CITY OF KENT, WASHINGTON

ORDINANCE NO. 3128

AN ORDINANCE of the City of Kent, Washington, relating to the combined sewerage collection and disposal system and storm and surface water utility of the City; providing for the issuance of $8,690,000 principal amount of Sewerage System Improvement and Refunding Revenue Bonds, 1993, of the City for the purposes of providing a part of the funds to carry out a system or plan of additions to and betterments and extensions of that utility as adopted by Resolution No. 1313; providing funds with which to pay the cost of refunding, paying and redeeming the callable portion of the City’s outstanding Sewerage System Revenue Bonds, 1986; providing funds with which to prepay that utility’s assessment in LID No. 330 of the City; fixing the date, form, maturities, interest rates, terms and covenants of those bonds; providing a reserve for those bonds; providing for and authorizing the purchase of certain obligations out of the proceeds of the sale of the refunding bonds herein authorized and for the use and application of the money derived from those investments; authorizing the execution of a contract with West One Bank, Idaho, N.A., of Boise, Idaho, as refunding trustee; providing for bond insurance; and approving the sale and providing for the delivery of the bonds to Lehman Brothers Inc. of Seattle, Washington.

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AN ORDINANCE of the City of Kent, Washington, relating to the combined sewerage collection and disposal system and storm and surface water utility of the City; providing for the issuance of $8,690,000 principal amount of Sewerage System Improvement and Refunding Revenue Bonds, 1993, of the City for the purposes of providing a part of the funds to carry out a system or plan of additions to and betterments and extensions of that utility as adopted by Resolution No. 1313; providing funds with which to pay the cost of refunding, paying and redeeming the callable portion of the City's outstanding Sewerage System Revenue Bonds, 1986; providing funds with which to prepay that utility's assessment in LID No. 330 of the City; fixing the date, form, maturities, interest rates, terms and covenants of those bonds; providing a reserve for those bonds; providing for and authorizing the purchase of certain obligations out of the proceeds of the sale of the refunding bonds herein authorized and for the use and application of the money derived from those investments; authorizing the execution of a contract with West One Bank, Idaho, N.A., of Boise, Idaho, as refunding trustee; providing for bond insurance; and approving the sale and providing for the delivery of the bonds to Lehman Brothers Inc. of Seattle, Washington.

WHEREAS, the City of Kent, Washington (the "City"), operates and maintains a system of sewerage pursuant to the provisions of RCW 35.67.020, 35.21.120, 35.92.020 and 35A.80.010; and

WHEREAS, the City established a storm and surface water utility and adopted a system or plan of storm water collection and treatment for the City by Ordinance No. 2325, passed on December 21, 1981; and

WHEREAS, the City combined its storm and surface water utility with its sanitary sewage collection and disposal system and its garbage and refuse collection and disposal system, the combined
system to be referred to as the "system of sewerage," by Ordinance No. 2547, passed on April 1, 1985; and

WHEREAS, by Ordinance No. 2665, passed on October 20, 1986, the City removed its garbage and refuse collection and disposal system from its system of sewerage; and

WHEREAS, the City by Ordinance No. 2547 adopted the "City of Kent Surface Drainage Utility Master Plan," dated February 20, 1985, and by Resolution No. 1313 passed on May 5, 1992, adopted a new comprehensive five-year Capital Improvement Plan for the City’s storm and surface water utility as the system or plan of additions to and betterments of the storm and surface water utility (collectively, the "Drainage Master Plan"), and by such Resolution No. 1313 ordered the carrying out of portions of the Drainage Master Plan; and

WHEREAS, the City has heretofore issued under date of November 1, 1986, pursuant to Ordinance No. 2666, its Sewerage System Revenue Bonds, 1986 (the "1986 Bonds"), in the principal amount of $4,600,000, to provide the funds necessary to carry out a portion of the Drainage Master Plan; and

WHEREAS, pursuant to the provisions of Section 12 of Ordinance No. 2666, the City covenanted and agreed that it would not issue any Future Parity Bonds (as therein defined) except upon compliance with the following conditions:

"(a) At the time of the issuance of such Future Parity Bonds, there shall be no deficiency in the Bond Fund.

"(b) The ordinance providing for the issuance of such Future Parity Bonds shall provide that all assessments and interest thereon, except for prepaid assessments used to pay costs of improvements, which may
be levied in any ULID hereafter created for the purpose of paying, in whole or in part, the principal of and interest on such Future Parity Bonds, shall be paid directly into the Bond Fund.

"(c) The ordinance authorizing the issuance of such Future Parity 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 such Term Bonds prior to their maturity date from money in the Principal and Interest Account and Assessment Account.

"(d) The ordinance authorizing the issuance of any Future Parity Bonds shall provide for the payment of the principal of and interest thereon out of the Bond Fund.

"(e) The ordinance providing for the issuance of such Future Parity Bonds shall provide for the payment of an amount equal to the Reserve Requirement for those Future Parity Bonds into the Reserve Account in the Bond Fund from the Future Parity Bond proceeds and, to the extent such Reserve Requirement is not funded from Future Parity Bond proceeds, then from money in the Reserve Account in excess of the Reserve Requirement of all bonds then payable from the Bond Fund and from the Net Revenue of the Sewerage System in sixty approximately equal monthly payments. The requirement of this subsection is subject to the City's right to fund all or a portion of the Reserve Requirement with a Reserve Account Instrument. In the event such Future Parity Bonds are issued for the purpose of refunding outstanding Bonds and/or Future Parity Bonds, the amount of such reserve allocated to such bonds being so refunded shall be retained or used as a reserve for such refunding Future Parity Bonds or used to retire outstanding Bonds or outstanding Future Parity Bonds pursuant to the refunding plan, which reserve amount shall be replaced in the same manner and within the same time as required for additional Future Parity Bonds, or such reserve may remain in the Reserve Account to be used as the reserve for remaining bonds payable from the Bond Fund.

"(f) At the time of the issuance of such Future Parity Bonds, the City shall have on file a certificate from an independent, licensed professional engineer experienced in the design, construction and operation of municipal utilities, or a certified public accountant, stating that in his or her professional opinion the Net Revenue of the Sewerage System for any twelve consecutive calendar months out of the immediately preceding twenty-four calendar months, together with the projected
collections of ULID Assessments, shall be equal to the Coverage Requirement for each year thereafter. However, if Future Parity Bonds proposed to be so issued are for the sole purpose of refunding outstanding bonds payable from the Bond Fund, such certification of coverage shall not be required if the Annual Debt Service 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 those refunding bonds are not extended beyond the maturities of the bonds to be refunded thereby.

