AN ORDINANCE of the City of Kent, Washington, relating to the storm and surface water utility of the City, amending Ordinance No. 2666.

THE CITY COUNCIL OF THE CITY OF KENT, WASHINGTON, DOES
ORDAIN as follows:

Section 1. Section 1 of Ordinance No. 2666 is amended to read as follows:

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

"Annual Debt Service" for the applicable issue or series of Bonds and Future Parity Bonds for any calendar year shall mean all the interest, plus all principal (except principal of Term Bonds due in any Term Bond Maturity Year to the extent that those Term Bonds are subject to either mandatory prior redemption or sinking fund requirements), and plus all mandatory redemption and sinking fund requirements for that year, less all bond interest payable from the proceeds of any such Bonds or Future Parity Bonds in that year.

"Assessment Account" shall mean the account of that name created in the Bond Fund by Section 5 of this ordinance.

"Assessment Bonds" shall mean the original principal amount of any issue of Future Parity Bonds equal to the total principal amount of ULID Assessments on any final assessment roll or rolls of one or more ULIDs formed in connection with the improvements being financed by such issue of Future Parity Bonds. When a bond of any issue of bonds containing Assessment Bonds is redeemed or purchased, and retired, the same percentage of that bond as the
percentage of Assessment Bonds is to that total issue of bonds shall be treated as being redeemed or purchased, and retired.

"Average Annual Debt Service" shall mean, as of any calculation date, the sum of the Annual Debt Service for the remaining calendar years to the last scheduled maturity of the applicable issue or series of Bonds and Future Parity Bonds divided by the number of those years.

"Bond Fund" shall mean the Sewerage System Revenue Bond Fund, 1986, created by Section 5 of this ordinance for the purpose of paying and securing the principal of and interest on the Bonds and any Future Parity Bonds.

"Bond Registrar" shall mean the fiscal agencies of the State of Washington in Seattle, Washington, and New York, New York, as the same may be designated from time to time.

"Bonds" shall mean the $4,600,000 principal amount of Sewerage System Revenue Bonds, 1986, authorized to be issued by this ordinance.

"City" shall mean the City of Kent, Washington, a duly organized and existing non-charter code city under the laws of the State of Washington.

"Coverage Requirement" shall mean Net Revenue of the System at least equal to the sum of:

(i) 1.25 times the Annual Debt Service in that current year on applicable Bonds and Future Parity Bonds which are not Assessment Bonds,

(ii) plus an amount at least equal to 1.00 times the Annual Debt Service in that current year on all Assessment Bonds minus collections of ULID Assessments,

(iii) plus any additional amount necessary to make the required Reserve Account deposits in that current year on all outstanding Bonds and Future Parity Bonds.

Annual Debt Service on Assessment Bonds is that portion of Annual Debt Service on all Bonds and Future Parity Bonds equal to the quotient of Assessment Bonds divided by the
total of all Bonds and Future Parity Bonds. For the purposes of determining the Coverage Requirement for the issuance of Future Parity Bonds having variable interest rates, such bonds shall be assumed to bear interest at a fixed rate equal to the higher of 8.5% and the highest variable rate borne by any outstanding variable rate Sewerage System bonds of the City during the preceding 24 months, or if no such variable rate bonds are outstanding at the time of calculation, the rate borne by other variable rate debt the interest rate for which is determined by reference to an index comparable to the index to be used to determine the interest rate on the Future Parity Bonds then proposed to be issued.

"Drainage Master Plan" shall mean the "City of Kent Surface Drainage Utility Drainage Master Plan," dated February 20, 1985.

"Future Parity Bonds" shall mean any and all revenue bonds of the City issued after the date of the issuance of the Bonds pursuant to the provisions of Section 12 of this ordinance, the payment of the principal of and interest on which constitutes a lien and charge upon the Gross Revenue of the Sewerage System and ULID Assessments on a parity with the lien and charge of the Bonds upon such Gross Revenue and ULID Assessments.

"Government Obligations" shall mean direct obligations of the United States of America.

"Gross Revenue of the Sewerage System" or "Gross Revenue" shall mean all the earnings and revenue received by the Sewerage System from any source whatsoever, except general ad valorem taxes, ULID Assessments, grants from state, federal or local governments, earnings in any refunded bond escrow account or fund, gifts to the Sewerage
System for capital purposes, proceeds from the sale of City property, and original proceeds of City or Sewerage System obligations.

