

**CITY OF SNOHOMISH
Snohomish, Washington**

ORDINANCE NO. 1814

AN ORDINANCE OF THE CITY OF SNOHOMISH, WASHINGTON, RELATING TO THE WATERWORKS UTILITY OF THE CITY, INCLUDING THE SANITARY SEWER COLLECTION AND DISPOSAL SYSTEM OF THE CITY AS A PART THEREOF; AMENDING SECTION 12 OF ORDINANCE NO. 881, SECTION 11 OF ORDINANCE NO. 1492 AND SECTION 20 OF ORDINANCE 1693; PROVIDING FOR THE ISSUANCE AND SALE OF ITS WATER AND SEWER REVENUE REFUNDING BONDS, 1996, IN THE AMOUNT OF \$2,005,000 TO OBTAIN THE FUNDS TO PAY THE COST OF REFUNDING, PAYING AND RETIRING THE OUTSTANDING WATER AND SEWER REVENUE BONDS, 1990, SERIES A; FIXING THE DATE, FORM, INTEREST RATES, MATURITIES, TERMS AND COVENANTS OF THOSE BONDS, PROVIDING FOR AND AUTHORIZING THE PURCHASE OF CERTAIN OBLIGATIONS OUT OF THE PROCEEDS OF THE SALE OF THE BONDS AND FOR THE USE AND APPLICATION OF THE MONEY DERIVED FROM THOSE OBLIGATIONS; AUTHORIZING AN AGREEMENT WITH MELLON BANK, F.S.B., AS REFUNDING TRUSTEE; PROVIDING FOR BOND INSURANCE; AND PROVIDING FOR THE SALE AND DELIVERY OF THOSE BONDS TO SEATTLE-NORTHWEST SECURITIES CORPORATION OF SEATTLE, WASHINGTON.

WHEREAS, the City of Snohomish, Washington (the "City"), now owns, operates and maintains a water supply and distribution system and a sanitary sewage collection and disposal system, which systems heretofore were combined by Ordinance No, 863 of the City and which combined systems are maintained and operated jointly. The words "System" or "Waterworks Utility" hereinafter shall mean those combined systems, including all additions thereto and betterments and extensions thereof at any time made; and

WHEREAS, by Ordinance No. 881, the City authorized the issuance of \$475,000 par value Water and Sewer Revenue Bonds, 1959 (the "1959 Bonds"), which 1959 Bonds have all matured and have been paid, and by Section 12 of that ordinance, the City provided for the issuance of bonds on a parity of lien with the 1959 Bonds under certain conditions and subject to certain covenants which conditions were amended as described below; and

WHEREAS, pursuant to Ordinance No. 1492, the City issued its Water and Sewer Revenue Bond, 1981, Series 2 (the "1981 Series 2 Bond") in the principal amount of \$1,282,000, to pay part of the cost of carrying out the system or plan of additions to and betterments and extensions of the Waterworks Utility as provided in Ordinance No. 1487, which 1981 Series 2 Bonds were issued on a parity of lien with the 1959 Bonds; and

WHEREAS, by Ordinance No. _____, the City entered into a State Revolving Fund loan agreement, dated May 31, 1994, for \$_____ with the State of Washington Department of Ecology to upgrade the City's wastewater treatment facility, and the payment of such loan is on a parity with the 1981 Series 2 Bonds, the 1990 Series A Bonds, the 1990 Series B Bonds, the 1996 Refunding Bonds and the Bonds issued pursuant to this ordinance; and

WHEREAS, by Ordinance No. 1693, the City authorized the issuance of \$1,855,000 par value Water and Sewer Revenue Bonds, 1990, Series A, and by Section 20 of that ordinance, the City amended Section 12 of Ordinance No. 881 and Section 11 of Ordinance No. 1492 and provided for the issuance of bonds on a parity of lien with the 1959 Bonds and the 1981, Series 2 Bonds under certain conditions and subject to certain covenants as follows:

The City reserves the right to issue additional Parity Revenue Bonds for any lawful purpose if the following conditions are met and complied with at the time of the issuance of those additional Parity Revenue Bonds:

- (a) There shall be no deficiency in the Bond Redemption Fund.
- (b) The ordinance providing for the issuance of the Parity Revenue Bonds shall provide that all ULID Assessments and interest and penalties thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Parity Revenue Bonds, shall be paid directly into the Bond Redemption Fund.
- (c) The ordinance providing for the issuance of such Parity Revenue Bonds shall provide for the payment of the principal thereof and interest thereon out of the Bond Fund.
- (d) The ordinance providing for the issuance of such Parity Revenue Bonds shall provide in the Reserve Account out of Parity Revenue Bond proceeds, or from money in the Reserve Fund or from ULID Assessments, or by approximately equal annual payments within five years from the date of the issuance of such Parity Revenue Bonds an amount which, together with the money already in the Reserve Account, will make a total at least equal to the next year's Debt Service on all outstanding bonds payable out of the Bond Redemption Fund, and shall further provide that additional payments will be made into the Reserve Account if necessary so that there shall be on deposit therein at all times after each such five-year period an amount at least equal to the next year's Debt Service on all bonds payable out of that Fund.
- (e) The ordinance authorizing the issuance of such Parity Revenue Bonds shall provide for the payment of sinking fund requirements into the Bond Fund for any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Account.

(f) There shall be on file from a licensed professional engineer experienced in the design, construction and operation of municipal utilities, or from a certified public accountant, a certificate showing that in his or her professional opinion the Net Revenue of the System, together with the annual ULID Assessments reasonably anticipated to be collected in any ULID created to pay, in whole or in part, those Parity Revenue Bonds proposed to be issued, shall be equal to the Coverage Requirement for each calendar year thereafter.