"The engineer's or accountant's certificate, in estimating the Net Revenue of the Sewerage System available for debt service, shall use the historical Net Revenue of the Sewerage System for any twelve consecutive months out of the twenty-four months immediately preceding the month of delivery of the Future Parity Bonds. Such Net Revenue may be adjusted to reflect:

"(1) Any changes in rates in effect and being charged or expressly committed by ordinance of the City Council to be made in the future;

"(2) Income derived from customers of the Sewerage System that have become customers during the twelve consecutive month period or thereafter adjusted to reflect one year's net revenue from such customers;

"(3) Revenues from any customers to be connected to the Sewerage System who have paid the required connection charges;

"(4) The revenue to be deposited in the Revenue Fund which is derived from any person, firm, corporation or municipal corporation under any executed contract for Sewerage System service, which revenue was not included in the historical Net Revenue of the Sewerage System; and

"(5) The engineer's or accountant's estimate of the Net Revenue to be derived by the City from customers with improved property available to connect to any additions to and improvements and extensions of the Sewerage System to be paid for out of the proceeds of the sale of the additional Future Parity Bonds or other additions to and improvements and extensions of the Sewerage System then under construction and not fully connected to the facilities of the Sewerage System when such additions, improvements and extensions are completed."
"Actual or reasonably anticipated changes in the Operating and Maintenance Expenses subsequent to such twelve-month period shall be added or deducted, as is applicable.

"The engineer's or accountant's certificate required by this subparagraph (f) in setting forth the estimate of ULID Assessments for ULID improvements being financed by the proposed Future Parity Bonds shall be computed in accordance with the following formula:

"(i) The amount of the ULID Assessments paid within the 30-day period permitted by law for the payment of ULID Assessments without penalty or interest shall be applied in the year of payment, or, if that 30-day period has not elapsed, 15% of each total assessment roll shall be applied for the year in which it is anticipated such prepayment period will end as the estimated amount of the ULID Assessments that will be paid within such 30-day period.

"(ii) 10% of the balance of each such assessment roll shall then be deducted for estimated nonpayment of ULID Assessments.

"(iii) The balance remaining after the deductions provided in subparagraphs (i) and (ii) immediately above shall then be divided by the number of years in which installments of such ULID Assessments may be paid without becoming delinquent, and there shall be added to each year the interest that will be collected on such installments.

"In computing the installments of ULID Assessments previously levied that will be collected each year, the following formula shall be used:

"(i) All delinquent ULID Assessments or installments shall be deducted from each assessment roll.

"(ii) The balance remaining after the deductions provided in subparagraph (i) immediately above shall then be divided by the number of years in which installments of such ULID Assessments may be paid without being delinquent and there shall be added to each year the interest that will be collected on such installments.

"No engineer's or accountant's certificate provided for in this paragraph (f) shall be required in connection with the issuance of a ULID Assessment Bond issue if the
amount of bonds proposed to be issued does not exceed the ULID Assessments levied in support of such ULID Assessment Bond Issue by more than $5,000 plus any amount of the proceeds of such bonds deposited in the Reserve Account as capitalized reserve." and

WHEREAS, pursuant to Ordinance No. 2666, the City reserved the right and option to redeem the 1986 Bonds maturing on or after November 1, 1997, on November 1, 1996, and on any interest payment date thereafter, at par plus accrued interest to the date fixed for redemption; and

WHEREAS, there are presently outstanding $3,120,000 principal amount of 1986 Bonds maturing on November 1 of each of the years 1997 through 2001, inclusive, and in 2006, and bearing interest at various rates from 7.00% to 7.40% (the "Refunded Bonds"); and

WHEREAS, the City Council has determined that the Refunded Bonds may be refunded by the issuance and sale of the revenue bonds authorized herein (the "Bonds") so that a substantial savings will be effected by the difference between the principal and interest costs over the life of the Bonds and the principal and interest costs over the life of the Refunded Bonds but for such refunding, which refunding will be effected by

(a) The issuance of the Bonds;

(b) The payment of the interest on the Refunded Bonds when due up to and including November 1, 1996, and, on November 1, 1996, the call, payment and redemption of all the outstanding Refunded Bonds at a price of par;

and

WHEREAS, to effect that refunding in the manner that will be most advantageous to the City and its ratepayers, the City Council finds it necessary and advisable that certain acquired obligations
(hereinafter defined) bearing interest and maturing at the time or times necessary to accomplish the refunding as aforesaid be purchased out of the proceeds of the sale of the Bonds; and

WHEREAS, the City Council has determined that it is in the City's best interest to issue and sell approximately $4,790,000 of sewerage system revenue bonds to provide a portion of the funds necessary to carry out various storm drainage and flood control capital projects within the Drainage Master Plan, including but not limited to construction of stormwater detention facilities, construction of outfall treatment facilities and upgrading of a stormwater pump station (the "Improvements"); and

WHEREAS, the City Council has determined that it is in the City's best interest to prepay the sewerage system's assessment within Local Improvement District ("LID") No. 330 of the City; and

WHEREAS, the City Council has determined that it is necessary to issue and sell $8,690,000 par value of Bonds to provide the funds necessary to carry out the Improvements, to prepay the LID No. 330 assessment, to refund the Refunded Bonds and to pay the costs of the refunding and the issuance and sale of the Bonds; and

WHEREAS, AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company ("AMBAC") (the "Bond Insurer"), has made a commitment to issue an insurance policy (the "Municipal Bond Insurance Policy") relative to the Bonds effective as of the date of issuance of the Bonds, and the City Council deems that the purchase of the Municipal Bond Insurance Policy is in the best interest of the City; and
WHEREAS, Lehman Brothers Inc. has offered to purchase those Bonds under the terms and conditions hereinafter set forth; NOW, THEREFORE,

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

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

"Acquired Obligations" shall mean those United States Treasury Certificates of Indebtedness, Notes and Bonds--State and Local Government Series and other direct, noncallable obligations of the United States of America purchased to accomplish the refunding of the Refunded Bonds as authorized by this ordinance.

"Annual Debt Service" for the applicable issue or series of Outstanding Parity Bonds, 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 Outstanding Parity Bonds, 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 Ordinance No. 2666.

"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 Outstanding Parity Bonds, 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 Ordinance No. 2666 for the purpose of paying and securing the principal of and interest on the Outstanding Parity Bonds, Bonds and any Future Parity Bonds.

"Bond Insurer" shall mean AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company.

