

CITY OF BELLEVUE, WASHINGTON

ORDINANCE NO. 5536

AN ORDINANCE of the City of Bellevue, Washington, authorizing the issuance and sale of \$6,825,000 principal amount of waterworks utility revenue refunding bonds to provide a portion of the funds necessary to refund the City's outstanding waterworks utility revenue bonds and to pay costs of issuing the bonds; and fixing the form, terms and covenants of the bonds.

WHEREAS, pursuant to Ordinance No. 2169, as amended by Ordinance No. 2181, the sanitary sewerage system of the City of Bellevue, Washington (the "City"), was combined with and became a part of the waterworks utility of the City and, pursuant to Ordinance No. 2845, the storm and surface water utility of the City created and established by Ordinance No. 2003 was combined with and made a part of such combined water distribution system and sanitary sewerage system, and such combined systems (hereinafter defined together with all additions thereto and betterments and extensions thereof heretofore or hereafter made as the "Waterworks Utility") are maintained and operated jointly; and

WHEREAS, pursuant to Ordinance No. 4284 of the City, the City issued \$2,600,000 principal amount of its "Water and Sewer Revenue Bonds, 1991" (the "1991 Bonds"), which bonds are currently outstanding in the principal amount of \$1,485,000; and

WHEREAS, pursuant to Ordinance No. 4678 of the City, the City issued \$11,740,000 principal amount of its "Water and Sewer Revenue Refunding Bonds,

1994" (the "1994 Bonds"), which bonds are currently outstanding in the principal amount of \$6,645,000; and

WHEREAS, the City wishes to authorize the issuance of bonds secured by revenues of the Waterworks Utility to refund all of the outstanding 1991 Bonds and 1994 Bonds;

WHEREAS, the City provided notice of its intent to sell the bonds by competitive bid in the form of the Official Notice of Bond Sale, attached as Exhibit A, and received nine bids for the purchase of the bonds; and

WHEREAS, Seattle-Northwest Securities Corporation submitted the bid, attached as Exhibit B, to purchase the bonds at the lowest true interest cost to the City;

NOW THEREFORE,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DO
ORDAIN, as follows:

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

"Accreted Value" means:

(1) with respect to any Deferred Interest Bonds, as of the time of calculation, the sum of the amount representing the initial principal amount of such Deferred Interest Bonds as set forth in the applicable ordinance authorizing the issuance of Parity Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or

(2) with respect to original issue discount bonds under the Code, as of the time of calculation, the amount representing the initial public offering price of

such original issue discount bonds plus the amount of the discounted principal which has accreted since the date of issue, determined in accordance with the provisions of the applicable ordinance authorizing the issuance of Parity Bonds.

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

“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,

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

(c) the Sinking Fund Requirement, if any, for such year.

For the purpose of calculating Annual Debt Service for purposes of the Future Parity Bonds tests outlined in Section 12 and the Reserve Account Requirement:

(i) in the case of Variable Rate Bonds, the interest rate thereon shall be calculated on the assumption that such Parity Bonds will bear interest during such period at a rate equal to (i) the average rate borne by the Variable Rate Bonds outstanding during the 12 months preceding the date of calculation or (ii) if the Variable Rate Bonds were not Outstanding during such preceding 12 months, the rate equal to an average of the BMA Index for 12 months of the 13 months preceding the date of calculation; provided, that if a Payment Agreement is executed in connection with a series of Variable Rate Bonds that has the effect of converting the Variable Rate to a synthetic fixed rate of interest or limiting the range of possible Variable Rates, then for purposes of calculating Annual Debt Service, the assumed interest rate for such Parity

Bonds shall be the synthetic fixed rate of interest or maximum Variable Rate, as applicable, payable by the City under the Payment Agreement for the term of the Payment Agreement;

(ii) in the case of Parity Bonds bearing a fixed rate of interest and if a Payment Agreement is executed in connection with those Parity Bonds that has the effect of converting the fixed rate of interest thereon to a synthetic Variable Rate, then for purposes of calculating Annual Debt Service, the assumed interest rate for such Parity Bonds shall be the maximum synthetic Variable Rate payable by the City under the Payment Agreement for the term of the Payment Agreement; and

(iii) in the case of Deferred Interest Bonds, the Accreted Value becoming due at maturity, or by virtue of a mandatory sinking fund deposit, shall be included in the calculation of Annual Debt Service and references in this Ordinance to principal on Parity Bonds shall include the Accreted Value of any Capital Appreciated Bonds.

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.

“Arbitrage Certificate” means the Arbitrage and Tax Certification executed by the Finance Director pertaining to certain federal tax matters and to the calculation and payment of any Rebate Amount with respect to the Bonds.

“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 Waterworks Utility, if such assessments are pledged to be paid into the Bond Fund.

“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.

“BMA Index” means the BMA Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor, or a comparable index selected by the Authority if such index is no longer published.

“Bond Fund” means that special fund of the City to be known as the “Waterworks Utility Revenue Bond Redemption Fund,” authorized to be created pursuant to Section 7 of this ordinance for the payment of principal of and interest on the Bonds and any Future Parity Bonds.

“Bond Insurance Policy” means the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Registrar” means the fiscal agency of the State of Washington in either Seattle, Washington, or New York, New York, whose duties include registering and

authenticating the Bonds, maintaining the Bond Register, transferring ownership of the Bonds, and paying the principal of and interest on the Bonds.

“Bonds” means the \$6,825,000 par value of “Waterworks Utility Revenue Refunding Bonds, 2004” authorized to be issued by the City pursuant to this ordinance.

“City” means the City of Bellevue, Washington.

“Code” means the federal Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

“Commission” means the Securities and Exchange Commission.

“Contract Resource Obligation” means an obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 25 of this ordinance, to make payments for water or sewer supply, transmission or other commodity or service to another person or entity (including without limitation a separate utility system created pursuant to Section 24 of this ordinance).

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

“Debt Service Account” means the account of that name in the Bond Fund created pursuant to Section 7 of this ordinance.

“Deferred Interest Bonds” means any Parity Bonds, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable ordinance authorizing the issuance of Parity Bonds and is payable only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are issued as Deferred Interest Bonds, but later convert to obligations on which interest is paid periodically, shall be Deferred Interest Bonds until the

conversion date and thereafter shall no longer be Deferred Interest Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

“DTC” means The Depository Trust Company, New York, New York.

“Escrow Agent” means the bank or trust company appointed by the Finance Director pursuant to Section 20 hereof.

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

“Finance Director” means the Finance Director of the City, or any other officer who succeeds to substantially all of the responsibilities of that office specified in this ordinance.

“Future Parity Bonds” means all revenue bonds or other revenue obligations of the City issued after the date of the issuance of the Bonds 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 Bonds.

“Government Obligations” has the meaning given to such term in RCW Chapter 39.53, as the same may be amended from time to time.

“Gross Revenue” means all earnings, revenue and money, except Assessments, received by the City from or on account of the operation of the Waterworks Utility, including proceeds from the sale, lease or other disposition of any of the properties or facilities of the Waterworks Utility, 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 capital recovery charges, 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."

"Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York and shall include any successors, as issuer of the Bond Insurance Policy and the Reserve Surety Policy.

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

"Net Revenue" means Gross Revenue less the Operation and Maintenance Expenses.

"1991 Bonds" means the outstanding "Water and Sewer Revenue Bonds, 1991" issued pursuant to Ordinance No. 4284.

"1994 Bonds" means the outstanding "Water and Sewer Revenue Refunding Bonds, 1994" issued pursuant to Ordinance No. 4678.

