

**CITY OF REDMOND
ORDINANCE NO. 2743**

AN ORDINANCE OF THE CITY OF REDMOND, WASHINGTON, PROVIDING FOR THE ISSUANCE OF UTILITY SYSTEM REVENUE BONDS OF THE CITY IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT-TO-EXCEED \$26,700,000 FOR THE PURPOSE OF FINANCING CERTAIN COSTS OF ADDITIONS, BETTERMENTS, AND EXTENSIONS TO THE CITY'S COMBINED WATER SUPPLY, WASTEWATER, STORM AND SURFACE WATER DRAINAGE SYSTEM; PROVIDING THE FORM, TERMS AND COVENANTS OF THE BONDS; PROVIDING FOR THE DISPOSITION OF THE PROCEEDS OF SALE OF THE BONDS; AND DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF THE BONDS.

WHEREAS, the City of Redmond, Washington (the "City"), now owns, maintains and operates a combined water and sewerage system, which combined systems comprise the waterworks utility of the City, and a storm and surface water drainage system; and

WHEREAS, pursuant to Ordinance No. 2423 adopted by the City Council on November 18, 2008 (the "2008 Parity Bond Ordinance"), the City combined its storm and surface water drainage system with the waterworks utility of the City, as such utilities may be added to, improved or extended from time to time (as combined, the "System") for borrowing purposes; and

WHEREAS, the City has issued its Water and Wastewater Revenue Bonds, 2008 (the "2008 Bonds" and the "Outstanding Parity Bonds"), dated December 3, 2008, in the original aggregate principal amount of \$11,755,000 pursuant to the terms of the 2008 Parity Bond Ordinance; and

WHEREAS, the 2008 Parity Bond Ordinance provides that additional utility system revenue bonds may be issued on a parity of lien with the Outstanding Parity Bonds if certain conditions are met; and

WHEREAS, pursuant to the Capital Improvement Plan in the City's Comprehensive Plan, the City has planned to undertake certain additions, betterments or extensions to the System as described herein (the "Projects"); and

WHEREAS, it is in the best interests of the City to issue and sell revenue bonds on a parity of lien with the Outstanding Parity Bonds in the aggregate principal amount of not to exceed \$26,700,000 to pay a portion of the costs of the Projects; and

WHEREAS, the City Council wishes to delegate authority to the Finance Director and the Mayor (each, a "Designated Representative"), for a limited time, to approve the interest rates, maturity dates, redemption terms and principal maturities for the Bonds within the parameters set by this ordinance; and

WHEREAS, the City expects to receive a proposal from Piper Jaffray & Co. (the "Underwriter") and now desires to issue and sell the bonds to the Underwriter as set forth herein.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF REDMOND, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this ordinance, have the following meanings, such

definitions to be equally applicable to both the singular and plural forms of any of the terms defined:

Accreted Value means (a) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the ordinance authorizing their issuance as the amount representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Bonds plus the amount of discounted principal that has accreted since their date of issue. In each case, the Accreted Value shall be determined in accordance with the provisions of the ordinance authorizing the issuance of such Capital Appreciation Bonds.

Annual Debt Service means the total amount of Debt Service for any Parity Bond or series of Parity Bonds in any fiscal year or Base Period.

Average Annual Debt Service means, as of its date of calculation, the sum of Annual Debt Service with respect to all Parity Bonds outstanding (including all Parity Bonds maturing in the fiscal year of calculation) for all fiscal years during which those Parity Bonds are scheduled to remain outstanding, divided by the number of those fiscal years (without regard to bond years).

Balloon Maturity Bonds means any Future Parity Bonds that are so designated in the ordinance pursuant to which they are issued.

Base Period means any consecutive 12-month period selected by the City out of the 24-month period next preceding the date of issuance of an additional series of Future Parity Bonds.

Bond Account means the special fund of the City previously known as the "Waterworks Utility Revenue Bond Fund" and renamed pursuant to this ordinance as the "Waterworks Utility Revenue Bond Account."

Bond Counsel means any firm of lawyers nationally recognized and accepted as bond counsel and so engaged by the City for that purpose.

Bond Register means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the Registered Owner of each of the Parity Bonds.

Bond Registrar means the fiscal agent of the State of Washington as the same may be designated by the State from time to time.

Bonds means the City of Redmond, Washington, Utility System Revenue Bonds, 2014, authorized to be issued in the aggregate principal amount of not to exceed \$26,700,000 by this ordinance.

Capital Appreciation Bonds means any Future Parity Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such

Capital Appreciation Bonds. If so provided in the ordinance authorizing their issuance, Future Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Future Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed outstanding in a principal amount equal to their Accreted Value.