"Bond Register" shall mean the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the owners of each of the 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 $8,690,000 principal amount of Sewerage System Improvement and Refunding Revenue Bonds, 1993, authorized to be issued by this ordinance.
"1986 Bonds" shall mean the Sewerage System Revenue Bonds, 1986, of the City dated November 1, 1986, authorized to be issued by Ordinance No. 2666.

"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.

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

"Construction Fund" shall mean the Sewerage System Construction Fund, 1993, of the City created and established by this ordinance in the office of the City Finance Director.

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

(i) 1.25 times the Annual Debt Service in that current year on applicable Outstanding Parity Bonds, 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 Outstanding Parity Bonds, Bonds and Future Parity Bonds.

Annual Debt Service on Assessment Bonds is that portion of Annual Debt Service on all Outstanding Parity Bonds, Bonds and Future Parity Bonds determined by multiplying the quotient of Assessment Bonds divided by the total of all Outstanding Parity Bonds, Bonds and Future Parity Bonds times Annual Debt Service on all Outstanding Parity Bonds, 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 variable 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, and, from and after May 5, 1992, the comprehensive five-year Capital Improvement Plan adopted by Resolution No. 1313.

"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 Ordinance No. 2666, 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 Outstanding Parity Bonds and 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 the various storm drainage and flood control capital projects within the Drainage Master Plan, including but not limited to construction of stormwater detention facilities, construction of outfall treatment facilities and upgrading of a stormwater pump station.

"LID No. 330 Assessment" shall mean the Sewerage System's assessment within Local Improvement District No. 330 of the City for improvements benefiting the Sewerage System.

"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.

"Municipal Bond Insurance Policy" shall mean the policy issued by the Bond Insurer insuring the payment of the principal of and interest on the Bonds.

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

"Nonrefunded 1986 Bonds" shall mean the 1986 Bonds maturing in the years 1993 through 1996, inclusive.
"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 Outstanding Parity Bonds, 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.

"Outstanding Parity Bonds" shall mean the outstanding Nonrefunded 1986 Bonds.

"Permitted Investments" shall mean the following, except that as long as the Municipal Bond Insurance Policy is in effect, Permitted Investments shall be restricted to those listed in Exhibit A, attached hereto and by this reference made a part hereof:

(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 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 for the payment of the principal of and interest on the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

"Refunded Bonds" shall mean all of the outstanding 1986 Bonds maturing on November 1 of each of the years 1997 through 2001, inclusive, and in 2006.

"Refunding Plan" shall mean:

(a) the placement of proceeds of the Bonds which, with other money of the City, if necessary, will be sufficient to acquire the Acquired Obligations to be deposited, with cash, if necessary, with the Refunding Trustee;

(b) the payment of the interest on the Refunded Bonds when due up to and including November 1, 1996, and, on November 1, 1996, the call, payment and redemption of
all of the outstanding Refunded Bonds at a price of par; and

(c) the payment of the costs of issuing the Bonds and the costs of carrying out the foregoing elements of the Refunding Plan.

"Refunding Trust Agreement" shall mean a Refunding Trust Agreement between the City and the Refunding Trustee substantially in the form of that which is on file with the City Clerk and by this reference incorporated herein.

"Refunding Trustee" shall mean West One Bank, Idaho, N.A., of Boise, Idaho, or any successor trustee.

"Reserve Account" shall mean the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Outstanding Parity Bonds, 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, $804,594.31; and

(2) For any issue of Future Parity Bonds, to be fixed at the time of their issuance, the lesser of the Maximum Annual Debt Service or 125% of the Average Annual Debt Service on those Future Parity Bonds, except that, from and after the date that the Nonrefunded 1986 Bonds are no longer outstanding, the Reserve Requirement for any issue of Future Parity Bonds, to be fixed at the time of their issuance, shall be an amount equal to the difference between (i) the least of 10 percent of the proceeds, Maximum Annual Debt Service, or 125% of Average Annual Debt Service on then outstanding Bonds, any Future Parity Bonds theretofore issued and outstanding, if any, and such proposed issue of Future Parity Bonds, and (ii) the least of 10 percent of the proceeds, Maximum Annual Debt Service, or 125% of Average Annual Debt Service on
the then outstanding Bonds and Future Parity Bonds theretofore issued and outstanding, if any.

(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 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 Outstanding Parity Bonds, 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 sixty approximately equal monthly payments commencing one month 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 2013 and Outstanding Parity Bonds and any Future Parity Bonds of any single issue or series designated as Term Bonds in the ordinance authorizing their issuance or sale and 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. Findings Regarding Parity Provisions. The City Council finds and declares that all payments required by Ordinance No. 2666 pertaining to the 1986 Bonds to have been made into the Bond Fund have been made into such fund; that no new ULID Assessments are involved with the issuance of the Bonds; that provision is made by this ordinance for the payment of the principal of and interest on the Bonds out of the Bond Fund; that provision is hereafter made for the deposit and retention in the Reserve Account of the Bond Fund of the Reserve Requirement for the
Bonds; that prior to the delivery of the Bonds there shall be on file with the City Clerk a certificate from a professional engineer as required by Section 12 of Ordinance No. 2666; and that provision has been made for the payment in full of the principal of and interest on the Refunded Bonds by the refunding thereof.

Section 3. Authorization and Description of Bonds. For the purpose of providing a part of the money required to pay the cost of carrying out the Improvements, prepaying the LID No. 330 Assessment and carrying out the Refunding Plan and to pay the costs of issuing the Bonds, the City shall issue the Bonds in the aggregate principal amount of $8,690,000. The Bonds shall be designated Sewerage System Improvement and Refunding Revenue Bonds, 1993; shall be dated August 1, 1993; shall be in the denominations of $5,000 or any integral multiple thereof within a single maturity; shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purpose of identification; and shall bear interest (computed on the basis of a 360-day year of twelve 30-day months) payable on November 1, 1993, and semiannually thereafter on each succeeding May 1 and November 1; and shall mature on November 1 in years and amounts and bear interest at the inter rates per annum as follows:

<table>
<thead>
<tr>
<th>Maturity Years</th>
<th>Amount</th>
<th>Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>$10,000</td>
<td>2.50%</td>
</tr>
<tr>
<td>1994</td>
<td>175,000</td>
<td>3.00</td>
</tr>
<tr>
<td>1995</td>
<td>240,000</td>
<td>3.60</td>
</tr>
<tr>
<td>1996</td>
<td>250,000</td>
<td>4.00</td>
</tr>
<tr>
<td>1997</td>
<td>480,000</td>
<td>4.25</td>
</tr>
<tr>
<td>1998</td>
<td>495,000</td>
<td>4.50</td>
</tr>
<tr>
<td>1999</td>
<td>510,000</td>
<td>4.60</td>
</tr>
<tr>
<td>2000</td>
<td>535,000</td>
<td>4.75</td>
</tr>
<tr>
<td>2001</td>
<td>560,000</td>
<td>4.80</td>
</tr>
<tr>
<td>Year</td>
<td>Amount</td>
<td>Interest</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td>2002</td>
<td>585,000</td>
<td>4.90</td>
</tr>
<tr>
<td>2003</td>
<td>610,000</td>
<td>5.00</td>
</tr>
<tr>
<td>2004</td>
<td>640,000</td>
<td>5.10</td>
</tr>
<tr>
<td>2005</td>
<td>665,000</td>
<td>5.20</td>
</tr>
<tr>
<td>2006</td>
<td>675,000</td>
<td>5.30</td>
</tr>
<tr>
<td>**</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>2013</td>
<td>2,260,000</td>
<td>5.50</td>
</tr>
</tbody>
</table>

The new money and refunding portions of the Bonds are allocated to the various maturities of the Bonds as set forth in Exhibit B attached hereto and by this reference incorporated herein. Such allocation shall be applicable proportionately to each Bond within a particular maturity of the Bonds, or may hereafter be allocated by the City within a particular maturity in $5,000 increments of Bonds selected by lot.

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 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 for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. 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 15 days preceding any principal payment 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 of the Bond Registrar mailed on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date or, if requested in writing by a registered owner of $1,000,000 or more in principal amount of Bonds at least 10 days before an interest payment date, by wire transfer on 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. The Bonds shall be payable solely out of the Bond Fund and shall not be general obligations of the City.

Section 6. Optional and Mandatory Redemption and Open Market Purchase of Bonds. Bonds maturing in the years 1993 through 2003, inclusive, shall be issued without the right or option of the City to redeem the same prior to their stated maturity dates. The City reserves the right and option to redeem the Bonds maturing on and after November 1, 2004, as a whole, or in part from maturities selected by the City (and by lot within a maturity in such manner as the Bond Registrar shall determine), on November 1, 2003, and on any interest payment date thereafter, at par plus accrued interest to the date of redemption.

Bonds maturing in 2013 are Term Bonds and, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, shall be called for redemption by lot (in such manner as the Bond

Registrar shall determine) at par plus accrued interest on November 1 in years and amounts as follows:

<table>
<thead>
<tr>
<th>Mandatory Redemption Years</th>
<th>Mandatory Redemption Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$275,000</td>
</tr>
<tr>
<td>2008</td>
<td>290,000</td>
</tr>
<tr>
<td>2009</td>
<td>305,000</td>
</tr>
<tr>
<td>2010</td>
<td>320,000</td>
</tr>
<tr>
<td>2011</td>
<td>340,000</td>
</tr>
<tr>
<td>2012</td>
<td>355,000</td>
</tr>
<tr>
<td>2013 (maturity)</td>
<td>375,000</td>
</tr>
</tbody>
</table>

In the event that the City shall redeem Term Bonds under the optional redemption provisions set forth above or purchase Term Bonds in the open market as set forth below, the Term Bonds so redeemed or purchased (irrespective of their redemption or purchase price) shall be credited at the par amount thereof against the next mandatory redemption requirement for those Term Bonds which is at least 60 days after the date of that redemption or purchase.

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 such Bond at the principal office 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 like maturity and interest rate in any of the denominations authorized by this ordinance in the aggregate total principal amount remaining unredeemed.

The City further reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price, plus accrued interest to the date of such 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 Lehman Brothers at its principal office in Seattle, Washington, or its successor, to the Bond Insurer at its principal office in New York, New York, or its successor, and to such other person and with such additional information as the City Finance Director 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 Fund and the Bond has been called for payment by giving notice of that call to the registered owner of that unpaid Bond.

Section 9. Payments into Bond Fund. The Bond Fund was created by Ordinance No. 2666 and has been divided into three accounts, namely, a Principal and Interest Account, an Assessment Account and a Reserve Account. So long as any Outstanding Parity Bonds, Bonds or Future Parity Bonds are outstanding against the Bond Fund, the City obligates and binds itself to set aside and pay into the Bond Fund all ULID Assessments upon their collection and, on or before the 20th day of each month, out of the Net Revenue of the Sewerage System, in addition to the amounts required to be paid and retained therein for the Outstanding Parity Bonds, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account, beginning with the month of September, 1993, at least an amount which, together with ULID Assessments and other money on deposit therein, will equal 1/2 of the amount of principal and interest to become due and payable on the Bonds on November 1, 1993, and, commencing with the month of November, 1993, and thereafter, at least an amount which, together with ULID Assessments and other money on deposit therein, will equal 1/6 of the next ensuing requirements for interest and 1/12 of the principal to become due and payable on the next principal payment date on all of the Bonds then outstanding, on or before each interest or principal and interest payment date of Future Parity Bonds, at least an amount which, together with ULID Assessments and other money on deposit therein, will be sufficient to pay the interest or principal and interest to become due and payable on Future Parity Bonds outstanding on that next payment date, including any Future Parity Bonds subject to mandatory redemption on that date;

(b) Into the Assessment Account, all ULID Assessments deposited into the Bond Fund in excess of the amount of money deposited in the Principal and Interest
Account required to pay principal of and interest on Outstanding Parity Bonds, Bonds and Future Parity Bonds, and to be used for the purposes set forth below in this section; and

(c) Into the Reserve Account, from the proceeds of the Bonds and from money on deposit therein allocable to the Refunded Bonds, an amount necessary to fund the Reserve Requirement for the Bonds and, for Future Parity Bonds, an amount necessary to fund the Reserve Requirement within the time permitted by Ordinance No. 2666. For the Bonds, the Reserve Requirement shall be fully funded by proceeds from the issuance and sale of the Bonds and from money on deposit in the Reserve Account allocable to the Refunded Bonds.

The City covenants and agrees that it will at all times maintain in the Reserve Account an amount equal to the Reserve Requirement, except for withdrawals therefrom as authorized herein, at all times so long as any bonds payable from the Bond Fund are outstanding. When the total amount in the Bond Fund shall equal the total amount of principal and interest for all outstanding bonds payable out of the Bond Fund to the last maturity thereof, no further payment need be made into the Bond Fund.