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

"Operation and Maintenance Expenses" means all expenses incurred by the City in causing the Waterworks Utility to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the Waterworks Utility; payments into pension funds; State-imposed taxes; amounts due under Contract

Resource Obligations (but only at the times described in Section 25 of this ordinance); payments made to any other person or entity for the receipt of water or sewer supply or transmission or other right, commodity or service; payments made to any other person or entity that are required in connection with the operation of the Waterworks Utility or the acquisition or transmission of water or sewer or storm water and that are not subordinate to the lien of the Parity Bonds; and payments with respect to any other expenses of the Waterworks Utility that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporation. Operation and Maintenance Expenses does not include any depreciation or taxes levied or imposed by the City, Payment Agreement Payments, or payments to the City in lieu of taxes, or capital additions or capital replacements to the Waterworks Utility.

“Parity Bonds” means the 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 (i) in connection with or incidental to the issuance, incurring or carrying of any Parity Bonds; (ii) 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; (iii) with a Qualified Counterparty; and (iv) 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 and wastewater systems of comparable size and character to the Waterworks Utility in such areas as are relevant to the purposes for which they are retained.

"Purchaser" means Seattle-Northwest Securities Corporation.

"Qualified Counterparty" means with respect to a Payment Agreement an entity (i) 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 (ii) 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 currently 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, and if rated by A.M. Best & Company, must also be rated in the highest rating category by A.M. Best & Company.

"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 currently 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 6 of this ordinance.

"Refunded Bonds" means the 1991 Bonds and the 1994 Bonds.

"Refunding Account" means the City of Bellevue Waterworks Utility Revenue Bond Refunding Account established by Section 20 hereof.

"Registered Owner" means the registered owner of any Parity Bonds.

"Reserve Account" means the account of that name authorized to be created in the Bond Fund pursuant to Section 9 hereof to secure the payment of principal of and interest on the Bonds.

“Reserve Account Requirement” means with respect to the Bonds, at the time of calculation, the lesser of (a) 125% of Average Annual Debt Service with respect to the Bonds or (b) maximum Annual Debt Service with respect to the Bonds; provided, however, that the Reserve Account Requirement for the Bonds shall not exceed 10% of the initial principal amount of the Bonds. The Reserve Account Requirement, if any, with respect to Future Parity Bonds will be specified in the ordinance authorizing the issuance of such Parity Bonds.

“Reserve Surety Policy” means the Reserve Surety Bond issued by the Insurer on the date of issuance of the Bonds for the purpose of satisfying the Reserve Account Requirement.

“Revenue Fund” means that special fund created by Ordinance No. 2169, as amended by Ordinance No. 2181, in the office of the Finance Director known as the “Waterworks Utility Revenue Fund,” into which the City has pledged to pay all of the Gross Revenue of the Waterworks Utility as collected.

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

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

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

“Sinking Fund Requirement” 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.

“Term Bonds” means the Bonds identified as such, if any, 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.

“Variable Rate” means a variable interest rate or rates to be borne by a series of Parity Bonds or any one or more maturities within a series of Parity Bonds. The method of computing such variable interest rate shall be specified in the ordinance authorizing such Parity Bonds; provided, that such variable interest rate shall be subject to a maximum interest rate set forth in such ordinance.

“Variable Rate Bonds” means Parity Bonds that bear interest at a Variable Rate; provided, that Parity Bonds the interest rate on which shall have been fixed for the remainder of their term to maturity shall no longer be Variable Rate Bonds.

“Waterworks Utility” means the combined water distribution and sanitary sewerage system of the City, as combined by Ordinance No. 2169, as amended by Ordinance No. 2181, and the storm and surface water system of the City combined therewith by Ordinance No. 2845, as the same may be added to, improved and extended for as long as any of the Parity Bonds are outstanding. The Waterworks Utility shall not include any water supply or service or other facilities that may be created, acquired or constructed by the City as a separate utility system as provided in Section 24 of this ordinance.

Section 2. Authorization of the Bonds. The City shall now issue and sell \$6,825,000 principal amount of Waterworks Utility revenue bonds to refund the 1991 Bonds and the 1994 Bonds. The Bonds shall be designated as the "City of Bellevue, Washington, Waterworks Utility Revenue Refunding Bonds, 2004," shall be dated August 1, 2004; shall be fully registered as to both principal and interest, shall be in the denomination of \$5,000 each or any integral multiple thereof, provided that no Bond shall represent more than one maturity, and shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for identification.

The Bonds shall bear interest (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 to which interest has been paid or duly provided for, whichever is later, payable on October 1, 2004, and semiannually thereafter on each succeeding April 1 and October 1, to the maturity [or earlier mandatory sinking fund redemption] of the Bonds, at the rates, and shall mature on October in the years and in the amounts set forth below.

<u>Maturity Year (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2004	\$ 100,000	2.000%
2005	1,235,000	3.000
2006	1,275,000	3.000
2007	1,130,000	3.000
2008	980,000	3.250
2009	1,025,000	3.500
2010	1,080,000	3.625

Section 3. Registration, Exchange and Payments.

A. Registrar/Bond Register. The City hereby adopts for the Bonds the system of registration specified and approved by the Washington State Finance Committee, which utilizes the fiscal agencies of the State of Washington in Seattle, Washington, and New York, New York, as registrar, authenticating agent, paying agent and transfer agent (collectively, the "Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance.

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

B. Registered Ownership. The City and the Bond Registrar may treat the Registered Owner of each Bond as the absolute owner thereof for all purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 3.G hereof, but such registration may be transferred as herein provided. All such payments made as described in Section 3.G shall be valid and shall satisfy and discharge the liability of

the City upon such Bond to the extent of the amount or amounts so paid. The City and the Bond Registrar shall be entitled to treat the person in whose name any Bond is registered as the absolute owner thereof for all purposes of this ordinance and any applicable laws, notwithstanding any notice to the contrary received by the Bond Registrar or the City.

C. DTC Acceptance/Letter of Representations. The Bonds initially issued shall be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Bonds as eligible for deposit at DTC, the City has heretofore executed and delivered to DTC a Blanket Issuer Letter of Representations.

Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds in respect of the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice which is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Bond Registrar or to DTC), or any consent given or other action taken by DTC as the Registered Owner. For so long as any Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC or its nominee and shall not mean the owners of any beneficial interest in the Bonds.

D. Use of Depository.

(1) The Bonds shall be registered initially in the name of "Cede & Co.," as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (i) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute depository appointed by the Finance Director pursuant to subsection (2) below or such substitute depository's successor; or (iii) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Finance Director to discontinue the system of book-entry transfers through DTC or its successor (or any substitute depository or its successor), the Finance Director may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (i) or (ii) of subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding Bonds, together with a written request on behalf of the Finance Director, issue a single new Bond for each maturity of such Bonds then outstanding, registered in the name of such

successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Finance Director.

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

E. Transfer or Exchange of Registered Ownership; Change in Denominations. The registered ownership of any Bond may be transferred or exchanged, but no transfer of any Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same

aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to transfer or exchange any Bond during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on such interest payment date, or, in the case of any proposed redemption of the Bonds, after the mailing of notice of the call of such Bonds for redemption.

F. Registration Covenant. The City covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

G. Place and Medium of Payment. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. For so long as all Bonds are in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds shall be paid by check or draft mailed or other transfer of funds to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of the Bonds shall be payable upon presentation

and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Section 4. Redemption.