The certificate, in estimating the Net Revenue of the System available for Debt Service, shall use the historical Net Revenue of the System for any 12 consecutive months out of the 18 months immediately preceding the month of delivery of the Parity Revenue Bonds. Net Revenue of the System may be adjusted to reflect:

- (1) Any changes in rates in effect and being charged or expressly committed by ordinance to be made in the future;
- (2) Income derived from customers of the System that have become customers during the 12 consecutive month period or thereafter;
- (3) Revenue from any customers to be connected to the System who have paid the required connection charges;
- (4) Revenue received or to be received which is derived from any person, firm, corporation or municipal corporation under any executed contract for water, sewage disposal or other utility service, which revenue was not included in the historical Net Revenue of the System; and
- (5) The engineer's or accountant's estimate of the Net Revenue of the System to be derived from customers expected to connect to the System within 180 days after the date of the certificate.

If Parity Revenue Bonds proposed to be so issued are for the sole purpose of refunding outstanding water and sewer revenue bonds payable from the Bond Redemption Fund, such certification of coverage shall not be required if the amount required for the payment of the principal and interest in each year for the refunding bonds is not increased over the amount required for the bonds to be refunded thereby and the maturities of such refunding bonds are not extended beyond the maturities of the bonds to be refunded thereby.

and

WHEREAS, there are presently outstanding \$_____ principal amount of the 1990 Series A Bonds maturing on November 1 on each of the years 1996 through 2009 and bearing interest at various rates from 6.800% to 7.375% and, pursuant to Ordinance No. 1693,

the 1990 Series A Bonds are first subject to call for prior redemption on November 1, 1999, at a price of par plus accrued interest to the date of redemption; and

WHEREAS, the City Council has determined it to be in the best interests of the City to issue its Water and Sewer Revenue Refunding Bonds, 1996, (the "Bonds"), in the principal amount of \$_____ to pay the costs of refunding, paying and retiring the 1990 Series A Bonds to effect a substantial savings by the difference between the principal and interest cost over the life of the 1990 Series A Bonds and the principal and interest cost over the life of the Bonds herein authorized, which refunding will be affected by:

- (a) The issuance of the Bonds; and
- (b) The call, payment, both principal and interest, and redemption of all the outstanding 1990 Series A Bonds maturing on November 1, 1999, at a price of par plus accrued interest.

and

WHEREAS, in order to effect that refunding in the manner that will be most advantageous to the City and the users of the Waterworks Utility, it is found necessary and advisable that certain acquired obligations (hereinafter defined) bearing interest at such rates and maturing at such time or times as necessary to accomplish the refunding as aforesaid be purchased out of the proceeds of the sale of the Bonds and other money of the City legally available therefor; and

WHEREAS, in order to effect that refunding in the manner that will be most advantageous to the City and the users of the Waterworks Utility, it is also found necessary and advisable, with the approval of the United States of America, Rural Economic Community Development, as registered owner of the 1981 Series 2 Bond (the "1981 Series 2 Bondowner") to amend the parity covenants contained at Section 12 of Ordinance No. 881, Section 11 of Ordinance No. 1492 and Section 20 of Ordinance No. 1693;

WHEREAS, Seattle-Northwest Securities Corporation has offered in the form of a purchase contract to purchase the Bonds under the terms and conditions set forth herein and in that purchase contract;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SNOHOMISH, Washington DO ORDAIN, as follows:

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

"Acquired Obligations" means those direct obligations of the United States of America and other legal investments purchased to accomplish the Refunding Plan.

"Average Annual Debt Service" means the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of the applicable issue or issues of Parity Revenue Bonds divided by the number of those years.

"Bond Redemption Fund" means the Snohomish 1959 Water and Sewer Revenue Bond Redemption Fund created by Section 8 of Ordinance No. 881.

"Bond Registrar" means the City Treasurer.

"Bond" means the \$_____ Water and Sewer Revenue Refunding Bonds, 1996, of the City issued pursuant to and for the purposes provided in this ordinance.

"1959 Bonds" means the Water and Sewer Revenue Bonds, 1959, dated February 1, 1959, and issued pursuant to Ordinance No. 881, all of which 1959 Bonds have matured and been paid.

"1981 Series 2 Bond" means the Water and Sewer Revenue Bond, 1981, Series 2, dated December 22, 1981, issued pursuant to Ordinance No. 1492 and currently held by the United States of America, Department of Agriculture, Rural Economic Community Development, as the 1981 Series 2 Bondowner.

"1990 Bonds" means, collectively, the \$1,855,000 par value Water and Sewer Revenue Bonds, 1990, Series A, dated June 1, 1990, and the \$430,000 par value Water and Sewer Revenue Refunding Bond, 1990, Series B, dated June 1, 1990, and authorized to be issued by Ordinance No. 1693.

"1990 Series A Bonds" means the \$1,855,000 par value Water and Sewer Revenue Bonds, 1990, Series A, dated June 1, 1990, and authorized by Ordinance No. 1693.

"1990 Series B Bonds" means the \$430,000 par value Water and Sewer Revenue Refunding Bonds, 1990, Series B, dated June 1, 1990, and authorized by Ordinance No. 1693.

"1996 Bond" means the Water and Sewer Revenue Bond, 1996, issued pursuant to Ordinance No. ____ and currently held by the United States of America, Department of Agriculture, as the 1996 Bondowner.

"Code" means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

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

"Coverage Requirement" means Net Revenue of the System at least equal to 1.25 times the Annual Debt Service in that current year on bonds payable from the Bond Redemption Fund less ULID Assessments due in that year and not delinquent.