"Improvements" shall mean that portion of the Drainage Master Plan described in Exhibit A of Ordinance No. 2559 and Section 2 of this ordinance, and ordered to be carried out by that ordinance and this ordinance.

"Maximum Annual Debt Service" shall mean, as of any calculation date, the maximum amount of Annual Debt Service which shall mature or come due in the current calendar year or any future calendar year.

"Net Revenue of the Sewerage System" or "Net Revenue" shall mean the Gross Revenue of the Sewerage System less Operating and Maintenance Expenses.

"Operating and Maintenance Expenses" shall mean all reasonable expenses incurred by the City in causing the Sewerage System to be operated and maintained in good repair, working order and condition, including, without limitation, payments (other than payments out of proceeds of the Bonds or Future Parity Bonds) of premiums for insurance on the Sewerage System, and any State-imposed taxes, and also including all payments made to another agency for drainage and sewerage service, but excluding depreciation and amortization, and any City-imposed utility taxes or payments in lieu of taxes.

"Permitted Investments" shall mean:

(i) bonds, notes and other evidences of direct indebtedness of the United States of America and securities unconditionally guaranteed as to the payment of principal and interest by the United States of America;

(ii) obligations of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, or Export-Import Bank of the United States which are
authorized investments for City funds under the laws of the State of Washington;

(iii) direct obligations of, or obligations unconditionally guaranteed by, the State of Washington, or of any municipal corporation of the State of Washington, the obligations of which are authorized investments for City funds under the laws of the State of Washington and are rated Aa or better by Moody's Investors Service, Inc., and AA or better by Standard & Poor's Corporation;

(iv) deposits with a designated qualified public depository defined as such by the laws of the State of Washington, the deposits of which are insured by the Federal Deposit Insurance Corporation and which

(a) has an unsecured, uninsured and unguaranteed obligation rated Aa2 or better by Moody's Investors Service, Inc., or AA or better by Standard & Poor's Corporation; or

(b) is the lead bank of a parent holding company with an unsecured and unguaranteed obligation rated Aa2 or better by Moody's Investors Service, Inc., and AA or better by Standard & Poor's Corporation; or

(c) has combined capital, surplus and undivided profits of not less than $3,000,000, provided that the principal plus interest to accrue over the term of the deposit is fully insured by the Federal Deposit Insurance Corporation or secured by investments described in (i), (ii) and (iii) above; and

(v) deposits with any savings and loan institution operating under the laws of the State of Washington having combined capital, surplus and undivided profits of not less than $3,000,000, provided that the principal plus interest to accrue over the term of the deposit is fully insured by the Federal Deposit Insurance Corporation or the FSLIC or secured by investments described in (i), (ii) and (iii) above.

"Principal and Interest Account" shall mean the account of that name created in the Bond Fund by Section 5 of this ordinance for the payment of the principal of and interest on the Bonds and any Future Parity Bonds.

"Reserve Account" shall mean the account of that name created in the Bond Fund by Section 5 of this ordinance for the purpose of securing the payment of the principal of and interest on the Bonds and any Future Parity Bonds.

"Reserve Account Instrument" shall mean, by way of example and not of limitation, letters of credit, bond
insurance policies, surety bonds, standby bond purchase
agreements, lines of credit and other devices.

"Reserve Requirement" shall mean:

(1) For the Bonds, (($455,000)) $449,880;
and

(2) For any issue of Future Parity Bonds,
to be fixed at the time of their issuance, the
lesser of:

(a) the lesser of the Maximum Annual Debt Service or 125% of the Average Annual Debt Service on those Future Parity Bonds;
or

(b) the maximum amount permitted
under applicable provisions of the Internal Revenue Code of 1986, as amended, and regulations issued pursuant thereto;

except that Reserve Requirements for Future Parity Bonds may be larger than the amount calculated above if, in the opinion of bond counsel to the City, such larger Reserve Requirements will not adversely affect the tax-exemption of interest on the Bonds and any Future Parity Bonds.

(3) Notwithstanding paragraphs (1) and (2) above, the deposit to be made into the Reserve Account, and the Reserve Requirement, shall each be decreased for any issue of Future Parity Bonds when and to the extent that the City has provided for a Reserve Account Instrument to secure the payment of the principal of and interest on such Future Parity Bonds. The amount payable under any Reserve Account Instrument shall be credited against the amount otherwise required to be paid into the Reserve Account.
Account to meet the Reserve Requirement for an issue of Future Parity Bonds.