A. No Optional Redemption. The Bonds are not subject to optional redemption prior to their maturities.

B. Partial Redemption. If less than all of the Bonds subject to mandatory redemption are called for redemption, then the City shall choose the maturities to be redeemed. If less than a whole of a maturity is called for redemption, the Bonds to be redeemed shall be chosen randomly in integral multiples of \$5,000 by the Bond Registrar or, so long as the Bonds are registered in the name of CEDE & Co. or its registered assign, by DTC. To the extent the City purchases for cancellation any Term Bonds, the City may reduce the mandatory sinking fund requirements of such Term Bonds of the same maturity, in like aggregate principal amount for the year or years specified by the City. If less than all of the principal amount of any Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar, there shall be issued to the Registered Owner, without charge, for the then unredeemed balance of the principal amount, a new Bond or Bonds, at the option of the registered owner, of like maturity and interest rate in any authorized denomination.

C. Notice of Redemption. Written notice of any redemption of Bonds shall be given by the Bond Registrar on behalf of the City by first class mail, postage prepaid, not less than 30 days nor more than 60 days before the redemption date to the Registered Owners of Bonds that are to be redeemed at their last addresses shown on the Bond Register. So long as the Bonds are in book-entry form, notice of redemption

shall be given as provided in the Letter of Representations. The Bond Registrar shall provide additional notice of redemption (at least 30 days) to each NRMSIR and SID, if any, in accordance with Section 23.

The requirements of this section shall be deemed complied with when notice is mailed, whether or not it is actually received by the owner.

Each notice of redemption shall contain the following information: (1) the redemption date, (2) the redemption price, (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the Bonds to be redeemed, (4) that on the redemption date the redemption price will become due and payable upon each Bond or portion called for redemption, and that interest shall cease to accrue from the redemption date, (5) that the Bonds are to be surrendered for payment at the principal office of the Bond Registrar, (6) the CUSIP numbers of all Bonds being redeemed, (7) the dated date of the Bonds, (8) the rate of interest for each Bond being redeemed, (9) the date of the notice, and (10) any other information needed to identify the Bonds being redeemed.

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

D. Effect of Redemption. Unless the City has revoked a notice of redemption, the City shall transfer to the Bond Registrar amounts that, in addition to other money, if any, held by the Bond Registrar, will be sufficient to redeem, on the

redemption date, all the Bonds to be redeemed. From the redemption date interest on each Bond to be redeemed shall cease to accrue.

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

F. Purchase on Open Market. The City reserves the right to purchase any of the Bonds in the open market at any time and at any price.

Section 5. Revenue Fund. There has heretofore been created by Ordinance No. 2169, as amended by Ordinance No. 2181, a special fund of the City known as the "Waterworks Utility Revenue Fund" (the "Revenue Fund") into which the City has pledged pursuant to Section 7(C) hereof to pay all of the Gross Revenues of the Waterworks Utility as collected and into which the City pledges to continue to pay all of the Gross Revenue of the Waterworks Utility.

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 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 all 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 Bonds and to make all payments required to be made into any Reserve Account to secure payment of the principal of and interest on Future 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; and

SEVENTH, to retire by redemption or purchase in the open market any outstanding Waterworks Utility revenue bonds, Waterworks Utility revenue warrants or other Waterworks Utility revenue obligations of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the

Waterworks Utility, to make deposits into the Rate Stabilization Account, or for any other lawful City purposes.

Section 6. 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 Utility Director, to cope with future increases in revenue requirements of the Waterworks Utility. In accordance with the provisions of Section 5 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 Waterworks Utility. 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 7. Bond Fund. There has heretofore created by Ordinance No. 2328 a fund of the City to be hereafter known as the "Waterworks Utility Revenue Bond Redemption Fund" (the "Bond Fund"), which fund shall be drawn upon for the sole purpose of paying the principal of, premium if any, and interest on the 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 authorized to be 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 any of the Bonds remain 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 outstanding Bonds.

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 Bonds. The City hereby covenants and agrees that it will transfer into the Reserve Account from amounts within the City's Water and Sewer Revenue Bond Fund, 1991 and Water and Sewer Refunding Revenue Bond Fund, 1994 and/or other available funds, a sum equal to the Reserve Account Requirement for the Bonds or will satisfy such requirement by obtaining Qualified Insurance or a Qualified Letter of Credit.

An ordinance authorizing Future Parity Bonds shall establish a separate Reserve Account for such series of Parity Bonds, and shall require that the Reserve Account Requirement, if any, for such Future Parity Bonds shall be deposited therein.

The Reserve Account Requirement for the Bonds shall be maintained by such additional payments to the Reserve Account as are hereinafter described until such time as all of the Bonds and the interest thereon are retired and paid. The Reserve Account Requirement shall be maintained by deposits of cash and/or qualified investments with maturities no longer than five years (except as approved by the Insurer); provided that 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 computing the amount on hand in the Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the lower of the face amount thereof and the amount available to be drawn thereunder, and all other obligations purchased as an investment of moneys therein shall be valued on a fair market value on a marked to market basis, valued at least once annually. 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 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. 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 Bonds, the money in the Reserve Account may be used to pay the principal of, premium, if any, and interest on the Bonds. 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 Bonds, 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 Bonds then outstanding.

In the event the Bonds outstanding are ever refunded, the money set aside in the Reserve Account to secure the payment thereof may be used to retire Bonds or may be transferred to any other reserve account that may be created to secure the payment of any bonds issued to refund the 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 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 from money in the Revenue Fund first available after making the payments required to be made under paragraphs "FIRST" through "FOURTH" of Section 5 of this ordinance to reimburse the provider of such Qualified Letter of Credit or Qualified Insurance and then to replenish amounts withdrawn from the Reserve Account.

C. Lien of Bond Fund. The Bonds, together with the interest thereon, shall be payable from Assessments, if any, 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, if any, and Gross Revenue equal to the lien and charge thereon to secure and pay the principal of and interest on 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 last maturity of the 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 8. Adequacy of Revenue. The 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 9. General Covenants. The City hereby covenants with the owner of each of the Bonds 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 Waterworks Utility, and shall adjust such rates and charges from time to time so that:

(1) 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 Waterworks Utility or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now be and hereafter become obligated to pay from Gross Revenue by law or contract, and, (b) together with Assessments actually collected, 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 (including amounts owed to the Insurer pursuant to the Financial Guaranty Agreement) and any reserve account established for Future Parity Bonds; and

(2) the Net Revenue in each calendar year will equal at least 1.25 times Annual Debt Service for such year (after deducting from Annual Debt Service those 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 6 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.

B. Maintenance of Waterworks Utility. The City covenants that it will at all times keep and maintain the Waterworks Utility 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 Waterworks Utility. The City will not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Waterworks Utility, except as follows:

(1) The City may sell, mortgage, lease or otherwise dispose of all or substantially all of the Waterworks Utility 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.

(2) Except as provided in subsection (3) below, the City will not sell, mortgage, lease or otherwise dispose of or encumber any part of the useful operating properties of the Waterworks Utility in excess of 5% of the value of the net utility plant of the Waterworks Utility unless prior to such sale, mortgage, lease or other disposition or encumbrance:

(i) 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 9.A of this ordinance; or

(ii) 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 Waterworks Utility sold or disposed of for the twelve 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 Waterworks Utility sold or disposed of bears to the book value of the entire Waterworks Utility immediately prior to such sale or disposition.

(3) The City may sell or otherwise dispose of any of the works, plant, properties and facilities of the Waterworks Utility or any real or personal property comprising a part of the same with a value less than 5% of the net utility plant of the Waterworks Utility or which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Waterworks Utility, or no longer necessary, material to or useful in such operation, without making any deposit into the Bond Fund.