"Annual Debt Service" means, for any calendar year the amount required to pay all of the principal of and interest due on the Bonds and Parity Revenue Bonds (excluding interest

payments capitalized by Parity Revenue Bonds and excluding the accrued interest paid to the City upon the issuance of Parity Revenue Bonds), subject to the following:

(a) Debt Service on Term Bonds. For purposes of calculating debt service on Term Bonds, only the scheduled mandatory redemption amounts payable in respect of principal of Term Bonds shall be taken into account in any fiscal year prior to the Term Bond Maturity Year, and only the principal amount scheduled to remain outstanding after payment of all prior mandatory redemption amounts shall be taken into account in the Term Bond Maturity Year;

(b) Interest on Parity Revenue Bonds. For purposes of determining compliance with the Coverage Requirement, the Reserve Requirement and conditions for the issuance of Future Parity Revenue Bonds or the creation of Contract Resource Obligations;

(1) Generally. Except as otherwise provided by subparagraph (b)(2) with respect to Variable Interest Rate Bonds, interest on any issue of Parity Revenue Bonds payable in a fiscal year shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in that fiscal year in respect of that issue taken as a whole, at the rate or rates set forth in the Parity Revenue Bond Authorizing Resolution;

(2) Interest on Variable Interest Rate Bonds. The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate (the "assumed bond index-based rate") that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; except that, for purposes of determining actual compliance with the Coverage Requirement under Section __ of Ordinance _____ in any past fiscal year, the actual amount of interest paid on any issue of Variable Interest Rate Bonds shall be taken into account;

"Future Parity Revenue Bonds" means any water and sewer revenue bonds and other obligations of the City issued or entered into after the date of the issuance of the Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net Revenue of the System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Redemption Fund to pay and secure the payment of the principal of and interest on the Bonds.

"Gross Revenue of the System" or "Gross Revenue" means all of the earnings and revenues received by the City from the maintenance and operation of the System, including connection charges, and all earnings from the investment of money on deposit in the Bond Redemption Fund, except ULID Assessments, government grants, gifts, City taxes, principal proceeds of bonds and earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund System obligations (until commingled with other earnings and revenues of the System) or held in a special account for the purpose of paying a rebate to the United States Government under the Internal Revenue Code of 1986, as amended.

"Independent Utility Consultant" means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the System, or (2) an independent certified public accountant or

other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the System.

"Installment Payment Date" means the date that is six months from the dated date of the Bond and the same day of every 6th month thereafter to and including the final maturity of the Bond.

"Maintenance and Operation Expense" means all reasonable expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition, including payments made to any other municipal corporation for water or water service or for sewage treatment and disposal service in the event the City enters into a contract for such services, but not including any depreciation or taxes levied or imposed by the City or payments to the City in lieu of taxes.

"Maximum Annual Debt Service" means at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on the Parity Revenue Bonds.

"Net Revenue of the System" or "Net Revenue" means Gross Revenue less (1) Maintenance and Operation Expense (2) deposits into the Rate Stabilization Account and plus withdrawals from the Rate Stabilization Account.

"Parity Revenue Bond Authorizing Resolution" means the resolution of the City that authorizes the issuance and sale and establishes the terms of a particular issue of Parity Revenue Bonds and other matters relating to the same plan of finance.

"Parity Revenue Bonds" means any water and sewer revenue bonds and other obligations of the City issued or entered into, the payment of which constitutes a charge and lien on the Net Revenue of the System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Redemption Fund to pay and secure the payment of principal of and interest on the 1990 Series B Bond, the 1981 Series 2 Bond, the SRF Loan, the 1996 Bond and the Bonds.

"Rating Agencies" means Moody's Investors Service, Inc., and Standard & Poor's, and their successors, and any other nationally-recognized securities rating agency or agencies rating Parity Revenue Bonds at the request of the City.

"Refunding Plan" means the call, payment, and redemption, both principal and interest, of all of the outstanding 1990 Series A Bonds on November 1, 1990, at par plus accrued interest.

"Refunding Trust Agreement" means the agreement between the City and the Refunding Trustee to provide for carrying out the Refunding Plan.

"Refunding Trustee" means _____ of _____.

AReserve Account" means the account of that name created in the Bond Redemption Fund for the purpose of securing the payment of the principal of and interest on the Parity Revenue Bonds.

AReserve Insurance" means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device obtained by the City to provide for part or all of the Reserve Requirement for any Parity Revenue Bonds which is issued by an institution which has been assigned a credit rating at the time of issuance of the device in one of the two highest rating categories of each of the Rating Agencies.

AReserve Requirement" means as of the date of calculation the lesser of Maximum Annual Debt Service on the Parity Revenue Bonds, 125% of Average Annual Debt Service or 10% of the proceeds of the Parity Revenue Bonds.

ARevenue Fund" means the Water and Sewer Revenue Fund of the City created by Section 7 of Ordinance No. 881.

ARate Stabilization Account" means the account of that name created in the Revenue Fund previously established by the City.

ASRF Loan" means the State Revolving Fund loan to be paid pursuant to a loan agreement entered into by the City and the State of Washington to upgrade the City's wastewater treatment facility.

AState" means the State of Washington.

AState Auditor" means the office of the Auditor of the State or such other department, office or agent of the State authorized and directed by State law to make audits.

ASystem" or AWaterworks Utility" means the existing water supply and distribution system and sanitary sewage collection and disposal system of the City as the same have been heretofore combined by Ordinance No. 863 of the City and as the same may be added to, improved and extended for as long as any of the 1981 Series 2 Bond, the 1990 Bonds, the Bond and any Parity Revenue Bonds are outstanding.

ATerm Bond Maturity Year" means any calendar year in which Term Bonds are scheduled to mature.

ATerm Bonds" means those Parity Revenue Bonds designated as such bonds in the applicable Parity Revenue Bond Authorizing Resolution.

AULID" means utility local improvement district.

AULID Assessments" means all assessments levied and collected in any ULID of the City created for the acquisition or construction of additions to and extensions and betterments of the System, if such assessments are pledged to be paid into the Bond Redemption Fund (less any

prepaid assessments permitted by law to be paid into a construction fund or account). ULID Assessments shall include principal installments thereof and any interest or penalties that may be due thereon.