City means the City of Redmond, Washington, a noncharter code city of the State of Washington.

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

Commission means the Securities and Exchange Commission.

Contract Resource Obligation means (a) the obligation of the City to pay "Member Charges," as defined in and pursuant to the Amended and Restated Cascade Water Alliance Interlocal Contract, dated as of December 15, 2004, as now in existence and as the same may be amended in the future in a manner binding on the City; and (b) any other obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 21 of this ordinance, to make payments for water or sewer supply, transmission or other commodity or service to another person or entity (including, without limitation a separate utility system, created pursuant to Section 19 of this ordinance).

Contract Revenue means payments made to the City during any fiscal period of the City by a Rated Customer under contract with

the City pursuant to which the Rated Customer receives services from the System and the payments are either required or available to be used to pay debt service on Parity Bonds.

Coverage Requirement means Net Revenue in each fiscal year at least equal to 120% of the amounts required in such fiscal year to be paid as scheduled Debt Service on all Parity Bonds, subtracting from scheduled Debt Service (1) the amount of ULID Assessments collected in such fiscal year and (2) Debt Service Offsets. Furthermore, in determining compliance with the Coverage Requirement, Net Revenues are subject to adjustment to reflect the following:

(a) It is the intent of the City that regularly scheduled net payments under Parity Derivative Products be reflected in the calculation of Debt Service with respect to the associated Parity Bonds and not as adjustments to Gross Revenue or Operations and Maintenance Costs; and

(b) Gross Revenue and Operations and Maintenance Costs may be adjusted, regardless of then applicable generally accepted accounting principles, for certain items (e.g., to omit unrealized gains or losses in investments) to more fairly reflect the System's annual operating performance.

Covered Bonds means the Outstanding Parity Bonds, the Bonds and those Future Parity Bonds designated in the ordinance authorizing their issuance as Covered Bonds secured by the Reserve Account.

Credit Facility means any bond insurance policy surety bond, guaranty, letter of credit, standby bond purchase agreement or other similar credit and/or liquidity support facility providing for or securing the payment of all or part of the principal or purchase price of and interest on any evidences of indebtedness secured by the Net Revenue, issued by an institution which has been assigned a credit rating at the time of issuance of the facility in one of the two highest rating categories of any Rating Agency (without regard to any gradations within a rating category).

Debt Service means, for any period of time:

(a) With respect to any outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the ordinance authorizing their issuance, the principal amount thereof shall be equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest payable during such period;

(b) With respect to any outstanding Fixed Rate Bonds, an amount equal to (1) the principal amount of such Fixed Rate Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (2) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such Fixed Rate Bonds, plus (3) all interest payable during such period on any such outstanding Fixed Rate Bonds and with respect to Fixed Rate Bonds with mandatory sinking fund requirements,

calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such Fixed Rate Bonds on the date specified in the ordinance authorizing such Fixed Rate Bonds; and

(c) With respect to all other Parity Bonds (other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds), specifically including, but not limited to, Balloon Maturity Bonds and Parity Bonds bearing variable rates of interest, an amount for any period equal to the amount which would have been payable for principal and interest on such Parity Bonds during such period computed on the assumption that the amount of Parity Bonds as of the date of such computation would be amortized (1) in accordance with the mandatory redemption provisions, if any, set forth in the ordinance authorizing the issuance of such Parity Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance, (2) at an interest rate equal to the yield to maturity equal to the higher of (i) the average of the SIFMA Municipal Swap Index over the 60 month period immediately preceding the date of computation, or (ii) the average of the SIFMA Municipal Swap Index over the 12 month period immediately preceding the date of computation, as determined within ten days prior to the date of computation or, if such computation is being made in connection with the certificate required by Section 18(a)(5) hereof, then within ten days prior to the date of such

certificate, (iii) to provide for essentially level annual debt service of principal and interest over such period.

Debt Service shall be computed net of any interest funded out of Parity Bond proceeds. Debt Service shall include reimbursement obligations to providers of Credit Facilities to the extent authorized by ordinance. It is the City's intent that regularly scheduled payments to be made by or received by the City under Parity Derivative Products shall be added to and deducted from, respectively, Debt Service with respect to Parity Bonds associated with such Parity Derivative Product, to the extent authorized by ordinance.

Debt Service Offsets mean (a) Contract Revenues if and to the extent that such Contract Revenues are deposited into the Bond Account during a fiscal period, and (b) *from and after the date that the 2008 Bonds are no longer outstanding*, receipts of the City that are not included in Gross Revenue and that are legally available to pay debt service on Parity Bonds, including without limitation federal interest subsidy payments, designated as such by the City.