In the event that there shall be a deficiency in the Principal and Interest Account to meet maturing installments of either principal or interest, as the case may be, to pay required redemptions of the Outstanding Parity Bonds, Bonds or Future Parity Bonds, or to meet sinking fund requirements, such deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom for that purpose to the extent such deficiency is not made up from the Assessment Account. Any deficiency created in the Reserve Account by reason of any such withdrawals shall then be made up from the Net Revenue of the Sewerage System first available after making necessary provisions for the required payments into
the Principal and Interest Account. The Reserve Requirement in the Reserve Account shall otherwise be held intact and may be applied against the last outstanding bonds payable out of the Bond Fund.

The City may provide for the purchase, redemption or defeasance of bonds payable from the Bond Fund by the use of money on deposit in any account in the Bond Fund as long as the money remaining in those accounts is sufficient to satisfy the required deposits in those accounts for the remaining bonds outstanding payable from the Bond Fund.

Money in the Assessment Account shall be used with other available money to pay and redeem Outstanding Parity Bonds, Bonds and Future Parity Bonds called for redemption prior to their maturity, or, if insufficient money is deposited in the Principal and Interest Account, then for deposit into that account to meet the required payments therefrom.

All money in the Bond Fund may be kept in cash or invested in Permitted Investments maturing not later than the date when the funds are required for the payment of principal of or interest on the outstanding bonds payable from the Bond Fund (for investments in the Principal and Interest Account) or having a guaranteed redemption price prior to maturity or maturing not later than twelve years from the date of the investment and, in no event, maturing later than the last maturity of any remaining outstanding bonds payable from the Bond Fund, whichever is the lesser (for investments in the Reserve Account). Income from investments in the Principal and Interest Account shall be deposited in that account. Income from investments in the Assessment Account shall
be deposited in the Assessment Account. Income from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirements of all bonds payable from the Bond Fund, and thereafter shall be deposited in the Principal and Interest Account.

Notwithstanding the provisions for the deposit of earnings, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Bond Fund for deposit into a separate fund or account for that purpose.

In no event shall any money in the Bond Fund or any other money reasonably expected to be used to pay principal of or interest on the Bonds be invested at a yield which would cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code.

In addition, the City reserves the right to substitute for all or for a portion of the Reserve Account a Reserve Account Instrument which, when combined with any money or investments in the Reserve Account, equals an amount not less than the Reserve Requirement for all outstanding Outstanding Parity Bonds, Bonds and Future Parity Bonds. The City covenants that, until the date that the Bonds are no longer outstanding, any such substitution will be subject to the prior approval by the Bond Insurer and any provider of bond insurance for any then outstanding Future Parity Bonds and written certificates from Moody’s Investors Service, Inc., and Standard & Poor’s Corporation that such substitution will not result in any change in the outstanding ratings of the Outstanding
Parity Bonds, the Bonds and any Future Parity Bonds and will not impair the security thereof.

The City may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of bonds payable from the Bond Fund as long as the maintenance of such accounts does not conflict with the rights of the owners of bonds payable from the Bond Fund.

If the City fails to set aside and pay into the Bond Fund the amounts set forth above, the owner of any of the outstanding bonds payable out of the Bond Fund may bring action against the City and compel the setting aside and payment.

Section 10. Pledge of Revenue and Lien Position. The Gross Revenue of the Sewerage System and ULID Assessments are pledged irrevocably to the payments required by this ordinance, and the Outstanding Parity Bonds, Bonds and Future Parity Bonds, if any, shall constitute a charge or lien upon such Gross Revenue prior and superior to any other charges whatsoever, except Operating and Maintenance Expenses, and upon such ULID Assessments prior and superior to any other charges whatsoever.

Section 11. Sufficiency of Gross Revenue. In the judgment of the City Council, the Gross Revenue of the Sewerage System at the rates to be charged for surface drainage and sewerage service will be more than sufficient to meet all Operating and Maintenance Expenses and debt service requirements on the Outstanding Parity Bonds and to permit the setting aside into the Bond Fund out of the Gross Revenue of the Sewerage System of amounts sufficient to pay the interest on the Bonds as such interest becomes payable and to
pay and redeem all of the Bonds at maturity or earlier mandatory redemption dates. The City Council and corporate authorities of the City further declare that in fixing the amounts to be paid into the Bond Fund as aforesaid they have exercised due regard for the Operating and Maintenance Expenses, and the City has not bound and obligated itself to set aside and pay into the Bond Fund a greater amount or proportion of the Gross Revenue of the Sewerage System than in the judgment of the City Council will be available over and above such Operating and Maintenance Expenses and that no portion of the Gross Revenue of the Sewerage System previously has been pledged for any indebtedness other than the Outstanding Parity Bonds.

Section 12. 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 Clerk, either or both of whose signatures shall be manual or 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 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 Kent, Washington, Sewerage System Improvement and Refunding Revenue Bonds, 1993, described in the Bond Ordinance.

WASHINGTON STATE FISCAL AGENCY
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 13. 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 be open to inspection by the City at all times. 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 City'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. 2418 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 14. Construction Fund. The Construction Fund is created in the office of the City Finance Director to be known as the Sewerage System Construction Fund, 1993, into which fund shall be deposited approximately $4,012,785.67 of principal proceeds of the Bonds and out of which fund shall be paid the costs of carrying out the Improvements. The City may use any money remaining in the Construction Fund after the payment of all such costs to carry out any other capital improvements to the Sewerage System. Bond proceeds deposited in the Construction Fund may be invested temporarily in any legal investment, and the investment earnings may be retained in the Construction Fund and used for the purpose of that fund.

Section 15. Disposition and Use of Bond Proceeds. The accrued interest, if any, received from the sale of the Bonds shall be paid into the Principal and Interest Account and used to pay interest on the Bonds on their first interest payment date. An amount of principal proceeds of the Bonds shall be deposited in the
Construction Fund in accordance with Section 14. $374,114 of principal proceeds of the Bonds shall be deposited in the Local Improvement Fund, District No. 330 of the City as prepayment of the LID No. 330 Assessment. The remaining principal proceeds of the Bonds shall be deposited and used in accordance with the provisions of Section 16 of this ordinance.

Section 16. Refunding of the Refunded Bonds.

(a) Appointment of Refunding Trustee. West One Bank, Idaho, N.A., is appointed the Refunding Trustee.