For purposes of calculating the Reserve Requirement for the issuance of Future Parity Bonds bearing interest at a variable rate, the requirement shall be the lesser of 8.5% per annum and the highest rate permitted, in the opinion of bond counsel, consistent with maintaining the tax-exempt status of the interest on the Bonds and the Future Parity Bonds. Such amount shall be accumulated within five years of the date of issuance of the proposed Future Parity Bonds and, to the extent it is not capitalized from the proceeds of such Future Parity Bonds, shall be deposited in approximately equal annual payments commencing one year after the date of issuance of such Future Parity Bonds.

"Revenue Fund" shall mean the Sewer Revenue Fund created and established by Ordinance No. 871 of the City.

"Sewerage System" shall mean the City's existing combined sanitary sewerage collection and disposal system and storm and surface water utility, and any system for garbage and refuse collection and disposal which hereafter may be combined lawfully with the existing system, together with all additions thereto and betterments and extensions thereof at any time made or constructed.

"Term Bond Maturity Year" shall mean any year in which Term Bonds are scheduled to mature.

"Term Bonds" shall mean the Bonds maturing in 2006 and any Future Parity Bonds of any single issue or series (a) designated as Term Bonds in the ordinance authorizing their issuance or sale, (b) the amount of maturing principal of which, in the year they are scheduled to mature, is more than 1.25 times the average amount of the principal maturities for the three years immediately preceding that Term

- 7 -
Bond Maturity Year, and (c) which are subject to mandatory prior redemption or for which mandatory sinking fund payments are provided.

"ULID" shall mean a utility local improvement district of the City.

"ULID Assessments" shall mean all assessments levied and collected in any ULID of the City created for the acquisition or construction of additions to and extensions of the Sewerage System, if such assessments are pledged to be paid into the Bond Fund (less any prepaid assessments permitted by law to be paid into a construction fund or account). Assessments include any installments of assessments and any interest or penalties which may be due thereon.

Section 2. Section 11 of Ordinance No. 2666 is amended to read as follows:

Section 11. Covenants. The City covenants and agrees with the owner of each Bond at any time outstanding, as follows:

11.1 ULID Assessments. All ULID Assessments shall be paid into the Bond Fund and may be used to pay the principal of and interest on the Bonds and Future Parity Bonds without those Assessments being particularly allocated to the payment of the principal of and interest on any particular issue of bonds. Nothing in this ordinance or this section shall be construed to prohibit the City from issuing sewerage revenue bonds having a subordinate lien to the Bonds and pledging as security for their payment assessments levied in any ULIDs which may have been specifically created to pay part of the cost of improvements to the Sewerage System for which those subordinate lien bonds were specifically issued.
11.2 Rates and Charges. It will establish, maintain and collect each year such rates and charges for drainage and sewerage service (and for garbage and refuse collection and disposal service should any system for such service ever be combined with the Sewerage System) and shall adjust such rates and charges from time to time so that there will be made available for the payment of the principal of and interest on the Bonds and any Future Parity Bonds Net Revenue of the Sewerage System, together with the collection of ULID Assessments, in an amount equal to the Coverage Requirement.

11.3 Good Repair. It will at all times maintain and keep the Sewerage System and all additions thereto and betterments, replacements and extensions thereof in good repair, working order and condition and also will at all times operate the Sewerage System and the business in connection therewith in an efficient manner and at a reasonable cost.

11.4 Limitation on Sale of Property. It will not sell, lease, mortgage, or in any manner encumber or dispose of all of the property of the Sewerage System unless provision is made for payment into the Bond Fund of an amount sufficient to pay the principal of and interest on all Bonds and Future Parity Bonds at that time outstanding, and it will not sell, lease, mortgage, or in any manner encumber or dispose of any part of the property of the Sewerage System that is used, useful and material to the operation thereof, unless provision is made for replacement thereof or for payment into the Bond Fund of the total amount of revenue of the Sewerage System received, which shall not be less than an amount which shall bear the same ratio to the amount of outstanding
Bonds and Future Parity Bonds as the Gross Revenue of the Sewerage System available for debt service for those outstanding bonds for the twelve months preceding such sale, lease, mortgage, encumbrance or disposal from the portion of the Sewerage System sold, leased, mortgaged, encumbered or disposed of bears to the Gross Revenue of the Sewerage System available for debt service for such bonds from the entire Sewerage System for the same period. Any money so paid into the Bond Fund shall be used to retire all or part of such outstanding bonds not later than the earliest par call date.