Designated Representative means the Mayor or Finance Director, or his or her designee. The signature of one Designated Representative shall be sufficient to bind the City.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds pursuant to Section 5.

Finance Director means the Finance Director of the City or the successor to such officer.

Financial Advisor means Public Financial Management, Inc. and its successors.

Fixed Rate Bonds means those Parity Bonds other than Capital Appreciation Bonds, Original Issue Discount Bonds or Balloon Maturity Bonds issued under an ordinance in which the rate of interest on such Parity Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in the ordinance authorizing their issuance, Parity Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

Future Parity Bonds means all revenue bonds and other obligations of the City for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of which constitutes a lien and charge on the Net Revenue and ULID Assessments equal in rank with the lien and charge upon such revenue and assessments required to be paid into the Bond Account to pay and secure the payment of the principal of and interest on the Bonds.

Government Obligations means those obligations described under the definition of government obligations in chapter 39.53 RCW, as it now reads or hereafter may be amended, and which are otherwise lawful investments for the City at the time of such investment.

Gross Revenue means all of the earnings and revenues received by the City from the maintenance and operation of the System and connection and capital improvement charges collected for the purpose of defraying the cost of capital facilities of the System, including investment earnings, but excluding government grants, proceeds from the sale of System property, City taxes collected by or through the System, principal proceeds of bonds and earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund System obligations (until commingled with other earnings and revenues of the System) or held in a special account for the purpose of paying a rebate to the United States Government under the Code, and revenue from any Separate System. Gross Revenue shall also include any federal or state reimbursements of operating expenses to the extent such expenses are included as Operations and Maintenance Costs; provided, however, that Gross Revenue shall not include ULID Assessments. For purposes of determining compliance with the Coverage Requirement, Gross Revenue shall not include Contract Revenue and other Debt Service Offsets as determined by the City. Amounts withdrawn from the Rate Stabilization Account shall increase Gross Revenue for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Gross Revenue for the period during which they are deposited. Credits to or from the Rate Stabilization Account that occur within 90 days after the

end of a fiscal year may be treated as occurring within such fiscal year.

Independent Utility Consultant means a professional consultant experienced with municipal utilities of comparable size and character to the System.

Letter of Representations means the blanket issuer letter of representations from the City to DTC.

Maximum Annual Debt Service means the highest dollar amount of Annual Debt Service in any fiscal year or Base Period for all outstanding Parity Bonds and/or for all subordinate lien evidences of indebtedness secured by the Net Revenue, as the context requires.

Maximum Reserve Requirement means the maximum dollar amount permitted by the Internal Revenue Code of 1986, as amended, including applicable regulations thereunder, to be allocated to a reserve account from tax-exempt bond proceeds without requiring a balance to be invested at a restricted yield.

MSRB means the Municipal Securities Rulemaking Board.

Net Revenue means Gross Revenue less Operations and Maintenance Costs. In calculating Net Revenue, the City shall not take into account any non-cash gains or losses with respect to any real or personal property, investment or agreement that it may be required to recognize under generally accepted accounting principles, such as unrealized mark-to-market gains and losses.

Operations and Maintenance Costs means all reasonable expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition, including without limitation payments of premiums for insurance on the System; costs incurred in connection with the acquisition of water or the securing of water rights; payments to any public or private entity for water service, sewage treatment and disposal service or other utility service in the event that the City combines such service into the combined utility system and enters into a contract for such service, including pro-rata budget allocations or charges for the City's administration expenses where those represent a reasonable distribution and share of actual costs; and any State-imposed taxes; and Contract Resource Obligations, to the extent provided in Section 21 of this ordinance. Operations and Maintenance Costs shall exclude depreciation, taxes levied or imposed by the City, payments-in-lieu-of-taxes paid to the City, capital additions and capital replacements to the System.

Original Issue Discount Bonds means Parity Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds in the ordinance authorizing their issuance.

Other Derivative Product means a payment agreement between the City and a counterparty permitted under chapter 39.96 RCW, as

amended from time to time, or any successor statute, which is not a Parity Derivative Product.

Outstanding Parity Bonds as of the date of this ordinance means the 2008 Bonds.

Owner means the person named as the registered owner of a Bond on the Bond Register.

Parity Bonds means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

Parity Derivative Product means a payment agreement between the City and a counterparty satisfying the requirements of chapter 39.96 RCW, as amended from time to time, or any successor statute, obligating the City to make regularly scheduled payments to the counterparty on a parity with the payment of debt service on Parity Bonds.