D. Collection of Assessments; Subordinate Obligations. 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 Waterworks Utility 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 Waterworks Utility 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 Waterworks Utility 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 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 Waterworks Utility to any customer free of charge.

Section 10. Tax Covenants; Special Designation. The City covenants to undertake all actions required to maintain the tax-exempt status of interest on the Bonds under Section 103 of the Code as set forth in the Arbitrage Certificate that will be executed upon the issuance of the Bonds.

Section 11. 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 Council shall pass an ordinance authorizing such agreement and setting forth such

provisions as the 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 9.A(2) of this ordinance and the Future Parity Bonds test set forth in Section 12.A(5) 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:

(1) 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.

(2) 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:

(i) 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

(ii) 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.

Section 12. Future Parity Bonds. The City hereby further covenants and agrees with the owners of the Bonds for as long as any of the same remain outstanding as follows:

A. That it will not issue any bonds with a lien on Net Revenue superior to the lien on such revenues of the 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 Waterworks Utility, 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:

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

(2) If there are Assessments levied in any utility local improvement district in which additions and improvements to and extensions of the Waterworks Utility 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.

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

(4) 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 a reserve account to satisfy the Reserve Account Requirement, all as required by Section 7 of this ordinance.

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

(i) 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 1.25 times the Annual Debt Service (after deducting from Annual Debt Service 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. 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 6 of this ordinance) out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds.

(ii) 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 1.25 times the Annual Debt Service (after deducting from Annual Debt Service 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 6 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:

(i) 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;

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

(iii) 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 Waterworks Utility that are (a) under construction at the time of such certificate or (b) 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 Waterworks Utility 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(5) 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 13. Bonds Deemed to Be No Longer Outstanding. In the event that the City, to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, held in trust by a trustee, cash or noncallable Government Obligations, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities that, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and

such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and the interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive payment from such special account of the principal of, premium, if any, and interest on such Bond, and such Bond shall be deemed not to be outstanding under this ordinance.

Within 30 days of the defeasance of any Bond, the Bond Registrar or escrow agent shall give notice to each registered owner of any Bond so provided for and to the SID, if any, and to each NRMSIR or the MSRB in accordance with Section 23. In connection with any defeasance of the Bonds, the Insurer shall be provided with an opinion of bond counsel that the Bonds have been legally defeased under this Ordinance. In addition, the City shall provide the Insurer with 15 business days' prior written notice of any advance refunding of the Bonds, as well as a copy of any verification report regarding the sufficiency of the escrow established to accomplish any defeasance of the Bonds.

Section 14. Form of the Bonds. The Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at the principal office of the Bank of New York, New York.

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete

payment required to be made by or on behalf of the City of Bellevue, Washington (the "Issuer") to the Fiscal Agency of the State of Washington, or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

\$6,825,000

CITY OF BELLEVUE, WASHINGTON
WATERWORKS UTILITY REVENUE REFUNDING BONDS, 2004

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

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

any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

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

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

MBIA Insurance Corporation

No. _____ \$ _____

UNITED STATES OF AMERICA
STATE OF WASHINGTON
CITY OF BELLEVUE

WATERWORKS UTILITY REVENUE REFUNDING BOND, 2004

INTEREST RATE: MATURITY DATE: CUSIP NO.

REGISTERED OWNER:

PRINCIPAL AMOUNT: _____ DOLLARS

The City of Bellevue, Washington (the "City"), for value received, hereby promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from August 1, 2004, 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 October 1, 2004, and semiannually thereafter on the first days of each April and October. The principal of and interest on this Bond are payable solely out of the special fund of the City known as the "Waterworks Utility Revenue Bond Redemption Fund" (the "Bond Fund").

Both principal of and interest on this Bond are payable in lawful money of the United States of America. For so long as the Bonds are held in fully immobilized form, payments of principal and interest shall be made as provided in accordance with the operational arrangements of DTC referred to in the Blanket Issuer Letter of Representations from the City to The Depository Trust Company. In the event that the Bonds are no longer held in fully immobilized form, interest on this Bond shall be paid by check or draft mailed to the Registered Owner at the address appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and

principal of this Bond shall be payable upon presentation and surrender of this Bond by the Registered Owner at the principal office of the fiscal agency of the State of Washington in either Seattle, Washington, or New York, New York (collectively the "Bond Registrar").

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 Waterworks Utility, as the same is defined in Ordinance No. 5536 of the City (the "Bond Ordinance"), without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the outstanding Bonds and any additional and/or refunding Waterworks Utility revenue bonds issued on a parity of lien with the 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.

This Bond is one of a total issue of \$6,825,000 par value of the Bonds, all of like date and tenor, except as to maturity, redemption provisions and interest rates, all payable from the Bond Fund and all issued by the City under and pursuant to the laws of the State of Washington and the Bond Ordinance for the purpose of providing funds to refund certain outstanding bonds all as specified in the Bond Ordinance.

The Gross Revenue is hereby pledged to the payment of principal of and interest on the Bonds, and the Bonds constitute a charge or lien upon such revenues prior and superior to any other charges whatsoever, excluding charges for Operation and Maintenance Expenses of the Waterworks Utility, and equal to the lien and charge thereon of any Future Parity Bonds. The Bonds are not a general obligation of the City.

The City hereby covenants and agrees with the owners of the Bonds 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 interchangeable for Bonds of any authorized denomination of an equal aggregate principal amount, and of the same interest rate and maturity. 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. The City may deem the person in whose name this 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. The Bond Registrar shall not be obligated to transfer or exchange this Bond during the fifteen days preceding any

ASSIGNMENT

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

[Empty rectangular box for Social Security or Taxpayer identification Number of Transferee]

Please insert Social Security or Taxpayer identification Number of Transferee

(Please print or type name and address, including zip code of Transferee)
the within bond and does hereby irrevocably constitute and appoint _____, or its successor, as Bond Registrar to transfer said bond on the books kept for registration thereof with full power of substitution in the premises.

DATED: _____

SIGNATURE GUARANTEED:

Note: signature(s) must be guaranteed pursuant to law.

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

Section 15. Execution and Authentication of the Bonds. The Bonds 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 Bonds 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 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 an 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 16. Lost or Stolen Bonds. In case any Bonds shall be lost, stolen or destroyed, the Bond Registrar may deliver a new bond or bonds of like amount, date, maturity, interest rate, tenor, and effect to the registered owner or nominee thereof upon the owner 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 or bonds were actually lost, stolen or destroyed and or ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Section 17. Sale of Bonds. The Council finds that the competitive bid submitted by the Purchaser and attached hereto as Exhibit B is reasonable and that it is in the best interest of the City that the Bonds shall be sold upon the conditions set forth in the bid, the Notice of Bond Sale, attached hereto as Exhibit A, and this

ordinance. The City therefore accepts the bid. The Bonds shall be issued and delivered to the Purchaser upon payment of the purchase price specified in the bid.

Section 18. Official Statement. The Council approves the preliminary official statement presented to the Council at this meeting and authorizes the distribution of the preliminary official statement in connection with the offering of the Bonds. Pursuant to the Rule, the City deems the preliminary official statement as final as of its date except for the omission of information dependent upon the pricing of the Bonds and the completion of the purchase contract. The City agrees to cooperate with the Purchaser to deliver or cause to be delivered, within seven business days from the date of the sale of the Bonds and in sufficient time to accompany any confirmation that requests payment from any customer of the Purchaser, copies of a final official statement in sufficient quantity to comply with paragraph (b)(4) of the Rule and the rules of the MSRB. The City authorizes the Purchaser to use the official statement, substantially in the form of the preliminary official statement, in connection with the sale of the Bonds. The Finance Director and other appropriate officers of the City are hereby authorized to review and approve on behalf of the City the final Official Statement relative to the Bonds with such additions and changes as may be deemed necessary or advisable to them.

