the Revenue of the System and out of the Revenue Fund into the Bond Fund and the accounts created therein are hereby declared to be a prior lien and charge upon such Revenue of the System and money in the Revenue Fund 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 14. 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 promptly collect all Assessments levied in ULIDs Nos. 3, 4, 6, 7, 9, 10, 11 and 14 in any ULID hereafter created to secure the payment of the principal of and interest on Parity Bonds without allocation of such Assessments to any particular series of Parity Bonds.

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.

D. Provision for Cost of Maintenance and Operation.

After making or providing for the monthly payments from the Revenue Fund as required by Section 10 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 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 Revenue from the portion of the System sold or disposed of

for the preceding year bears to the total 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 14.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 Code Covenant. The City covenants that it will take such action or refrain from such action as may be necessary to comply with the Code to assure that the interest on the Bonds will not become taxable under Sections 103, 141, 148 and 149 of the Code.

Section 15. Findings and Designation.

The City Council hereby finds and determines that the City has not nor does it expect to issue any other tax-exempt obligations including but not limited to general obligation bonds and notes, revenue bonds and notes, lease-purchase or installment purchase contracts and registered warrants including but not limited to in calendar year 1991 and that the City has not created any public

corporations or authorities under RCW 35.21.730 et seq. Therefore, the City is not expected to issue more than \$5,000,000 of obligations (including the Bonds) in 1991. The City Council hereby finds and determines that the Bonds qualify for the exception from rebate under the Code and further that the Bonds are, and are hereby designated to be, qualified tax-exempt obligations pursuant to Section 265(b)(3) of said Code relating to financial institutions.

Section 16. 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 10 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 (a) 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, and (b) that Adjusted Net Revenue and Assessment Income remaining after the payment of the principal of and interest on Parity Bonds other than Term Bonds will be sufficient to retire (by redemption prior to maturity or when due) and to pay interest until such retirement on all then outstanding Term Bonds.

The Adjusted Net Revenue shall be the Net Revenue for a period of any twelve consecutive months out of the twenty-four 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 twenty-four month period, had been in force during the full twenty-four 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 twenty-four 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 twenty-four 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).

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 monies are not otherwise available.

Section 17. 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 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 18. Form of the Bonds.

[The City Clerk is hereby authorized to publish the following summary of this Section 18 in lieu of the full text:

Section 18. Form of the Bonds. Summary: This Section contains the text of the Bonds to be delivered to Bondowners and with three exceptions contains no information or agreement

which is not set forth elsewhere in this ordinance. The three exceptions are (1) procedure for and limitation on time of transfer of Bond ownership; (2) certain abbreviations for describing interests held by registered Bondowners and (3) the assignment form for effecting a transfer of Bond ownership.]

The Bonds shall be in substantially the following form:

No. _____ \$ _____

UNITED STATES OF AMERICA

STATE OF WASHINGTON

CITY OF LACEY

WATER AND SEWER UTILITY REVENUE BONDS, 1991

INTEREST RATE: _____ MATURITY DATE: _____ CUSIP NO: _____

SEE REVERSE SIDE FOR
CERTAIN DEFINITIONS

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 nominees, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from November 1, 1991, 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, 1992, 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 bond 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 nominees 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 nominee 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. 922 of the City (the "Bond Ordinance") for definition of capitalized terms used herein.

Reference is hereby made to additional provisions of this bond set forth on the reverse side hereof and such additional provisions shall for all purposes have the same effect as if set forth 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 facsimile signature of the Mayor and to be attested by the facsimile signature of the City Clerk and its corporate seal to be impressed or a facsimile thereof imprinted hereon this 1st day of November, 1991.

CITY OF LACEY, WASHINGTON

By (facsimile signature)
Mayor

ATTEST:

(facsimile signature)
City Clerk

Date of Authentication:

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 of any Bond. In addition, such redemption notice shall be sent to SEAFIRST Corp. Agency Service Center, or its successor in business, if any, at its main office, to Moody's Investors Service, Inc. at its office in New York, New York and to Standard & Poor's at its office in New York, New York, but the mailing of such notice to such corporations shall not be a condition precedent to the redemption of such bonds.

The City hereby covenants and agrees with the owners 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 revenue refunding bonds dated August 1, 1977, the outstanding water and sewer revenue bonds dated July 1, 1981, the outstanding water and sewer utility revenue bonds dated May 1, 1986, the outstanding water and sewer utility revenue bonds dated December 15, 1986, the outstanding water and sewer utility revenue bonds dated November 1, 1989, and any Future Parity Bonds which may be hereafter issued in accordance with the provisions of Section 16 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

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:

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 19. 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 20. Sale of Bonds.

The Finance Director has obtained proposals for purchase of the Bonds, which proposals may include election of Term Bonds and mandatory redemption consistent with this Ordinance. Immediately after passage of this Ordinance, the Council shall consider the recommendation of the Finance Director for sale of the Bonds.

Section 21. 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 22. 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 Future Parity Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect 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 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 23. 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 24. 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 7TH day of November, 1991.

By Gene Canquist Liddell
Mayor

ATTEST:

Charlotta M Taylor
City Clerk

APPROVED AS TO FORM:

[Signature]
City Attorney

Published - November 14, 1991