Parity Requirement means Net Revenues equal to or greater than:

(a) 125% of Maximum Annual Debt Service for all Parity Bonds computed by deducting from Annual Debt Service the Annual Debt Service for each series or issue of Parity Bonds that is covered by ULID Assessments, and

(b) 100% of Maximum Annual Debt Service for all subordinate lien evidences of indebtedness secured by Net Revenue.

In determining the amount of Annual Debt Service "covered by ULID Assessments", Annual Debt Service for each future year is reduced by the dollar amount of ULID Assessments projected to be

received during such future year, and the remaining outstanding ULID Assessments are assumed to be paid in the remaining number of annual installments with no prepayments.

Permitted Investments means investments that are legal investments for the City at the time of such investment.

Principal and Interest Account means the account of that name created in the Bond Account for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a short-term basis in accordance with regulations under the Code if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of

property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

Projects mean the plan of additions and improvements to and betterments and extensions of the System, including, but not limited to, those improvements identified in Section 3 of this ordinance.

Project Account means the special account of the City known as the "Waterworks Utility Revenue Project Account," which is created and established pursuant to Section 13 of this ordinance.

Purchase Agreement means the Bond Purchase Agreement for the Bonds by and between the Underwriter and the City.

Rate Stabilization Account means the special fund of the City previously known as the "Waterworks Utility Rate Stabilization Fund" of the City, and renamed as the "Waterworks Utility Rate Stabilization Account" pursuant to Section 8 of this ordinance.

Rated Customer means a user of the System that is rated in one of the two highest Rating Categories by any Rating Agency throughout the entire applicable fiscal period of the City.

Rating Agency means any nationally recognized securities rating agency rating any of the Parity Bonds at the request of the City.

Registered Owner means the person named as the registered owner of a Bond in the Bond Register. For so long as the Bonds are held in book-entry only form, DTC shall be deemed to be the sole Registered Owner.

Reserve Account means the account of that name created in the Bond Account for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

Reserve Account Credit Facility means any bond insurance policy, surety bond, guaranty, letter of credit or other similar credit support facility deposited into (a) the Reserve Account to provide for or secure the payment of all or part of the principal of and interest on the Covered Bonds, or (b) any other reserve account created in the future to secure the payment of debt service on other Future Parity Bonds, in either case, issued by an institution which has been assigned a credit rating at the time of issuance of the facility in one of the two highest rating categories of any Rating Agency (without regard to any gradations within a rating category).

Reserve Requirement means the dollar amount to be calculated with respect to all Covered Bonds and separately with respect to other Parity Bonds.

(a) With respect to Covered Bonds, the Reserve Requirement shall be equal to the least of:

(1) Maximum Annual Debt Service for Covered Bonds,
(2) 10% of the initial principal amount of Covered Bonds of each series, and

(3) 125% of average Annual Debt Service for Covered Bonds; provided, however, that the dollar amount required to be contributed, if any, as a result of the issuance of a series of Future Parity Bonds shall not be greater than the Maximum Reserve Requirement. If the dollar amount required to be contributed at the time of issuance of a series of Future Parity Bonds exceeds the Maximum Reserve Requirement, then the amount required to be contributed shall be equal to the Maximum Reserve Requirement.

(b) With respect to other series of Parity Bonds, the Reserve Requirement shall be equal to the amount, if any, specified in the ordinance authorizing the issuance of that series of Parity Bonds.

The Reserve Requirement shall be adjusted accordingly and remain in effect until the earlier of (i) at the City's option, a payment of principal of Parity Bonds or (ii) the issuance of a subsequent series of Future Parity Bonds (when the Reserve Requirement shall be recalculated).

Rule means paragraph (b)(5) of Rule 15c2-12 promulgated by the Commission pursuant to the Securities Exchange Act of 1934, as such Rule may be amended from time to time.

Separate System means (a) the City's existing urban planned development water and wastewater system serving the Novelty Hill service area located outside the current City limits; and (b) any other water supply, sewage collection or treatment, stormwater or other utility service or facilities that may be created, acquired or constructed by the City as provided in Section 20 of this ordinance.

SIFMA Municipal Swap Index means The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., a Thompson Financial Services Company, or its successor, or as otherwise designated by The Securities Industry and Financial Markets Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc., a Thompson Financial Services Company, or its successor, then "SIFMA Municipal Swap Index" shall mean such other reasonably comparable index selected by the City.

Significant Wholesale Customer means any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, the revenue from which contract comprises 10% or more of the overall Gross Revenue of the System.