A Waterworks Utility" means the System.

A Variable Interest Rate" means any variable interest rate or rates to be borne by any Parity Revenue Bonds. The method of computing such a variable interest rate shall be as specified in the applicable Parity Revenue Bond Authorizing Resolution, which resolution also shall specify either (1) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (2) the time or times upon which any change in such variable interest rate shall become effective. A Variable Interest Rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indexes.

A Variable Interest Rate Bonds" means, for any period of time, any Parity Revenue Bonds that bear a Variable Interest Rate during that period, except that Parity Revenue Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity Revenue Bonds of an issue and interest rates on other Parity Revenue Bonds of the same issue, as set forth in the applicable Parity Revenue Bond Authorizing Resolution, is to produce obligations that bear interest at a fixed interest rate.

Section 2. Parity Findings. The City Council finds that all payments required to have been made into the Bond Redemption Fund have been made and that no deficiency exists in such fund or the Reserve Account therein; that provision hereinafter is made for the accumulation in the Reserve Account of the Bond Fund of the required reserve amount for the Bonds; that there will be on file with the City either:

(a) a certificate of the City Finance Director, if supported by audited financial statements, demonstrating that during any twelve consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to the Coverage Requirement for all Parity Revenue Bonds plus the Future Parity Revenue Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or

(b) a certificate of an Independent Utility Consultant to the effect that the Net Revenue for the five fiscal years next following the earlier of (i) the first fiscal year during which interest on those Future Parity Revenue Bonds is not fully capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Revenue Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Revenue Bonds are expected to commence operations, such Net Revenue further adjusted as provided in paragraphs (i) through (vi) below, will be at least equal to the Coverage Requirement. The certificate, in estimating the Net Revenue of the System shall use the historical Net Revenue of the System for any 12 consecutive months out of the 24 months immediately preceding the month of delivery of the Future Parity Revenue Bonds. That certificate may take into account the following adjustments:

(i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue adopted by resolution;

(ii) Net revenue from customers of the System who have become customers during the 12 consecutive month period or thereafter, and his or her estimate of net revenue from any customers to be connected to the System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(iii) The additional net revenue which would have been received if any facility of the System which became fully operational after the beginning of such 12-month period had been so operating for the entire period;

(iv) The additional net revenue estimated by such Independent Utility Consultant to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System which are (A) under construction at the time of such certificate or (B) will be constructed from the proceeds of the Future Parity Revenue Bonds to be issued;

(v) His or her estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Revenue Bonds; and

(vi) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the System.

Section 3. Authorization and Description of Bonds. For the purpose of providing the money necessary to pay the costs of carrying out the Refunding Plan, the City shall cause the Bonds to be issued in the principal amount of \$_____. The Bonds shall be dated _____ 1, 1996; shall be in the denomination of \$5,000 or any integral multiple thereof within a single maturity; shall be numbered separately and in the manner and with any additional designation as the Bond Registrar deems necessary for purposes (of identification; and shall bear interest at the rates set forth below, payable on _____ 1, 199__, and semiannually thereafter on each succeeding May 1 and November 1.

The Bonds shall bear interest at the rates and mature on _____ 1 in years and amounts as follows:

<u>Maturity</u> <u>Years</u>	<u>Principal</u> <u>Amounts</u>	<u>Interest</u> <u>Rates</u>
	\$	%

Section 4. Registration and Transfer of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on books or records maintained by the Bond Registrar (the "Bond Register"). The Bond Register shall contain the name and mailing address of the owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged or transferred for Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity, Bonds may be exchanged or transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the fifteen days preceding any principal payment or redemption date.

Section 5. Payment of Bonds. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at either of the principal offices of the Bond Registrar at the option of the owners.

Section 6. Redemption and Open Market Purchase of Bonds. The Bonds maturing in the years _____ through _____, inclusive, shall be issued without the right or option of the City to redeem those Bonds prior to their stated maturity dates. The City reserves the right and option to redeem Bonds maturing on or after _____ 1, _____, prior to their stated maturity dates, on and after _____ 1, _____, or as a whole at any time, or in part on any interest payment date and by lot in such manner as the Bond Registrar shall determine within one or more maturities selected by the City, at par plus accrued interest to the date fixed for redemption.

The Bonds maturing in the year _____ are Term Bonds and are subject to mandatory redemption in the following years and in the following amounts, by lot in such manner as the Bond Registrar shall determine:

<u>Years</u>	<u>Mandatory Redemption Amounts</u>
	\$

Portions of the principal amount of any Bond, in installments of \$5,000 or any integral multiple thereof, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at either of the principal offices of the Bond Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or Bonds, at the option of the registered owner) of the same maturity and interest rate in any of the denominations authorized by this ordinance in the aggregate total principal amount remaining unredeemed.

The City reserves the right and option to purchase the Bonds in the open market at any time at a price of par plus accrued interest to the date of purchase.

All Bonds purchased or redeemed under this section shall be cancelled.

Section 7. Notice of Redemption. The City shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed within the same period, postage prepaid, to Moody's Investors Service, Inc. , and Standard & Poor's Corporation at their offices in New York, New York, or their successors, to Seattle-Northwest Securities Corporation at its principal office in Seattle, Washington, or its successor, and to such other persons and with such additional information as the City Clerk shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

Section 8. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Redemption Fund and the Bond has been called for payment by giving notice of that call to the registered owner of each that Bond.