(b) Acquisition of Acquired Obligations. Immediately upon the receipt of the proceeds of the sale of the Bonds, the City shall deposit with the Refunding Trustee, together with other money of the City, if necessary, an amount sufficient to discharge the obligation of the City relating to the Refunded Bonds under Ordinance No. 2666 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 the Acquired Obligations, bearing such interest and maturing as to principal and interest in such amounts and at such times so as to provide, together with a beginning cash balance, if necessary, for the payment of the amounts required to be paid by the Refunding Plan. The Acquired Obligations are listed and more particularly described in Schedule A attached to the Refunding Trust Agreement between the City and the Refunding Trustee, but are subject to substitution as set forth below.
(c) **Substitution of Acquired Obligations.** Prior to the purchase of any such Acquired Obligations, the City reserves the right to substitute other direct, noncallable Government Obligations for any of the 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, so verified by a 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 a nationally recognized firm of certified public accountants 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 Refunded 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 City purpose.

(d) 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. 2666, this ordinance, Chapter 39.53 RCW and other applicable statutes 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 establishing the escrow to accomplish the refunding
of the Refunded Bonds and costs related to the issuance and
delivery of the Bonds, including bond printing, rating service
fees, insurance premiums, verification fees, bond counsel’s fees
and other related expenses, shall be paid out of the proceeds of
the Bonds.

(e) Authorization for Refunding Trust Agreement. To carry
out the Refunding Plan provided for by this ordinance, the Mayor or
Finance Director is authorized and directed to execute and deliver
to the Refunding Trustee a Refunding Trust Agreement substantially
in the form on file with the City Clerk and by this reference made
a part hereof, setting forth the duties, obligations and
responsibilities of the Refunding Trustee in connection with the
payment, redemption and retirement of the Refunded Bonds as
provided herein and stating that the provisions for payment of the
fees, compensation and expenses of the Refunding Trustee set forth
therein are satisfactory to it. Prior to executing the Refunding
Trust Agreement, the Mayor or Finance Director is authorized to
make changes therein that 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 17. Call for Redemption of the Refunded Bonds. The
City calls for redemption on November 1, 1996, all of the Refunded
Bonds at 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 Refunded Bonds are called
for redemption is the earliest date on which those Refunded Bonds may be called for redemption.

The proper City officials are authorized and directed to cause the fiscal agencies to give such notice as required, at the times and in the manner required by Ordinance No. 2666 to effect the redemption prior to their maturities of the Refunded Bonds.

Section 18. City Findings with Respect to Refunding. The City Council finds and determines that the issuance and sale of the Bonds at this time will effect a savings to the City and its ratepayers and is in the best interest of the City and in the public interest. In making such finding and determination, the City Council has given consideration to the fixed maturities of the Bonds and the Refunded Bonds, the costs of issuance of the Bonds and the known earned income from the investment of the proceeds of the issuance and sale of the Bonds and other money of the City used in the Refunding Plan pending payment and redemption of the Refunded Bonds.

The City Council further finds and determines that the money to be deposited with the Refunding Trustee for the Refunded Bonds in accordance with Section 16 of this ordinance, together with known earned income from the investments thereof, will be sufficient to carry out the Refunding Plan and discharge and satisfy the obligations of the City under Ordinance No. 2666 with respect to the Refunded Bonds and the pledges, charges, trusts, covenants and agreements of the City therein made or provided for as to the Refunded Bonds and that the Refunded Bonds shall no
longer be deemed to be outstanding under such ordinance immediately
upon the deposit of such money with the Refunding Trustee.

Section 19. Covenants. The City covenants and agrees with
the owner of each Bond at any time outstanding, as follows:

(a) 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 Outstanding Parity
Bonds, 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
Outstanding Parity Bonds and 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.

(b) 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 Outstanding Parity
Bonds, 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.

(c) 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.

(d) 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 Outstanding Parity Bonds, 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 Outstanding Parity Bonds, 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.

(e) 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.

(f) 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.

(g) 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, until the date that the Nonrefunded 1986 Bonds are no longer outstanding, 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.

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

(i) 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.

(j) Preservation of Tax Exemption for Interest on Bonds. It will take all actions necessary to prevent interest on the Bonds 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 Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent arbitrage rebate requirements of Section 148 of the Code are applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with those requirements in connection with the Bonds, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and
the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bonds from being included in gross income for federal income tax purposes.

The City further 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 20. Future Parity Bonds. The City covenants and agrees with the owner of each Bond at any time outstanding that it will not issue any Future Parity Bonds unless it first shall satisfy the conditions set forth in Section 12 of Ordinance No. 2666, which section is by reference incorporated herein and made a part hereof and shall be applicable to the Bonds so long as any of the same are outstanding.

Nothing contained in the provisions for Future Parity Bonds shall prevent the City from issuing revenue bonds having a subordinate lien on the Gross Revenue of the Sewerage System or from pledging the payment of assessments in any ULID (the assessments in which are not pledged into the Bond Fund) into a bond redemption fund or account created to pay and secure the payment of the principal of and interest on such subordinate lien bonds as long as such assessments are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such subordinate lien bonds.

Section 21. Priority of Payments. All ULID Assessments shall be paid into the Bond Fund as provided by Section 9. The Gross Revenue of the Sewerage System, except for earnings in the Bond Fund and funds other than the Revenue Fund, shall be credited to
the Revenue Fund of the City as it is collected. Such Fund shall be held separate and apart from other funds and accounts of the City. Money in the Revenue Fund shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the necessary Operating and Maintenance Expenses;

(b) To make all required payments into the Principal and Interest Account in the Bond Fund for all bonds payable out of the Bond Fund, including all payments required to be made for the payment of any Term Bonds, including all mandatory redemption payments required to be made;

(c) To make all required payments into the Reserve Account and other accounts hereafter created in the Bond Fund into which the Net Revenue of the Sewerage System is to be deposited;

(d) To make all payments required to be made pursuant to a reimbursement agreement in connection with a Reserve Account Instrument, except that if there is not sufficient money to make all payments under reimbursement agreements the payments will be made on a pro rata basis;

(e) To make all required payments into the bond redemption funds or reserve account for any junior lien Sewerage System revenue bonds or short-term obligations hereafter issued;

(f) To make necessary additions, betterments and improvements and repairs to or extensions and replacements of the Sewerage System, or for any other proper purposes connected with the operation of the Sewerage System for which such money may be lawfully used; and

(g) To retire by redemption or to purchase in the open market at a price not in excess of the redemption price on the then or next applicable call date outstanding Sewerage System revenue bonds or other Sewerage System revenue obligations of the City then outstanding.