State means the State of Washington.

Stormwater Operations Fund means the Stormwater Operations Fund of the City.

System means, for so long as any of the Parity Bonds are outstanding: (a) the water supply and distribution system of the City, as it now exists and including all additions, betterments and extensions at any time made; (b) the sanitary sewage collection, treatment and disposal system of the City, as it now exists and including all additions, betterments and extensions at any time made; (c) any storm and surface water drainage system of the City, as it now exists and including all additions, betterments and extensions at any time made; and (d) any other system or utility, that may lawfully be combined with the foregoing. The System shall not include any Separate System of the City.

Term Bonds means Parity Bonds that are subject to mandatory redemption prior to their scheduled maturity date or dates.

2008 Bonds mean the City's Water and Wastewater Revenue Bonds, 2008, issued on December 3, 2008 in the aggregate principal amount of \$11,755,000 pursuant to the 2008 Parity Bond Ordinance.

2008 Parity Bond Ordinance means Ordinance No. 2423 adopted by the City Council on November 18, 2008.

ULID means utility local improvement district.

ULID Assessments means the assessments levied in all ULIDs, the assessments in which are payable into the Bond Account, and

shall include installments thereof and interest and any penalties thereon.

Underwriter means Piper Jaffray & Co., and its successors.

Water & Wastewater Operations Fund means the Water & Wastewater Operations Fund of the City.

Waterworks Utility Operations Funds means the Water & Wastewater Operations Fund and the Stormwater Operations Fund, which have been combined for borrowing purposes.

Section 2. Compliance with Parity Conditions. The 2008 Parity Bond Ordinance that authorized the issuance of the Outstanding Parity Bonds provides that the City may issue Future Parity Bonds upon compliance with certain conditions. The City Council hereby finds, as required by the 2008 Parity Bond Ordinance, as follows:

First, the Bonds are being issued for the purpose of financing a portion of the costs of the Projects;

Second, this ordinance provides that all ULID Assessments (including interest on those assessments) imposed in any ULID created for the purpose of paying in whole or in part the principal of and interest the Bonds is to be paid directly into the Bond Account;

Third, this ordinance provides for the payment of the principal of and interest thereon on the Bonds out of the Bond Account;

Fourth, the City is not in default with respect to any of its obligations under the 2008 Parity Bond Ordinance;

Fifth, the Bonds shall be issued as Covered Bonds, and this ordinance provides for the deposit into the Reserve Account funds in the amount necessary to satisfy the Reserve Requirement upon the issuance of the Bonds; and

Sixth, at the time of issuance of the Bonds the City shall have on file a certificate satisfying the parity requirements of the 2008 Parity Bond Ordinance.

The parity conditions contained in the 2008 Parity Bond Ordinance having been complied with or assured, the payments required in this ordinance to be made out of the Waterworks Utility Operations Funds into the Bond Account and the accounts held therein to pay and secure the payment of the principal of and interest on the Bonds shall constitute a lien and charge upon the money in such Waterworks Utility Operations Funds equal in rank with the lien and charge thereon for the payments required to be made into the Bond Account to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds.

Section 3. Adoption of Plan of Additions. The City specifies, adopts and orders the carrying out of improvements to and betterments and extensions of the System, including, but not limited to, the construction of pump station improvements, access chamber installations, regional facilities in the Downtown and Overlake sub-areas, flow control and water quality facilities, and stream and habitat restoration projects (together, the

"Projects"), in accordance with the plans and specifications prepared by the City's engineers and consulting engineers. The City Council may modify the details of the Project where, in its judgment, it appears advisable if such modifications do not substantially alter the purposes of that system or plan. The life of the improvements comprising the Projects is declared to be at least equal to the term of the Bonds. The estimated cost of carrying out the Projects, including the costs of issuance and sale of the Bonds, is expected to be at least \$26,700,000, which cost shall be paid from the proceeds of the Bonds and from other money available to the City for such purpose.

Section 4. Authorization and Description of Bonds. For the purpose of financing costs of the Projects, the City shall issue and sell its utility system revenue bonds in the aggregate principal amount of not to exceed \$26,700,000 (the "Bonds").

The Bonds shall be designated "City of Redmond, Washington, Utility System Revenue Bonds, 2014" or other such designation as set forth in the Purchase Agreement and approved by the Designated Representative; shall be dated as of their date of delivery; shall be fully registered as to both principal and interest; shall be in the denomination of \$5,000 each, or any integral multiple thereof, within a maturity; shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; and shall bear interest from their date payable semiannually as set forth in the Purchase Agreement, at rates set

forth in the Purchase Agreement; and shall mature on the dates and in the principal amounts set forth in the Purchase Agreement and as approved by the Designated Representative pursuant to Section 14.