Section 9. Flow of Funds. There previously has been established the Revenue Fund, into which fund is paid all of the Gross Revenue of the System. The money in the Revenue Fund shall be used in the following order of priority:

- (1) To pay Maintenance and Operation Expense;
- (2) To pay the interest on Parity Revenue Bonds;
- (3) To pay the principal of Parity Revenue Bonds;
- (4) To make all payments required to be made into the Reserve Account;
- (5) To make all payments required to be made into any bond fund or reserve fund created to pay and secure the payment of the principal of and interest on any revenue obligations of the City having a lien upon the Gross Revenue of the System inferior to the lien thereon for the payment of Parity Revenue Bonds; and
- (6) To retire by redemption or purchase in the open market any outstanding Waterworks Utility obligations, 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 purpose.

Section 10. Deposits into and Maintenance of Bond Redemption Fund. The Bond Redemption Fund has been previously created in the office of the City Treasurer, which fund is to be drawn upon for the sole purpose of paying the principal of and interest on Parity Revenue Bonds. The Bond Fund has been divided into two accounts, namely, the Principal and Interest Account and the Reserve Account. So long as any portion of the Bond is outstanding against the Bond Redemption Fund, the City Treasurer shall set aside and pay into the Principal and Interest Account all ULID Assessments pledged to that fund and, out of the Gross Revenue of the Waterworks Utility, at least five days prior to each Installment Payment Date, certain fixed amounts without regard to any fixed proportion, namely, an amount, together with ULID Assessments and other money on deposit therein, sufficient to pay each installment of principal and interest when due.

There shall be deposited monthly into the Reserve Account from the Gross Revenue and ULID Assessments \$_____ commencing on _____, 199_, until an amount equal to the Reserve Requirement has been accumulated therein by no later than the 10th Installment Payment Date in _____, 200_. The City also may contribute the amounts into the Reserve Account, in whole or in part, in lump sums in advance.

The City further agrees that when such required amounts have been paid into the Reserve Account it will at all times maintain those amounts therein until there is a sufficient amount in the Bond Redemption Fund and Reserve Account to pay the principal of, and interest on all outstanding bonds payable out of the Bond Redemption Fund, at which time the money in the Reserve Account may be used to pay such principal and interest; however, money in the Reserve Account may be withdrawn to pay the principal, premium if any, and interest on the last maturing bonds of any single issue or series payable out of the Bond Redemption Fund so long as the money left remaining in the Reserve Account is at least equal to the next year's Debt Service.

In the event there shall be a deficiency in the Bond Redemption Fund to meet maturing installments of either interest on or principal of and interest on Parity Revenue Bonds, that deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from the money in the Revenue Fund first available therefor and ULID Assessments, after making provision for all required payments into the Principal and Interest Account.

All money in the Reserve Account above provided for may be kept in cash or invested in direct obligations of the United States Government having a guaranteed redemption price prior to maturity or maturing not later than twelve years from date of purchase, and in no event maturing later than the last maturity of the Bonds or any Parity Revenue Bonds outstanding at the time of such purchase. Interest earned on or any profits made from the sale of any such investments shall be retained in the Reserve Account, and any amounts in the Reserve Account in excess of the Reserve Requirement shall become a part of the Bond Redemption Fund.

The City Council declares in fixing the amounts to be paid into the Bond Redemption Fund and the Reserve Account as herein provided that it has exercised due regard for Maintenance and Operation Expense of the System and has not obligated the City to set aside and pay into the Bond Redemption Fund and the Reserve Account a greater amount or

proportion of the Gross Revenue of the System than in its judgment will be available over and above Maintenance and Operation Expense.

If the City shall fail to set aside and pay into the Bond Redemption Fund the amounts which it has obligated itself by this section to set aside and pay therein, the owner of the Bond may bring suit against the City to compel it to do so.

Section 11. Rate Stabilization Account. There is hereby established in the Revenue Fund, previously created by the City, a Rate Stabilization Account. The City may at any time, as determined by the City and as consistent with Sections 9 and 18 of this ordinance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the System during a fiscal year and available to be used therefor, excluding principal proceeds of Parity Revenue Bonds or other borrowing. The City may, by resolution, withdraw money from the Rate Stabilization Account for inclusion in the Net Revenue of the System at any time for the current fiscal year, except that the total amount withdrawn from the Rate Stabilization Account in any fiscal year of the System may not exceed the total debt service of the System in that year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year.

Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Net Revenue of the System unless and until withdrawn from that account as provided herein.

No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

Section 12. Pledge of Revenue and ULID Assessments; Lien Position. The amounts pledged herein to be paid into the Bond Redemption Fund from the Gross Revenue of the System and ULID Assessments for payment of the Bond are declared to be a prior lien and charge on the money in the Revenue Fund and ULID Assessments superior to all other charges of any kind or nature, except the normal cost of Maintenance and Operation Expense of the System, and equal in rank to that of the Parity Revenue Bonds and any Future Parity Revenue Bonds and any Future Parity Revenue Bonds hereafter issued.

Section 13. Refunding of the 1990 Series A Bonds.

(a) Acquisition and Substitution of Acquired Obligations. The proceeds of the sale of the Bonds, exclusive of the accrued interest thereon which shall be paid into the Bond Fund, shall be deposited immediately upon the receipt thereof with the Refunding Trustee, together with the amount of \$_____ (which amount may be increased or decreased) from funds on deposit in the Principal and Interest Account, to discharge the obligations of the City relating to the outstanding 1990 Series A Bonds under Ordinance No. 1693 by providing for the payment of the amounts required to be paid by the Refunding Plan. To the extent practicable, such obligations shall be discharged fully by the Refunding Trustee's simultaneous purchase of Acquired Obligations bearing such interest and maturing as to principal and interest in such

amounts and at such times so as to provide for the payment of the, amounts required to be made by the Refunding Plan. The Acquired Obligations shall be a Certificate of Indebtedness, U.S. Treasury Securities--State and Local Government series in the principal amount of \$_____, bearing interest at the rate of _____% per annum, maturing on November 1, but shall be subject to substitution as set forth below.