Section 19. Application of Bond Proceeds. The proceeds of the Bonds shall be applied as follows:

- (1) Any accrued interest shall be deposited into the Bond Fund.
- (2) The amount required to refund the 1991 Bonds and the 1994 Bonds shall be deposited into the Refunding Account and used to accomplish the

refunding of the Refunded Bonds in accordance with the provisions of Section 20 of this ordinance.

(3) Any additional proceeds shall be used by the City to pay costs of issuing the Bonds and purchasing the Reserve Surety Policy to meet the Reserve Account Requirement.

Section 20. Refunding Account; Application of Bond Proceeds There is hereby established a special account or accounts of the City to be maintained with the Escrow Agent (as hereinafter defined) to be known as the "City of Bellevue Waterworks Utility Revenue Bond Refunding Account," (the "Refunding Account"), which accounts shall be drawn upon for the sole purpose of paying the principal of and interest on the Refunded Bonds.

Money in the Refunding Account shall be used immediately upon receipt thereof to defease the Refunded Bonds and discharge the other obligations of the City relating thereto under Ordinance Nos. 4284 and 4678 of the City, by providing for the payment of the principal of and interest on the Refunded Bonds as set forth below. The City shall defease such bonds and discharge such obligations by the use of the money in the Refunding Account to purchase Government Obligations (which obligations so purchased, are herein called "Acquired Obligations"), bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of interest on and principal of the Refunded Bonds due and payable until and on September 17, 2004.

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

To carry out the refunding and defeasance of the Refunded Bonds, the Finance Director is hereby authorized to appoint as escrow agent a bank or trust company qualified by law to perform the duties described herein (the "Escrow Agent"). Any beginning cash balance and the Acquired Obligations shall be irrevocably deposited with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. Any amounts described above that are not provided for in full by such beginning cash balance and the purchase and deposit of the Acquired Obligations described in this section shall be provided for by the irrevocable deposit of the necessary amount out of the proceeds of sale of the Bonds or any other money of the City legally available therefor with the Escrow Agent. The proceeds of the Bonds remaining in the Refunding Account after acquisition of the Acquired Obligations and provision for the necessary beginning cash balance shall be utilized to pay expenses of the acquisition and safekeeping of the Acquired Obligations. The City may, from time to time, transfer, or cause to be transferred, from the Refunding Account any money not thereafter required for the purpose set forth above or for the payment of expenses. The City reserves the right to substitute other securities for the Acquired Obligations in the event it may do so pursuant to Section 148 of the Code, upon compliance with the conditions set forth in the Escrow Agreement.

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

The City hereby irrevocably calls for redemption on September 17, 2004, the 1991 Bonds in accordance with the provisions of Section 4.C of Ordinance No. 4284 and hereby irrevocably calls for redemption on September 17, 2004, the 1994 Bonds in accordance with the provisions of Section 3.B. of Ordinance No. 4678.

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

The Escrow Agent is hereby authorized and directed to notify the paying agent for the Refunded Bonds to give notice of the redemption of the Refunded Bonds in accordance with the applicable provisions of Ordinance Nos. 4284 and 4678. The Finance Director is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notice therefor.

The Escrow Agent is hereby authorized and directed to pay to the fiscal agency or agencies of the State of Washington, as paying agent for the Refunded Bonds, sums sufficient to pay, when due, the payment specified in Section 20 above. All such sums shall be paid from the money and Acquired Obligations deposited with said Escrow Agent pursuant to Section 20 of this ordinance, and the income therefrom and proceeds thereof. All such sums so paid shall be credited to the Refunding Account. All money and Acquired Obligations deposited with the Escrow Agent and any income

therefrom shall be held, invested and applied in accordance with the provisions of this ordinance and with the laws of the State of Washington for the benefit of the City and the owners of the Refunded Bonds.

The City will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent shall be paid when due. The proper officers and agents of the City are directed to obtain from the Escrow Agent an agreement setting forth the duties, obligations and responsibilities of the Escrow Agent in connection with the redemption and retirement of the Refunded Bonds as provided herein and making provision for payment of the fees, compensation and expenses of such Escrow Agent as may be satisfactory to it. To carry out the purposes of this section of this ordinance, the City Manager or Mayor is authorized and directed to execute and deliver to the Escrow Agent such an escrow agreement in form approved by bond counsel to the City.

Section 22. Finding of Defeasance. The Council hereby finds and determines that the issuance and sale of the Bonds permits the City to comply with covenants contained in the Ordinance Nos. 4284 and 4678 that authorized issuance of the 1991 Bonds and the 1994 Bonds.

The Council hereby also finds and determines that the Acquired Obligations to be deposited with the Escrow Agent and the income therefrom, together with any necessary beginning cash balance, are sufficient to redeem the Refunded Bonds and will discharge and satisfy the obligations of the City under Ordinance Nos. 4284 and 4678 authorizing the issuance of the Refunded Bonds and the pledge of the City therein. Immediately upon the delivery of such Acquired Obligations to the Escrow

Agent and the deposit of any necessary beginning cash balance, the Refunded Bonds shall be deemed not to be outstanding under Ordinance Nos. 4284 and 4678 and shall cease to be entitled to any lien, benefit or security under such ordinance except the right to receive payment from the Acquired Obligations and beginning cash balance so set aside and pledged.

Section 23. Undertaking to Provide Ongoing Disclosure.

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

B. Financial Statements/Operating Data. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2005 for the fiscal year ended December 31, 2004):

(1) Annual financial statements showing ending fund equity for the Waterworks Utility prepared in accordance with generally accepted accounting principles applicable to government entities (and modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the type included in the official statement for the Bonds under the headings "Financial Information – Statement of Revenues, Expenditures and Changes in Fund Net Assets for Utilities Funds" and "Financial Information – Combined Statement of Net Assets for Utilities Funds;"

- (2) The principal amount of outstanding Parity Bonds; and
- (3) Rates for the Waterworks Utility.

Items 2-3 shall be required only to the extent that such information is not included in the information provided pursuant to item 1 above.

Such annual financial information and operating data described above shall be provided on or before nine months after the end of the City's fiscal year. The City's fiscal year currently ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIRs and the SID, or filed with the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with generally accepted accounting principles (and modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute)), when and if available, to each then existing NRMSIR and the SID, if any.

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

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to the rights of Bond owners;
- (8) Optional, contingent or unscheduled calls of any Bonds other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Bonds; and
- (11) Rating changes.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that no property secures repayment of the Bonds. The applicable debt service reserve is the Reserve Account.

D. Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information

and operating data described in subsection B above on or prior to the date set forth in subsection B above.

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

Notwithstanding any other provision of this ordinance, the City may amend this Section 23, and any provision of this Section 23 may be waived, with an approving opinion of nationally recognized bond counsel.