Section 5. Registration, Exchange and Payments.

(a) *Bond Registrar/Bond Register.* The City hereby specifies and adopts the system of registration approved by the Washington State Finance Committee from time to time through the appointment the state fiscal agency. The City shall cause a Bond Register to be maintained by the Bond Registrar. So long as any Bonds remain outstanding, the Bond Registrar shall make all necessary provisions to permit the exchange or registration or transfer of Bonds at its principal corporate trust office. The Bond Registrar may be removed at any time at the option of the Finance Director upon prior notice to the Bond Registrar and a successor Bond Registrar appointed by the Finance Director. No resignation or removal of the Bond Registrar shall be effective until a successor shall have been appointed and until the successor Bond Registrar shall have accepted the duties of the Bond Registrar hereunder. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication of the Bonds.

(b) *Registered Ownership.* The City and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Section 26 of this ordinance), and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 5(h), but such Bond may be transferred as herein provided. All such payments made as described in Section 5(h) shall be valid and shall satisfy and discharge the liability of the City upon such Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letters of Representations.* The Bonds initially shall be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Bonds as eligible for deposit at DTC, the City has executed and delivered to DTC a Blanket Issuer Letter of Representations. Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice which is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Bond Registrar or to DTC (or any

successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in fully immobilized form by a depository, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Bonds.

If any Bond shall be duly presented for payment and funds have not been duly provided by the City on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

(d) *Use of Depository.*

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

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

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding Bonds, together with a written request on behalf of the Finance Director, issue a single new Bond for each maturity then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Finance Director.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Finance Director determines that it is in the best interest of the beneficial owners of the Bonds that such owners be able to obtain physical Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held by a depository. The Finance Director shall deliver a written request

to the Bond Registrar, together with a supply of physical Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Bond Registrar of all then outstanding Bonds together with a written request on behalf of the Finance Director to the Bond Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized

denomination. The Bond Registrar shall not be obligated to register the transfer or to exchange any Bond during the 15 days preceding any interest payment or principal payment date any such Bond is to be redeemed.

(f) *Bond Registrar's Ownership of Bonds.* The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

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

(h) *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and twelve 30-day months. For so long as all Bonds are held by a depository, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer held by a depository, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on

the Bond Register on the fifteenth day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Section 6. Redemption Provisions; Open Market Purchase of Bonds.

(a) *Optional Redemption and Term Bonds, if any.* The Bonds shall be subject to optional redemption on the dates, at the prices and under the terms set forth in the Purchase Agreement approved by the Designated Representative pursuant to Section 14. The Bonds shall be subject to mandatory redemption to the extent, if any, set forth in the Purchase Agreement and as approved by the Designated Representative pursuant to Section 14.

(b) *Purchase of Bonds.* The City reserves the right to use at any time any surplus Revenue of the System, or other available funds, to purchase for retirement any of the Bonds at any price deemed reasonable by the City.

(c) *Selection of Bonds for Redemption.* For as long as the Bonds are held in book entry only form, the selection of particular Bonds within a maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at

DTC. If the Bonds are no longer held by a depository, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the following provisions of this subsection (c). If the City redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. In the event that only a portion of the principal sum of a 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, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations herein authorized.

(d) *Notice of Redemption.*

(1) Official Notice. For so long as the Bonds are held in by a depository, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any beneficial owners. The notice of redemption may be conditional. Thereafter (if the Bonds are no

longer held by a depository), notice of redemption shall be given in the manner hereinafter provided. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

All official notices of redemption shall be dated and shall state:

- (A) the redemption date,
- (B) the redemption price,
- (C) if fewer than all outstanding Bonds are to be redeemed, the identification by maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) that unless conditional notice of redemption has been given and such conditions have either been satisfied or waived, on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and

(E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, unless such redemption has been rescinded or revoked, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The City retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected registered owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

(2) Effect of Notice; Bonds Due. If an unconditional notice of redemption has been given or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for

payment of interest. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

(3) Additional Notice. In addition to the foregoing notice, further notice shall be given by the City as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest borne by each Bond being redeemed; (D) the maturity date of each Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption may be sent at least 20 days before the redemption date to each party entitled to receive notice pursuant to Section 26 and with such additional information as the City shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Bonds.