Prior to the purchase of any such Acquired Obligations, the City reserves the right to substitute for any of the Acquired Obligations proposed on the date of this ordinance other Acquired Obligations and to use any savings created thereby for any lawful City purpose if, (a) in the opinion of Foster Pepper & Shefelman, the City's bond counsel, the interest on the Bonds will remain excluded from gross income for federal income tax purposes under Sections 103, 148 and 149(d) of the Code, and (b) such substitution shall not impair the timely payment of the amounts required to be paid by the Refunding Plan as so verified by an independent nationally recognized firm of certified public accountants.

After the purchase of the Acquired Obligations by the Refunding Trustee, the City reserves the right to substitute therefor cash or Government Obligations subject to the conditions that such money or securities held by the Refunding Trustee shall be sufficient to carry out the Refunding Plan, that such substitution will not cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code and regulations thereunder in effect on the date of such substitution and applicable to obligations issued on the issue date of the Bonds, and that the City obtain, at its expense: (1) verification by an independent nationally recognized certified public accountant firm acceptable to the Refunding Trustee confirming that the payments of principal of and interest on the substitute Acquired Obligations, if paid when due, and any other money held by the Refunding Trustee will be sufficient to carry out the Refunding Plan; and (2) an opinion from Foster Pepper & Shefelman, bond counsel to the City, its successor, or other nationally recognized bond counsel to the City, to the effect that the disposition and substitution or purchase of such securities, under the statutes, rules and regulations then in force and applicable to the Bonds, will not cause the interest on the Bonds or the 1990 Series A Bonds to be included in gross income for federal income tax purposes, and that such disposition and substitution or purchase is in compliance with the statutes and regulations applicable to the Bonds. Any surplus money resulting from the sale, transfer, other disposition or redemption of the Acquired Obligations and the substitutions therefor shall be released from the trust estate and transferred to the City to be used for any lawful purpose.

(b) Administration of Refunding Plan. The Refunding Trustee is authorized and directed to purchase the Acquired Obligations (or substitute obligations) and to make the payments required to be made by the Refunding Plan from the Acquired obligations (or substitute obligations) and money deposited with the Refunding Trustee pursuant to this ordinance. All Acquired obligations (or substitute obligations) and the money deposited with the Refunding Trustee and any income therefrom shall be held irrevocably, invested and applied in accordance with the provisions of Ordinance No. 1693, this ordinance, Chapter 39.53 RCW and other applicable laws of the State of Washington and the Refunding Trust Agreement. All necessary and proper fees, compensation and expenses of the Refunding Trustee for the Bonds and all other costs incidental to the setting up of the escrow to accomplish the refunding of the outstanding 1990 Series A Bonds and costs related to the issuance and delivery of the Bonds,

including Bond printing, rating service fees, verification fees, bond counsel's fees and other related expenses, shall be paid out of the proceeds of the Bonds.

(c) Authorization for Refunding Trust Agreement. In order to carry out the Refunding Plan provided for by this ordinance, the Mayor and City Treasurer are authorized and directed to execute and deliver to the Refunding Trustee a Refunding Trust Agreement consistent with the purposes of this ordinance and setting forth the duties, obligations and responsibilities of the Refunding Trustee in connection with the payment, redemption and retirement of the outstanding 1990 Series A Bonds as provided herein and stating that the provisions for payment of the fees, compensation and expenses of such Refunding Trustee set forth therein are satisfactory to it. Prior to executing the Refunding Trust Agreement, the mayor and City Treasurer are authorized to make such changes therein which do not change the substance and purpose thereof or which assure that the escrow provided therein and the Bonds are in compliance with the requirements of federal law governing the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 14. Call for Redemption of the 1990 Series A Bonds. The City calls for redemption on November 1, 1999, all of the outstanding 1990 Series A Bonds at a price of par plus accrued interest.

Such call for redemption shall be irrevocable after the delivery of the Bonds to the initial purchaser thereof. The date on which the 1990 Series A Bonds are herein called for redemption is the next date on which those bonds may be called at a [premium] of ___% or less.

The proper City officials are authorized and directed to give or cause to be given such notices as required, at the times and in the manner required, pursuant to Ordinance No. 1693 in order to effect the redemption prior to their maturity of the 1990 Series A Bonds.

Section 15. Form and Execution of Bonds. The Bonds shall be printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance and state law, shall be signed by the Mayor and City Treasurer, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered City of Snohomish, Washington, Water and Sewer Revenue Refunding Bonds, 1996, described in the Bond Ordinance.

WASHINGTON STATE FISCAL
AGENCY Bond Registrar

By _____

Authorized officer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this ordinance.

If any officer whose facsimile signature appears on the Bonds ceases to be an officer of the City authorized to sign bonds before the Bonds bearing his or her facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Section 16. 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 Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the District's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and City Ordinance No. 1556 establishing a system of registration for the City's bonds and obligations.

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

Section 17. Bond Negotiable. The Bonds shall be negotiable instruments to the extent provided by RCW 62A,8-102 and 62A,8-105.

Section 18. Bonds Covenants. The City covenants and agrees with the owner of each of the Bonds at any time outstanding as follows:

(a) It will establish, maintain and collect rates and charges for water and sanitary sewage collection and disposal service for as long as any of the Parity Revenue Bonds are outstanding, that will make available for the payment of the principal of and interest on all of such bonds as the same shall become due, an amount of Net Revenue of the System, equal to the Coverage Requirement each calendar year hereafter.