In the event of any amendment or waiver of a provision of this Section 23, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under subsection C of this Section 23, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial

statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. Bond Owner's Remedies under this Section. Notwithstanding any other provisions of this ordinance, the right of any Bond owner or beneficial owner of the Bonds to enforce the provisions of this Section 23 shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this section shall not be an event of default with respect to the Bonds under this ordinance. For purposes of this Section 23, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 24. Separate Utility System. The City may create, acquire, construct, finance, own and operate one or more additional systems for water, sewer or storm water supply, transmission, treatment or other commodity or service. The revenue of that separate utility system shall not be included in the Gross Revenue of the Waterworks Utility and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the Waterworks Utility shall be pledged by the City to the payment of any obligations of a separate utility system except (1) as a Contract Resource Obligation upon compliance with Section 25 hereof and/or (2), with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

Section 25. 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, sewer or storm water supply, transmission, treatment or other commodity 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 water, sewer or storm water supply, transmission, treatment or other commodity 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) The City shall not be in default with respect to any obligations of it under this ordinance.

(b) There shall be on file a certificate of a Professional Utility Consultant 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, sewer or storm 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 certification; and (iii) the Net Revenue as defined in Section 12 (further adjusted by the Independent Consulting

Engineer'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 Independent Consulting Engineer (with such estimate based on such factors as he or she considers reasonable), will be at least equal to 1.25 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).

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

Nothing in this Section 25 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 so long as such service is actually being supplied. Nothing in this Section 25 shall be deemed to prevent the City from entering into other agreements for the acquisition of water, sewer or storm 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 26. Authorization to Officials and Agents. The proper City officials are hereby authorized and directed to do everything necessary and proper for the prompt issuance, execution and delivery of the Bonds 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 27. Supplements and Amendments.

A. The 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:

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

(3) 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 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. Notice of any such amendment or supplement shall be provided to the Insurer.

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 and with the prior written consent of the Insurer, the 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:

(1) 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

(2) 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 all owners of 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.

D. So long as the Insurer is not in default of any of its obligations under the Bond Insurance Policy, the Insurer shall be deemed to be the sole Bondowner for the purposes of providing consent where the consent of a majority of Bondowners is required under this Section 27. In situations where the consent of 100% of Bondowners is required, the Insurer shall not be deemed to be the sole Bondowner and all Bondowners shall receive notice of an amendment to the ordinance and no amendment requiring the consent of 100% of Bondowners may be approved without such unanimous consent.

Section 28. Bond Insurance and Reserve Surety Policy.

A. *Acceptance of Insurance.* The Council hereby approves the commitment of the Insurer to provide a bond insurance policy guaranteeing the payment when due of principal of and interest on the Bonds (the "Bond Insurance Policy") and a debt

service reserve insurance policy to satisfy the Reserve Requirement (the "Reserve Surety Policy"). The City agrees to the conditions for obtaining the Reserve Surety Policy, including the payment of the premium therefor and the other requirements set forth in the Financial Guaranty Agreement with the Insurer. The Financial Guaranty Agreement is hereby approved, and the City Manager and Finance Director are each hereby authorized to sign the Financial Guaranty Agreement on behalf of the City. The Council further authorizes and directs all proper officers, agents, attorneys and employees of the City to cooperate with the Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the City as shall be necessary or advisable in providing for the Bond Insurance Policy and the Reserve Surety Policy.

B. *Payments Under the Bond Insurance Policy.*

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

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

(3) In addition, if the Bond Registrar has notice that any bondowner has been required to disgorge payments of principal or interest on the Bonds to a

trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such bondowner within the meaning of any applicable bankruptcy laws, then the Bond Registrar shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

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

a. If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Bond Registrar shall (i) execute and deliver to U.S. Bank Trust National Association, or its successors under the Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (ii) receive as designee of the respective owners (and not as Bond Registrar) in accordance with the tenor of the Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective owners; and

b. If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Bond Registrar shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such owner in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the

Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Bond Registrar and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective owners (and not as Bond Registrar) in accordance with the tenor of the Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such owner.

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

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

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

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

C. *Rights of Insurer.*

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

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

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

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

(5) Any notices required to be given by any party under this ordinance shall also be given to the Insurer and sent by registered or certified mail addressed to:

MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504, Attention: Surveillance.

(6) The City agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including reasonable attorneys' fees and expenses, incurred by the Insurer in connection with (i) enforcement by the Insurer of the City's obligations, or the preservation or defense of any rights of the Insurer, under this ordinance and any other document executed in connection with the issuance of the Bonds, and (ii) any consent, amendment, waiver or other action with respect to this ordinance or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Insurer reserves the right to charge a reasonable fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

(7) The City agrees not to use the Insurer's name in any published document including, without limitation, a press release or presentation, announcement or forum without the Insurer's prior consent; *provided* that the City may use the Insurer's name in any general or particular factual statement to the effect that the Insurer insures certain outstanding City bonds. In the event that the City is advised by counsel that it has a legal obligation to disclose the Insurer's name in any press release, public announcement or other published document, the City shall provide the Insurer with at least three (3) business days' prior written notice of its intent to use the

Insurer's name together with a copy of the proposed use of the Insurer's name and of any description of a transaction with the Insurer and shall obtain the Insurer's prior consent as to the form and substance of the proposed use of the Insurer's name and any such description. The foregoing shall not apply to any request for public records duly received by the City pursuant to RCW Ch. 42.17, and the City shall not be obligated to notify the Insurer of its intent to comply with any public disclosure request.

(8) The City shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior consent of the Insurer.

The provisions of this section shall be in effect only so long as the Bond Insurance Policy and the Reserve Surety Policy are in full force and effect.

Section 29. Defaults and Remedies.

29.1 Events of Default. The following shall constitute "Events of Default" with respect to the Bonds:

(1) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable; or

(2) If the City defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the City set forth in this ordinance or any covenants, conditions or agreements on the part of the City contained in any ordinance authorizing Parity Bonds and such default or defaults have continued for a period of

six months after they have received from the Bondowners' Trustee (as defined below) or from the registered owners of not less than 25% in principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the City has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy.

(3) If the City files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

29.2 Borrowers' Trustee. So long as such Event of Default has not been remedied, a borrowers' trustee (the "Borrowers' Trustee") may be appointed by the registered owners of 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Borrowers' Trustee, notification thereof being given to the City. That appointment shall become effective immediately upon acceptance thereof by the Borrowers' Trustee. Any Borrowers' Trustee appointed under the provisions of this Subsection 29.2 shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Borrowers' Trustee may be removed at any time, and a

successor Bondowners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Bonds or by their attorneys-in-fact duly authorized. The Bondowners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

In the event that any Event of Default in the sole judgment of the Bond Trustee is cured and the Bondowners' Trustee furnishes to the City a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the City, the Bondowners' Trustee and the registered owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

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

29.3 Suits at Law or in Equity. Upon the happening of an Event of Default and during the continuance thereof, the Bondowners' Trustee may, and upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the

specific performance of any covenant, agreement or condition contained in this ordinance or in any of the Parity Bonds.

Nothing contained in this Section 29 shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the

Bondowners' Trustee to consent to accept or adopt, on behalf of any registered owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

29.4 Application of Money Collected by Bondowners' Trustee. Any money collected by the Bondowners' Trustee at any time pursuant to this Section 29 shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

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

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the

payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

29.5 Duties and Obligations of Bondowners' Trustee. The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bondowners' Trustee shall be read into this ordinance.

The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bondowners' Trustee shall not be bound to recognize any person as a registered owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected-by it with reasonable care.