11.5 Accounts and Records. It will, while any of the Bonds remain outstanding, keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to its Sewerage System and it will furnish to the owner or owners thereof at the written request of such owner or owners, complete operating and income statements of the Sewerage System in reasonable detail covering any calendar year not more than ninety days after the close of such calendar year. It will grant any owner or owners of at least twenty-five percent of the outstanding Bonds the right at all reasonable times to inspect the Sewerage System and all records, accounts and data of the City relating thereto. Upon the request of any owner of any of the Bonds, it will furnish to such owner a copy of the most recently completed audit of the City's accounts by the State Auditor of Washington, or such other audit as is authorized by law in lieu thereof.

11.6 No Free Service; Enforcement of Accounts and ULID Assessments. It will not furnish any service of the Sewerage System (or any garbage and refuse collection and disposal service should any system for such service
ever be combined with the Sewerage System) to any customer whatsoever free of charge, and it will promptly take legal action to enforce the collection of all delinquent accounts. In addition, if on the date specified by law and in ordinances of the City in any year two installments of any ULID Assessments have been delinquent for more than one year, the City shall proceed with the foreclosure of the delinquent assessments or delinquent installments thereof in the manner required by law and ordinances of the City.

11.7 Self-Insurance and Insurance. It either will at all times self-insure in such manner and to such extent as the City shall determine to be necessary and appropriate or, to the extent insurance coverage is available at reasonable cost with responsible insurers, will carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the Sewerage System as under good practice are ordinarily carried on such buildings, equipment, facilities and properties by utilities engaged in the operation of drainage and sewerage systems to the full insurable value thereof, and also will carry adequate public liability insurance (and war risk insurance if available at reasonable rates) at all times. The premiums on such insurance policies are declared to be a normal part of Operating and Maintenance Expenses.

11.8 Payment of Obligations. It will pay all Operating and Maintenance Expenses and the debt service requirements for all outstanding Bonds and Future Parity Bonds and otherwise will meet the obligations of the City as set forth in this ordinance.

11.9 Limitation on Substantial Reduction of Gross Revenue. It will not change any rate or charge for
Sewerage System service as now established by the existing rate ordinance or ordinances of the City that will substantially reduce the annual Gross Revenue of the Sewerage System below that which would have been obtained before such change unless the City shall have on file a certificate from a licensed professional engineer experienced in the design, construction and operation of municipal utilities, stating the rates and charges as so changed will provide Gross Revenue of the Sewerage System, together with ULID Assessments, sufficient to comply with all the covenants and requirements of this ordinance, including the Coverage Requirement.

11.10 Non-Arbitrage and Arbitrage Rebate Covenants. The City covenants that it will neither make nor permit any use of proceeds of the Bonds or other funds of the City at any time during the term of the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the United States Internal Revenue Code of 1986 and applicable regulations promulgated thereunder. Further, the City covenants that, if all proceeds of the Bonds have not been spent within six months from the date of issuance of the Bonds, the City will calculate, or cause to be calculated, and rebate to the United States all earnings from the investment of Bond proceeds that are in excess of the amount that would have been earned had the yield on such investments been equal to the yield on the Bonds, plus all income derived from such excess earnings, to the extent and in the manner required by Section 148 of such Code and such applicable regulations. In the event the City shall fail to meet the rebate requirements applicable to the Bonds under Section 148 of such Code, the City covenants that, to the extent permitted
by that Section, it shall pay the penalty provided in Subsection 148(f)(7)(C) in lieu of losing the tax exemption on the Bond interest.

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 3. This ordinance shall take effect and be in force five (5) days from and after its passage, approval and publication as provided by law.

DAN KELLEHER, MAYOR

ATTEST:

MARIE JENSEN, CITY CLERK

APPROVED AS TO FORM:

BILL H. WILLIAMSON,
ACTING CITY ATTORNEY

PASSED the 3 day of Nov., 1986.
APPROVED the 4 day of Nov., 1986.
PUBLISHED the 7 day of Nov., 1986.

I hereby certify that this is a true and correct copy of Ordinance No. 2672, passed by the City Council of the City of Kent, Washington, and approved by the Mayor of the City of Kent as hereon indicated.

MARIE JENSEN, CITY CLERK

(Seal)