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

(c) It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the System or any real or personal property comprising a part of the System only upon approval by resolution and only consistent with one or more of the following:

(1) The City in its discretion may carry out such a sale, transfer or disposition (each, as used in this subparagraph, a "transfer") if the facilities or property transferred are not material to the operation of the System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System or are no longer necessary, material or useful to the operation of the System; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred in any fiscal year comprises no more than 5% of the total assets of the System; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the greater of the following:

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

(B) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) that the Net Revenue from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenue for such period; or

(C) An amount which will be in the same proportion to the depreciated assets allocable to the portion of the system sold or disposed of for the preceding year bears to the total depreciated assets for such period; or

(D) An amount which will be in the same proportion to the number of customers allocable to the portion of the system sold or disposed of for the preceding year bears to the total number of customers for such period.

The proceeds of any transfer shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Revenue Bonds, and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the System.

Before any transfer of more than 5% of the System, the City must obtain a certificate of an Independent Utility Consultant to the effect that in his or her

professional opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining System will retain its operational integrity and the Net Revenue of the System will be at least equal to the Coverage Requirement during the 5 fiscal years following the fiscal year in which the transfer is to occur, taking into account, (a) the reduction in revenue resulting from the transfer; (b) the use of any proceeds of the transfer for the redemption of Parity Revenue Bonds, (c) the Independent Utility Consultant's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the System financed in part by the proposed portion of the proceeds of the transfer, and (d) any other adjustment permitted in the preparation of a certificate under Section __ of Ordinance _____. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

If the City is assumed by or merged or consolidated with a municipal corporation or other public or private entity other than (1) any other special purpose sewer, water or sewer and water district under the provisions of Titles 56 or 57 RCW or the successor statutes, or (2) any public utility district created under the provisions of Title 54 RCW or successor statutes, then any outstanding Parity Revenue Bonds immediately shall be retired in accordance with their terms or defeased.

(d) It will not furnish water or sanitary sewage collection and disposal service to any customer whatsoever free of charge.

(e) It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the City, on such of the buildings, equipment, works, plants, facilities and properties of the System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the System against loss. The premiums paid for all such insurance shall be regarded as a Maintenance and Operation Expense of the System.

(f) It will keep and maintain proper books and accounts with respect to the operations, income and expenditures of the System that are in accordance with generally accepted accounting practices relating to municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on a regular basis by the State Auditor. All expenses incurred in the making of such statements shall be regarded and paid as Maintenance and Operation Expense of the System.

(g) It will take all actions necessary to prevent interest on the Bond from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bond or other funds of the City treated as proceeds of the Bond at any time during the term of the Bond which will cause interest on the Bond to be included in gross income for federal income tax purposes. The City certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

Section 19. Future Parity Revenue Bonds. The City reserves the right to issue Future Parity Revenue Bonds, which shall constitute a charge or lien upon the Gross Revenue of the System and ULID Assessments on a parity with any outstanding Parity Revenue Bonds, if the same conditions as set forth in Section ___ of Ordinance ____, are met and complied with at the time of the issuance of those Future Parity Revenue Bonds.

Nothing herein contained shall prevent the City from issuing water and sewer revenue bonds which are a charge upon the Gross Revenue of the System inferior to the payments required to be made therefrom into the Bond Redemption Fund for the payment of the Bond and any Parity Revenue Bonds or from pledging the payment of ULID Assessments into the Bond Redemption Fund created for the payment of the principal of and interest on those junior lien bonds as long as such ULID Assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Section 20. Parity Provisions; Amendment to Section 12 of Ordinance No. 881, Section 11 of Ordinance No. 1492 and Section 20 of Ordinance No. 1693.

Section 12 of Ordinance No. 881, Section 11 of Ordinance No. 1492 and Section 20 of Ordinance No. 1693 are each amended to read as follows:

The City reserves the right to issue Future Parity Revenue Bonds for purposes of the System or to refund a portion of the Parity Revenue Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Revenue Bonds:

- (1) There shall be no deficiency in the Bond Redemption Fund.
- (2) No default in the payment of the principal of or interest on any of the Bonds when due and payable shall have occurred and be continuing and no default in the performance of any other covenants relating to the Bonds on the part of the City shall have occurred and be continuing.
- (3) The Parity Revenue Bond Authorizing Resolution shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Revenue Bonds, shall be paid directly into the Bond Redemption Fund, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(4) The Parity Revenue Bond Authorizing Resolution shall provide for the payment of the principal thereof and interest thereon out of the Bond Redemption Fund.

(5) The Parity Revenue Bond Authorizing Resolution shall provide for the payment of amounts into the Bond Redemption Fund to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Account.

(6) The Parity Revenue Bond Authorizing Resolution shall provide for the deposit into the Reserve Account of (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Revenue Bonds from Future Parity Revenue Bond proceeds or other money legally available, or (ii) Reserve Insurance or an amount of money plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Revenue Bonds.

(7) There shall be on file with the City either:

(a) a certificate of the City Finance Director, if supported by audited financial statements, demonstrating that during any twelve consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to the Coverage Requirement for all Parity Revenue Bonds plus the Future Parity Revenue Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or

(b) a certificate of an Independent Utility Consultant to the effect that the Net Revenue for the five fiscal years next following the earlier of (i) the first fiscal year during which interest on those Future Parity Revenue Bonds is not fully capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Revenue Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Revenue Bonds are expected to commence operations, such Net Revenue further adjusted as provided in paragraphs (i) through (vii) below, will be at least equal to the Coverage Requirement. The certificate, in estimating the Net Revenue of the System shall use the historical Net Revenue of the System for any 12 consecutive months out of the 24 months immediately preceding the month of delivery of the Future Parity Revenue Bonds. That certificate may take into account the following adjustments:

(i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue adopted by resolution;

- (ii) Net revenue from customers of the System who have become customers during the 12 consecutive month period or thereafter, and his or her estimate of net revenue from any customers to be connected to the System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;
- (iii) The additional net revenue which would have been received if any facility of the System which became fully operational after the beginning of such 12-month period had been so operating for the entire period;
- (iv) The additional net revenue estimated by such Independent Utility Consultant to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System which are (A) under construction at the time of such certificate or (B) will be constructed from the proceeds of the Future Parity Revenue Bonds to be issued;
- (v) His or her estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Revenue Bonds; and
- (vi) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the System.