29.6 Suits by Individual Bondowners Restricted. Neither the registered owner nor the beneficial owner of any one or more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

- (i) an Event of Default has happened and is continuing; and
- (ii) a Bondowners' Trustee has been appointed; and
- (iii) such owner previously shall have given to the Bondowners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and
- (iv) the registered owners of twenty-five percent (25%) in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

(v) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No registered owner or beneficial owner of any Parity Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the City to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective owners thereof when due. Upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to exercise, on behalf of the owners of Bonds insured by the Insurer, any of the remedies provided under this Ordinance and, for as long as the Insurer is not in default of its obligations under the Bond Insurance Policy, the Insurer shall be the only party entitled to exercise the remedies on behalf of such Bondowners.

29.7 Payment Solely From Net Revenue and Certain Funds. Nothing in this Section 29 shall be deemed to require payment to Bondowners from any source other than the Net Revenue and money and investments in the funds pledged in Section 7 of this ordinance.

Section 30. 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 Bonds.

Section 31. Ratification. Any action consistent with the authority but prior to the effective date of this ordinance is hereby ratified and confirmed.

Section 32. Effective Date. This ordinance shall take effect five days after its passage, approval and publication as required by law.

PASSED by the Council of the City of Bellevue, Washington at a special open public meeting of the Council on July 29, 2004 and signed in authentication of its passage this 29 day of July, 2004.

[S E A L]

CITY OF BELLEVUE, WASHINGTON


MAYOR

APPROVED AS TO FORM:


CITY ATTORNEY

ATTEST:


MYRNA L. BASICH, CITY CLERK

PUBLISHED: August 2, 2004

CERTIFICATE

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

1. That the attached ordinance is a true and correct copy of Ordinance No. 5536 of the Council (the "Ordinance"), duly passed at a special meeting thereof held on the 29th day of July, 2004.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Ordinance; that all other requirements and proceedings incident to the proper passage of said Ordinance have been duly fulfilled, carried out and otherwise observed; and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 2004.

City Clerk

EXHIBIT A

Official Notice of Bond Sale

OFFICIAL NOTICE OF SALE

\$6,975,000*

CITY OF BELLEVUE, WASHINGTON WATERWORKS UTILITY REVENUE REFUNDING BONDS, SERIES 2004

ELECTRONIC BIDS will be received by the City of Bellevue, Washington (the "City"), for purchase of the above bonds (the "Bonds"), until **9:30 a.m. Prevailing Pacific Time**, on

July 29, 2004.

The Bonds will be sold on an all-or-none basis. Bids must be submitted electronically as described herein.

All bids received with respect to the Bonds will be considered by the City Council at a Special Meeting on the day the bids are received. If the City accepts a bid, it will award the sale to the successful bidder and the terms of the successful bid will be approved by the Council at such meeting held on July 29, 2004 starting at 11:30 a.m. Prevailing Pacific Time.

Modification; Cancellation; Postponement. The City reserves the right to revise maturity amounts, terms and conditions, postpone the Bond sale to a later date or cancel the sale based upon market conditions, or to make other changes by posting changes to this Notice of Sale on i-Deal Prospectus or by placing a notice of the changes on The Bond Buyer Wire (www.tm3.com) not less than twenty-four (24) hours prior to the time for receipt of bids.

As an accommodation to bidders, telephonic or facsimile notice of the postponement of the sale date and of the new sale date will be given to any bidder requesting such notice from Regional Financial Advisors, Inc., telephone: (503) 227-2009. Failure of any bidder to receive such telephonic, facsimile or News Services' notice will not affect the legality of the sale.

Each bidder (and not the City) is responsible for the timely delivery of its bid. The official time will be determined by the City and not by any bidder or Qualified Electronic Bid Provider (defined below).

Rating

The City has applied to Moody's Investors Service for a rating for the Bonds.

* Preliminary, subject to change.

Description of the Bonds

The Bonds will be dated August 1, 2004, will be issued in denominations of \$5,000 or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the City shall fix at the time of sale, payable semiannually on each April 1 and October 1, beginning October 1, 2004, to their maturity or earlier redemption.

The bonds will be issued in the aggregate principal amount of \$6,975,000* (subject to adjustment as provided above), and will mature on October 1 of the following years in the following principal amounts:

<u>Year</u>	<u>Principal Amounts*</u>
2004	\$125,000
2005	1,280,000
2006	1,305,000
2007	1,150,000
2008	990,000
2009	1,035,000
2010	1,090,000

* Preliminary, subject to change.

Optional Redemption. The Bonds are not subject to optional prepayment prior to maturity.

Term Bonds. The successful bidder may designate one or more term Bonds, which consist of two or more consecutive maturities with identical interest rates, which mature on the maturity date of the last of the consecutive maturities in an amount equal to the sum of the consecutive maturities, and which are subject to mandatory prepayment and redemption at par and by lot in amounts equal to the consecutive maturities which were combined into term Bonds. If a bidder desires term Bonds, they should be specified in the bid, but failure to so indicate will not disqualify the bid.

Book-Entry Only. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased.

Purpose

The Bonds are being issued to defease and currently refund the City's outstanding Water and Sewer Revenue Bonds, Series 1991 and the City's Water and Sewer

Revenue Refunding Bonds, Series 1994, to pay costs of issuance, and to purchase bond insurance and a Reserve Credit Facility.

Security

The Bonds are payable solely from a special fund of the City known as the Waterworks Utility Revenue Fund. The Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City or of the State of Washington, nor any revenues of the City derived from sources other than the Waterworks Utility, are pledged to the payment thereof.

Insurance

The payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation ("MBIA") simultaneously with the delivery of the Bonds. The purchase of an insurance policy is at the expense of the City.

Bidding Detail

Electronic Bids. Bids for the Bonds shall be submitted electronically via a qualified electronic bid provider (the "Qualified Electronic Bid Provider") only. The City has deemed PARITY® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Bonds.

Notice is hereby given that electronic bids will be received via PARITY® until 9:30 a.m., Prevailing Pacific Time, on July 29, 2004, but no bid will be received after the time for receiving bids specified in this paragraph. For further information about submitting a bid using PARITY®, potential bidders may contact the City's Financial Advisor at (503) 227-2009 or PARITY® at (212) 404-8102.

Bidders agree to the following terms and conditions:

- (i) If any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Sale, including any amendments issued through the News Services, shall control.
- (ii) Each bidder shall be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale.
- (iii) The City shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the City shall not be

responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

- (iv) The City is using the Qualified Electronic Bid Provider as a communication mechanism, and not as the City's agent, to conduct the electronic bidding for the Bonds. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the City.
- (v) The City is not responsible for ensuring or verifying bidder compliance with any Qualified Electronic Bid Provider procedures.
- (vi) The City may regard the electronic transmission of a bid through the Qualified Electronic Bid Provider (including information regarding the purchase price for the Bonds and interest rates for any maturity of the Bonds) as though the information were submitted on a bid form and executed on the bidder's behalf by a duly authorized signatory.
- (vii) If the bidder's bid is accepted by the City, this Official Notice of Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.
- (viii) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Sale.

Interest Rate. Bidders must specify the interest rate or rates which the Bonds shall bear. The bids shall comply with the following conditions: (1) no Bond shall bear more than one rate of interest; (2) each Bond shall bear interest from its dated date to its stated maturity date at the interest rate specified in the bid; and (3) all Bonds maturing on the same date shall bear the same rate of interest.

Premium and Discount. Bids must be for the entire amount of the Bonds, and for a purchase price of not less than ninety-nine percent (99.00%) of the principal amount of the Bonds, plus accrued interest to the date of delivery.