The City may transfer from any funds or accounts of the City legally available therefor, except bond redemption funds, refunding
escrow funds or defeasance funds, any money therein to meet the required payments to be made into the Bond Fund.

Section 22. Bonds Negotiable. The Bonds shall be negotiable instruments to the extent provided by RCW 62A.8-102 and 62A.8-105.

Section 23. Refunding or Defeasance of Bonds. The City may issue refunding bonds pursuant to the laws of the State of Washington and use money available from any other lawful source to pay the principal of and interest on the Bonds, or such portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease all such then-outstanding Bonds (hereinafter collectively called the "defeased Bonds") and to pay the costs of such refunding or defeasance. In the event that money and/or Government Obligations or other Permitted Investments sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside irrevocably in a special fund for and pledged irrevocably to such redemption, retirement or defeasance (hereinafter called the "trust account"), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance and, except as hereinafter provided, in the Gross Revenue of the Sewerage System, ULID Assessments, funds and accounts obligated to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account and, in the
event the funds in the trust account are not available for such payment, shall have the residual right to receive payment of the principal of and interest on the defeased Bonds from the Gross Revenue of the Sewerage System and ULID Assessments without any priority of lien or charge against that revenue, assessments or covenants with respect thereto except to be paid therefrom.

After the establishing and full funding of such trust account, the City then may 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 or bonds then outstanding.

In the event that the refunding plan provides that the defeased Bonds or the refunding bonds to be issued be secured by cash and/or Government Obligations or other Permitted Investments pending the prior redemption of the defeased Bonds and if such refunding plan also provides that certain cash and/or Government Obligations or other Permitted Investments are pledged irrevocably for the prior redemption of the defeased Bonds included in that 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 for the issuance of Future Parity Bonds and the annual computation of coverage for determining compliance with the rate covenants.

In the event that the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall not be considered paid by the
City, and the covenants, agreements and other obligations of the City to the registered owners of the Bonds shall continue to exist and the Bond Insurer shall be subrogated to the rights of the registered owners.

Section 24. Approval of Bond Purchase Contract. Lehman Brothers Inc. of Seattle, Washington, has presented a purchase contract dated August 3, 1993 (the "Bond Purchase Contract"), to the City offering 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 therein and authorizes its execution by City officials.

The Bonds will be printed at City expense and will be delivered to the purchaser in accordance with the Bond Purchase Contract, with the approving legal opinion of Foster Pepper & Shefelman, municipal bond counsel of Seattle, Washington, regarding the Bonds printed on each Bond. Except as provided in the Bond Purchase Contract, 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, including reviewing and executing the final official statement, for the prompt delivery of the Bonds to the
purchaser and for the proper application and use of the proceeds of the sale thereof.

**Section 25. Preliminary Official Statement Deemed "Final".** The City Council has been provided with copies of a preliminary official statement dated July 28, 1993 (the "Preliminary Official Statement"), prepared in connection with the sale of the Bonds. For the sole purpose of the purchaser’s compliance with Securities and Exchange Commission Rule 15c2-12(b)(1), the City "deems final" that Preliminary Official Statement as of its date, except for the omission of information as to offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, maturity dates, options of redemption, delivery dates, ratings, and other terms of the Bonds dependent on such matters.

**Section 26. 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 single temporary Bond in the total principal amount of the Bonds. Such temporary Bond 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 a fully registered Bond in the name of the purchaser, and shall be in a form acceptable to the purchaser. The temporary Bond shall be exchanged for the definitive Bonds as soon as they are printed, executed and available for delivery.

**Section 27. Bond Insurance.** The City is authorized to purchase from the Bond Insurer the Municipal Bond Insurance Policy
insuring the prompt payment of the principal of and interest on the Bonds and agrees to the conditions for obtaining that policy, including the payment of the premium therefor. Any notice required to be given to the Bond Insurer shall be sent by certified or registered mail to AMBAC Indemnity Corporation, One State Street Plaza, New York, New York 10004.

While the Municipal Bond Insurance Policy is in effect, the City or the Bond Registrar shall furnish to AMBAC:

(a) As soon as practicable after the filing thereof, copies of any financial statements, audits and annual reports of the City;

(b) copies of any notices given to the registered owners of the Bonds, including, without limitation, notices of any defeasance of Bonds, and any certificate rendered pursuant to this ordinance relating to the security for the Bonds; and

(c) such additional information AMBAC may reasonably request.

The Bond Registrar shall notify the Bond Insurer of any failure of the City to provide relevant notices and certificates.

The City will permit the Bond Insurer to discuss the affairs, finances and accounts of the City or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the City. The Bond Registrar and the City will permit the Bond Insurer to have access to and make copies of all books and records relating to the Bonds at any reasonable time.
The Bond Insurer shall have the right to direct an accounting at the City's expense, and the City's failure to comply with such direction within 30 days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default hereunder unless compliance cannot occur within such period. In that event and only if an extension would not materially adversely affect the interest of any registered owner of the Bonds, that 30-day period will be extended so long as compliance is begun within that period and diligently pursued.

Section 28. Payment Procedures Under Bond Insurance. The Bond Insurer requires that the following sections be included in this ordinance:

"(a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify AMBAC Indemnity. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified AMBAC Indemnity at least one (1) day prior to an Interest Payment Date, AMBAC Indemnity will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which AMBAC Indemnity shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

"(b) the Trustee or Paying Agent, if any, shall, after giving notice to AMBAC Indemnity as provided in (a) above, make available to AMBAC Indemnity and, at AMBAC Indemnity's direction, to the United States Trust Company of New York, as insurance trustee (the "Insurance Trustee"), the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts maintained under this ordinance.
"(c) the Trustee or Paying Agent, if any, shall provide AMBAC Indemnity and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from AMBAC Indemnity under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from AMBAC Indemnity and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from AMBAC Indemnity.

"(d) the Trustee or Paying Agent, if any, shall, at the time it provides notice to AMBAC Indemnity pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from AMBAC Indemnity (i) as to the fact of such entitlement, (ii) that AMBAC Indemnity will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner’s right to payment, (iii) that should they be entitled to receive full payment of principal from AMBAC Indemnity, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of AMBAC Indemnity) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from AMBAC Indemnity, they must first surrender their Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and the, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

"(e) in the event that the Trustee or Paying Agent, if any, has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time AMBAC Indemnity is notified pursuant to (a) above, notify all registered owners that in the event that any registered
owner's payment is so recovered, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to AMBAC Indemnity its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

"(f) in addition to those rights granted AMBAC Indemnity under this ordinance, AMBAC Indemnity shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note AMBAC Indemnity's rights as subrogee on the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, upon receipt from AMBAC Indemnity of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note AMBAC Indemnity's rights as subrogee on the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, upon surrender of the Bonds by the registered owners thereof together with the proof of the payment of principal thereof."