(4) Amendment of Notice Provisions. The foregoing notice provisions of this Section 6, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance

with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 7. Payments into Bond Account. There has been previously created and established a special fund of the City to be known as the "Waterworks Utility Revenue Bond Fund" which is now renamed the "Waterworks Utility Revenue Bond Account" (the "Bond Account"). The Bond Account shall be divided into two sub-accounts, a Principal and Interest Account and a Reserve Account.

(a) So long as any Parity Bonds are outstanding against the Bond Account, the City obligates and binds itself to set aside and pay into the Bond Account all ULID Assessments and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(1) Into the Principal and Interest Account on or before each debt service payment date an amount which, together with ULID Assessments and other money on deposit therein, will be sufficient to pay the debt service on all outstanding Parity Bonds coming due and payable on that next debt service payment date, including mandatory redemption amounts due on that date with respect to any Term Bonds, and to pay regularly scheduled net payments on Parity Derivative Products; and

(2) Into the Reserve Account at least annually an amount that, together with other money and Reserve Account Credit Facilities on deposit therein, will equal the Reserve Requirement for all Covered Bonds.

(b) The Reserve Account has been established in the Bond Account to serve as a common reserve securing the repayment of the Covered Bonds. The Outstanding Parity Bonds and the Bonds are Covered Bonds. On the date of issue of the Bonds, the City shall deposit available funds of the City into the Reserve Account to satisfy, together with funds currently on deposit therein, the Reserve Requirement for all Covered Bonds as of the date of issue of the Bonds. The City covenants and agrees that it will at all times maintain in the Reserve Account an amount (including the value of all Reserve Account Credit Facilities deposited therein) equal to the Reserve Requirement for all Covered Bonds, except for withdrawals as authorized in this subsection, until there is a sufficient amount in the Principal and Interest Account and Reserve Account to pay the principal of and interest on all outstanding Covered Bonds, at which time the money in the Reserve Account may be used to pay any such principal and interest so long as the money remaining on deposit in the Reserve Account is not less than the Reserve Requirement calculated based on the remaining outstanding Covered Bonds. If there are sufficient funds in the Bond Account to pay all outstanding Covered Bonds and the Reserve Requirement as to those outstanding Covered Bonds is met, excess money in the Bond Account may be used for any System purpose.

In the event that the amounts in the Principal and Interest Account are insufficient to make any debt service payment on any outstanding Covered Bonds, amounts shall be withdrawn from the

Reserve Account to make up that deficiency. Any deficiency created in the Reserve Account by reason of such a withdrawal shall then be made up from Net Revenue and from ULID Assessment payments, but only after necessary provision has been made for Operations and Maintenance Costs and for the required payments into the Principal and Interest Account.

(c) All money in the Bond Account may be kept in cash; deposited with an institution (as permitted by law) in an amount in each institution not greater than the amount insured by any department or agency of the United States Government; or invested in Permitted Investments or other legal investments permitted to the City maturing not later than the date when needed (for investments in the Principal and Interest Account) or the last maturity of any outstanding Covered Bonds (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 Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirements of all Covered Bonds, and thereafter shall be deposited in the Principal and Interest Account.

(d) The City may create sinking fund accounts or other accounts in the Bond Account for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of Parity Bonds.

(e) It is declared that in creating the Bond Account and in fixing the amounts to be paid into it as aforesaid, the City Council has had due regard for Operations and Maintenance Costs and the debt service requirements of the outstanding Parity Bonds, and declares that it is not setting aside into the Bond Account a greater amount than in its judgment will be available over and above such Operations and Maintenance Costs and the debt service requirements of the outstanding Parity Bonds.

If the City fails to set aside and pay into the Bond Account the amounts set forth above, the owner of any of the outstanding Parity Bonds may bring action against the City and compel the setting aside and payment.

Section 8. Rate Stabilization Account. There has been previously created and established a special fund of the City known as the "Waterworks Utility Rate Stabilization Fund" which is hereby renamed the "Waterworks Utility Rate Stabilization Account." The City may at any time, as determined by the Finance Director and consistent with this ordinance, deposit into the Rate Stabilization Account amounts from Gross Revenue and any other money received by the System and available to be used for that purpose, excluding principal proceeds of any Future Parity Bonds. The Finance Director may at any time withdraw money from the Rate Stabilization Account for inclusion in the Net Revenue for the current fiscal year of the System. Such deposits or withdrawals may be made up to and including the date 90 days

after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue.

Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Net Revenue unless and until withdrawn from that account as provided in this Section. The Finance Director may also deposit earnings from investments in the Rate Stabilization Account into any System fund or account as authorized by ordinance, and such deposits shall be included as Net Revenue in the year of deposit.