Financial Surety Bond

Each bid must be secured by a good faith deposit in the amount of at least One Hundred Thousand Dollars (\$100,000), which shall be credited against the purchase price of the Bonds. The good faith deposit must be made in the form of a financial surety bond. The good faith deposit will be held by the City to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid, and will be forfeited to the City as liquidated damages if the bidder to whom the Bonds are

awarded withdraws its bid or fails to complete its purchase of the Bonds in accordance with this notice of sale and its bid.

The financial surety bond must be issued by a company which is rated in the highest rating category by Moody's Investors Service, Inc., by Standard & Poor's Corporation, or by Fitch Investors Service, Inc. Notification that the bidder has obtained the surety bond must be given by the issuer of the surety bond to the Preston Gates & Ellis LLP, attention: Stacey Crawshaw-Lewis, fax number (206) 623-7022 prior to the opening of the bids. Not later than 2:00 p.m. (Prevailing Pacific Time) on July 30, 2004 (the day following the sale), the successful bidder must send by electronic wire transfer to such account as the City shall specify, immediately available funds in an amount equal to the good faith deposit. If such wire transfer is not received from the successful bidder by 2:00 p.m. on that date, the City may draw on the financial surety bond immediately to satisfy the good faith deposit requirement.

Interest earnings on the good faith deposit will be the property of the City, and will not be credited against the purchase price of the Bonds. The successful bidder shall pay the balance of the purchase price of the Bonds at closing, in funds immediately available to the City on the date and at the time of closing.

Selection of Winning Bid. The winning bid for the Bonds will be determined no later than 2:00 p.m., Prevailing Pacific Time, on July 29, 2004.

The Bonds will be sold to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost to the City. The true interest cost will be the rate necessary, when using a 360-day year and semiannual compounding, to discount the debt service payments from the payment dates to the date of the Bonds and to the price bid.

The successful bidder for the Bonds will be bound to purchase the Bonds in the principal amount, at such price, and with such interest rates as are specified in its bid, unless there is an adjustment in the principal amounts of the Bonds, in which case the successful bidder shall be bound to purchase the Bonds in the adjusted principal amounts at the revised bid amount, as described below.

The City reserves the right to reject any or all bids and to waive any irregularity in any bid.

Adjustment of Principal Amount of Bonds and Bid Price

The City reserves the right to adjust the principal amount specified in the bidding maturity schedule within 4 hours following receipt of bids to properly size the issue; notice of any adjustment will be given to the winning bidder promptly.

Delivery of Bonds

The Bonds will be delivered to The Depository Trust Company in New York, New York ("DTC"), or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, against payment of the purchase price to the City in Bellevue, Washington, in immediately available federal funds, less the amount of the good faith deposit. On or before the date of delivery of the Bonds, the purchaser(s) shall provide to the City such information as bond counsel to the City deems necessary to determine the yield on the Bonds for purposes of Section 148 of the Internal Revenue Code of 1986, as amended. The successful bidder for the Bonds must actually reoffer all of such Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

The Bonds will be delivered in "book-entry only" form in accordance with the letter of representations from the City to DTC. As of the date of the award of the Bonds, each successful bidder must either participate in DTC or clear through or maintain a custodial relationship with an entity that participates in DTC.

The City will furnish to the purchaser one transcript of proceedings (in CD form or paper form, at the purchaser's option); additional transcripts will be furnished at the purchaser's cost.

If, prior to the delivery of the Bonds, the interest thereon shall become includable in the gross income of the recipients thereof for federal income tax purposes, or if legislation which would have the same effect if adopted into law is passed by either house of Congress or proposed by a joint conference committee, the successful bidder, at its option, may be relieved of the obligation to purchase the Bonds, or the City, at its option, may be relieved of the obligation to deliver the Bonds.

CUSIP Numbers

CUSIP numbers will be imprinted upon all Bonds of this issue at the City's expense. Failure to print, or improperly imprinted numbers will not constitute basis for the purchaser to refuse to accept delivery.

Legal Opinion

The City will furnish to the purchaser the legal opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, in substantially the form attached to the Preliminary Official Statement in Appendix C.

Continuing Disclosure

The City has entered into an undertaking for the benefit of the owners of the Bonds to provide certain financial information and operating data to certain information

repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of paragraph (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "CONTINUING DISCLOSURE" in the Preliminary Official Statement. The City never has failed to comply in any material respect with any previous undertaking entered into pursuant to the Rule.

Closing Documents

As a condition to the obligations of the purchaser(s) to accept delivery of and pay for the Bond, the purchaser will be furnished the following, dated as of the date of closing:

- (i) A certificate of the Finance Director on behalf of the City certifying that:

as of the date of the Official Statement furnished concerning the Bonds, the Official Statement (other than information therein regarding DTC and its book-entry only system, and regarding any municipal bond insurer and its municipal bond insurance policy, and information provided by the successful bidder regarding reoffering prices and yields) did not contain an untrue statement of a material fact or omit to state a material fact required to be stated where necessary to make the statements, in light of the circumstances under which they were made, not misleading.

- (ii) A certificate of the City to the effect that, except as disclosed in the Official Statement, there is no litigation pending, or to the knowledge of the signer and without investigation, threatened, seeking to restrain or enjoin the sale, issuance, execution, or delivery of the Bonds, or in any manner questioning or affecting the proceedings or authority under which the Bonds are issued or the validity of the Bonds or the obligation of the City evidenced thereby.

Official Statement

A copy of the City's Preliminary Official Statement pertaining to the Bonds dated July 19, 2004, may be obtained by contacting Regional Financial Advisors, Inc., at the address, telephone number and fax number set forth below. The Preliminary Official Statement is in a form deemed final by the City for the purpose of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the City will deliver in sufficient quantities to permit the bidder to comply with the Rule, at the City's expense, to the successful bidder not later than seven business days after the City's acceptance of the successful bidder's proposal.

The successful bidder shall file, or cause to be filed, the final Official Statement with a nationally recognized municipal securities information repository designated by the

Securities and Exchange Commission within one business day following the receipt of the Official Statement from the City.

Each successful bidder also agrees:

(i) to provide to the City, in writing, within 24 hours of the acceptance of the bid, pricing and other related information necessary for completion of the final Official Statement and the final tax certification,

(ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the City, and

(iii) to take any and all actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases Bonds.

Additional Information

Additional information and a reasonable number of copies of the Preliminary Official Statement (with Official Notice of Sale included) may be obtained from Regional Financial Advisors, Inc., 733 S.W. Vista Avenue, Portland, Oregon 97205, (telephone: (503) 227-2009; fax: (503) 227-2510).

By order of Bellevue, Washington

EXHIBIT B

Winning Bid



**Seattle-Northwest Securities Corp - Portland, OR's Bid
Bellevue
\$6,975,000 Waterworks Utility Revenue
Refunding Bonds, 2004**



For the aggregate principal amount of \$6,975,000.00, we will pay you \$7,083,981.25, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
10/01/2004	125M	2.0000
10/01/2005	1,280M	3.0000
10/01/2006	1,305M	3.0000
10/01/2007	1,150M	3.0000
10/01/2008	990M	3.2500
10/01/2009	1,035M	3.5000
10/01/2010	1,090M	3.6250

Total Interest Cost: \$804,177.08
 Premium: \$108,981.25
 Net Interest Cost: \$695,195.83
 TIC: 2.839094
 Time Last Bid Received On: 07/29/2004 9:29:18 PDST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: Seattle-Northwest Securities Corp., Portland, OR
 Contact: Mark Lee
 Title: V.P.
 Telephone: 503-275-8325
 Fax: 503-275-8312

Issuer Name: City of Bellevue Company Name: _____

Accepted By: _____ Accepted By: _____

Date: _____ Date: _____