Nothing herein contained shall prevent the City from issuing water and sewer revenue bonds which are a charge upon the Gross Revenue of the System of the City junior or inferior to the payments required to be made therefrom into the Bond Redemption Fund for the payment of the 1981 Series 2 Bond, the Bonds and any Parity Revenue Bonds or from pledging the payment of utility local improvement district assessments into the bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Section 21. Small Governmental Issuer Arbitrage Rebate Exemption and Designation of Bonds as "Qualified Tax-Exempt Obligations." The City finds and declares that (a) it is a duly organized and existing governmental unit of the State of Washington and has general taxing power; (b) no Bond which is part of this issue of Bonds is a "private activity bond" within the meaning of Section 141 of the United States Internal Revenue Code of 1986, as amended (the "Code"); (c) at least 95% of the net proceeds of the Bonds will be used for local governmental activities of the City (or of a governmental unit the jurisdiction of which is entirely within the jurisdiction of the City); (d) the aggregate face amount of all tax-exempt obligations (other than private activity bonds) issued by the City and all entities subordinate to the City (including any entity which the City controls, which derives its authority to issue tax-exempt obligations from the City or which issues tax-exempt obligations on behalf of the City) during the calendar year in which the Bonds are issued is not reasonably expected to exceed \$5,000,000; and (e) the amount

of tax-exempt obligations, including the Bonds, designated by the City as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bonds are issued does not exceed \$10,000,000. The City therefore certifies that the Bonds are eligible for the arbitrage rebate exemption under Section 148(f)(4)(C) of the Code and designates the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code.

Section 22. Advance Refunding and Defeasance. In the event the City shall issue advance refunding bonds pursuant to the laws of the State of Washington, or have money available from any other lawful source, to pay the principal of and interest on the Bonds or such portion thereof included in the refunding or defeasance plan as the same become due and payable and to refund or defease all such then outstanding Bonds and to pay the costs of refunding, and shall have set aside irrevocably in a special fund for and pledged to such payment, refunding or defeasance, money and/or "government obligations" (as defined in Chapter 39.53 RCW, as now or hereafter amended) sufficient in amount, together with known earned income from the investments thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (hereinafter called the "trust account") and shall make irrevocable provisions for redemption of such Bonds, then in that case all right and interest of the owners of the Bonds to be so retired, refunded or defeased (hereinafter collectively called the "defeased Bonds") in the covenants of this ordinance, in the Gross Revenue of the System, ULID Assessments and funds and accounts obligated to the payment of such Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void, except such owners shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. After the establishing and full funding of such trust account, the City may then apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other bonds then outstanding.

In the event that the refunding plan provides that the Bonds being refunded or the refunding bonds to be issued be secured by money and/or government obligations pending the prior redemption of those Bonds being refunded and if such refunding plan also provides that certain money and/or government obligations of the United States of America are pledged irrevocably for the prior redemption of those Bonds included in the refunding plan, then only the Debt Service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the Coverage Requirement.

Section 23. Sale and Delivery of Bonds. Seattle-Northwest Securities Corporation of Seattle, Washington, has presented a bond purchase agreement (the "Bond Purchase Contract") to the City whereunder Seattle-Northwest Securities Corporation has offered to purchase the Bonds under the terms and conditions provided in the Bond Purchase Contract, which written Bond Purchase Contract is on file with the City Clerk and is incorporated herein by this reference. The City Council finds that entering into the Bond Purchase Contract is in the City's best interest and, therefore, accepts the offer contained in the Bond Purchase Contract and authorizes the execution of the Bond Purchase Contract by City officials.

The Bonds will be printed at City expense and will be delivered to the purchaser in accordance with the terms of the Bond Purchase Contract with the approving legal opinion of Foster Pepper & Shefelman, municipal bond counsel of Seattle, Washington, printed on each Bond. Bond Counsel shall not be required to review and shall express no opinion concerning the completeness or accuracy of any official statement, offering circular or other sales material issued or used in connection with the Bonds, and bond counsel's opinion shall so state.

The proper City officials are authorized and directed to do everything necessary for the prompt authentication and delivery of the Bonds to the purchaser and for the proper application and use of the proceeds of the sale thereof.

Section 24. Deposit of Proceeds. The accrued interest and principal proceeds received from the purchaser of the Bonds shall be deposited in accordance with the provisions of Section 12.

Section 25. Temporary Bond. Pending the printing, execution and delivery to the purchaser of the definitive Bonds, the City may cause to be executed and delivered to such purchaser a temporary Bond in the principal amount of \$_____. Such temporary Bonds shall bear the same date of issuance, interest rates, principal payment dates and terms and covenants as the definitive Bonds, and shall be issued as fully registered bonds in the name of the purchaser, and shall be in such form as acceptable to the purchaser. Such temporary Bonds shall be exchanged for the definitive Bonds as soon as the same are printed, executed and available for delivery.

Section 26. Effective Date. This ordinance shall become effective five days after its passage and publication as provided by law.

PASSED by the City Council of the City of Snohomish, Washington, and APPROVED by the Mayor at a regular open public meeting thereof this 1st, 1998 day of October, 1996.

CITY OF SNOHOMISH
Jeff Soth, Mayor

ATTEST:
Molly Linville, City Clerk

APPROVED AS TO FORM:
Grant Weed, City Attorney

I, MOLLY LINVILLE, City Clerk of the City of Snohomish, Washington, certify that the attached copy of Ordinance No. _____ is a true and correct copy of the original ordinance passed on the _____ day of September, 1996, as such ordinance appears on the Minute Book of the City.

DATED: this _____ day of _____, 199__.

MOLLY LINVILLE
City Clerk