Section 29. Amendatory and Supplemental Ordinances.

29.1 Provisions Exclusive. This ordinance shall not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this section.

29.2 Amendments Without Consent of Bondowners. The City may from time to time, and at any time, without the consent of or notice to the registered owners of the Bonds, pass supplemental or amendatory ordinances as follows:

(a) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owner of any Outstanding Parity Bonds, Bonds or Future Parity Bonds;
(b) To impose upon the Bond Registrar (with its consent) for the benefit of the registered owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as theretofore in effect;

(c) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as theretofore in effect;

(d) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(e) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the registered owners of the Bonds and which does not involve a change described in subsection 29.3 of this section; and

(g) To maintain, because of change in federal law or rulings, the exemption of the interest on the Bonds from federal income taxation.

Before the City shall enact any such supplemental ordinance pursuant to this subsection, there shall have been delivered to the City and the Bond Registrar an opinion of bond counsel to the City, stating that such supplemental ordinance is authorized or permitted by this ordinance and will, upon the execution and delivery thereof, be valid and binding upon the City in accordance with its terms and will not adversely affect the exemption from federal income taxation of interest on the Bonds.
29.3 Amendments With Consent of Bondowners.

(a) Except for any supplemental ordinance entered into pursuant to subsection 29.2 of this section, subject to the terms and provisions contained in this subsection 29.3 and not otherwise, registered owners of not less than 60% in aggregate principal amount of the Bonds then outstanding shall have the right from time to time to consent to and approve the passage by the City Council of any supplemental ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance; except, unless approved in writing by the registered owners of all the Bonds then outstanding, nothing contained in this section shall permit, or be construed as permitting:

(i) A change in the times, amounts or currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount of redemption price of any outstanding Bond or a change in the method or redemption price of any outstanding Bond or a change in the method of determining the rate of interest thereon, or

(ii) A preference of priority of any Bond or Bonds or any other bond or bonds, or

(iii) A reduction in the aggregate principal amount of Bonds, the consent of the registered owners of Bonds of which is required for any such supplemental ordinance.

(b) If at any time the City shall enact any supplemental ordinance for any of the purposes of this subsection 27.3, the Bond Registrar shall cause notice of the proposed supplemental ordinance to be given by first-class United States mail to all registered owners of the then outstanding Bonds and to
Moody's Investors Service, Inc., and Standard & Poor's Corporation, as the case may be. Such notice shall briefly set forth the nature of the proposed supplemental ordinance and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by all registered owners of the outstanding bonds.

(c) Within two years after the date of the mailing of such notice, the City may enact such supplemental ordinance in substantially the form described in such notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the registered owners of the Bonds, and (ii) an opinion of bond counsel to the City stating that such supplemental ordinance is authorized or permitted by this ordinance, and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exemption from federal income taxation of interest on the Bonds.

(d) If registered owners of not less than the percentage of Bonds required by this subsection 29.3 shall have consented to and approved the execution and delivery thereof as herein provided, no owner of the Bonds shall have any right to object to the enactment of such supplemental ordinance, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the enactment thereof, or to enjoin or restrain the City or the Bond Registrar from enacting the same or from taking any action pursuant to the provisions thereof.
29.4 **Effect of Amendments.** Upon the execution and delivery of any supplemental ordinance pursuant to the provisions of this section, this ordinance shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all registered owners of Bonds then outstanding, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

**Section 30. Parties Interested Herein.** To the extent that this ordinance confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this ordinance, the Bond Insurer is explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder. Nothing expressed or implied in this ordinance is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Bond Insurer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Bond Insurer and the registered owners of the Bonds.

Notwithstanding any other provision of this ordinance, the City shall notify the Bond Insurer immediately if at any time there are insufficient funds to make any payments of principal and/or
interest as required and immediately upon the occurrence of any event of default hereunder.

Any provision of this ordinance expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer. Unless otherwise provided in this section, the Bond Insurer’s consent shall be required, in addition to Bond owner consent when required, for the following purposes: (i) execution and delivery of any supplemental ordinance, and (ii) initiation or approval of any other action which requires Bond owner consent. Anything in this ordinance to the contrary notwithstanding, upon the occurrence and continuance of an event of default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bond owners for the benefit of the Bond owners under this ordinance.

Section 31. Effective Date. This ordinance shall take effect and be in force five (5) days from and after its passage, approval
and publication as provided by law.

By

DAN KELLEHER, Mayor

ATTEST:

BRENDA JACOBER, City Clerk

APPROVED AS TO FORM:

William T. Delpri,

Special Counsel and Bond Counsel for the City

Passed the 3 day of August, 1993.
Approved the 4 day of August, 1993.
Published the 6 day of August, 1993.

I certify that this is a true copy of Ordinance No. 3128 passed by the City Council of the City of Kent, Washington, and approved by the Mayor of the City of Kent as hereon indicated.

BRENDA JACOBER, City Clerk

(SEAL)
EXHIBIT A

PERMITTED INVESTMENTS (MODIFIED AS OF JULY 19, 1993)

A. AMBAC Indemnity will allow the following obligations to be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts.

(AMBAC Indemnity does not give a premium credit for the investment of accrued and/or capitalized interest.)

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

B. AMBAC Indemnity will allow the following Obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(2) Senior debt obligations rated "AAA" by Standard & Poor's Corporation (S&P) and "Aaa" by Moody's Investors Service, Inc. (Moody's) issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. **Senior debt obligations of other Government Sponsored Agencies approved by AMBAC Indemnity:**

(3) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; [Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may not be used as Permitted Investments for annual appropriation lease transactions without the prior written approval of S&P.]

investment agreements approved in writing by AMBAC Indemnity Corporation [supported by appropriate opinions of counsel] with notice to S&P; and

other forms of investments (including repurchase agreements) approved in writing by AMBAC with notice to S&P.
C. The value of the above investments shall be determined as follows:

"Value", which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

d) as to any investment not specified above: the value thereof established by prior agreement between the Issuer, the Trustee and AMBAC Indemnity Corporation.
EXHIBIT B

CITY OF KENT, WASHINGTON

$8,690,000

Sewerage System Improvement and Refunding
Revenue Bonds, 1993

ALLOCATION OF BOND PRINCIPAL

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