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

Section 9. Finding as to Sufficiency of Revenue, Pledge of Revenue and Lien Position. The City Council finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the System at the rates to be charged for service from the System will be more than sufficient to meet all Operations and Maintenance Costs and to permit the setting aside into the Bond Account of the amounts of Net Revenue that, together with ULID Assessments, will be sufficient to pay the principal of and interest on the Parity Bonds when due. The Net Revenue and all ULID Assessments are pledged for the payment of the Bonds and all Future Parity Bonds. This pledge shall constitute a lien and charge upon the Net Revenue and ULID Assessments prior and superior to any other liens, and charges whatsoever.

Section 10. Form of Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. _____ \$ _____

STATE OF WASHINGTON
CITY OF REDMOND
UTILITY SYSTEM REVENUE BOND, 2014

INTEREST RATE: MATURITY DATE: CUSIP NO.:

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ Dollars

The City of Redmond, Washington (the "City"), a municipal corporation of the State of Washington, for value received hereby promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date set forth above the Principal Amount set forth above, and to pay interest thereon from the date hereof, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above payable on the first days of each _____ and _____, commencing on _____.

Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest and principal shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the City to The Depository Trust Company ("DTC"). The fiscal agency of the State of Washington has been appointed by the City as the authenticating agent, paying agent and registrar for the bonds of this issue (the "Bond Registrar"). Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in Ordinance No. _____ of the City adopted on _____, 2014 (the "Bond Ordinance"). Reference is made to the Bond Ordinance and any and all modifications and amendments thereto for a description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

This bond is one of a series of bonds in the aggregate principal amount of \$ _____ (the "Bonds"), issued pursuant to the Bond Ordinance, to finance costs related to certain improvements and betterments to the City's combined water supply,

sewerage, and storm and surface water drainage system (the "System").

The principal of and interest on the Bonds are payable solely out of the special fund of the City known as the "Waterworks Utility Revenue Bond Account" (the "Bond Account"). The Bonds are special limited obligations of the City and are not obligations of the State of Washington or any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City or the State of Washington is pledged to the payment of the Bonds.

Under the Bond Ordinance, the City is obligated to set aside and pay into the Principal and Interest Account out of Gross Revenue certain fixed amounts sufficient to pay when due the principal of and interest and premium, if any, on the Bonds and all other Parity Bonds. To the extent provided by the Bond Ordinance, the amounts pledged to be paid from Gross Revenue into the Bond Account and accounts therein are a lien and charge thereon equal in rank to the lien and charge upon Gross Revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any Future Parity Bonds that the City may issue hereafter, and superior to all other liens and charges of any kind or nature, except the Operations and Maintenance Costs of the System.

The Bond Ordinance sets forth covenants of the City to secure the payment of Parity Bonds, including but not limited to covenants relating to rates and charges of the System, operations of the System, and the issuance of Future Parity Bonds.

The Bonds are subject to redemption prior to maturity as provided in the Purchase Agreement. The Bonds may be transferred and exchanged upon surrender to the Bond Registrar as provided in the Bond Ordinance.

The Bonds are not "private activity bonds" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

This bond will not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance until the Certificate of Authentication hereon has been manually signed by the Bond Registrar.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the state of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form

and manner as prescribed by law.

IN WITNESS WHEREOF, the City of Redmond, Washington has caused this bond to be executed by the manual or facsimile signatures of the Mayor and the City Clerk and the seal of the City imprinted, impressed or otherwise reproduced hereon as of this ____ day of _____, 2014.

[SEAL]

CITY OF REDMOND, WASHINGTON

By /s/ manual or facsimile
Mayor

ATTEST:

 /s/ manual or facsimile
City Clerk

The Bond Registrar's Certificate of Authentication on the Bonds shall be in substantially the following form:

CERTIFICATE OF AUTHENTICATION

Date of Authentication:

This is one of the Utility System Revenue Bonds, 2014, of the City of Redmond, Washington, dated _____, 2014, as described in the within mentioned Bond Ordinance.

WASHINGTON STATE FISCAL AGENT,
as Registrar

By THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as
subcontractor to The Bank of
New York Mellon, fiscal agent
for the State of Washington

By _____
Authorized Officer

Section 11. Execution of Bonds. The Bonds shall be executed on behalf of the City by the facsimile or manual signatures of the Mayor and the City Clerk and shall have the

seal of the City impressed or a facsimile thereof imprinted, or otherwise reproduced thereon.

In the event any officer who shall have signed or whose facsimile signatures appear on any of the Bonds shall cease to be such officer of the City before said Bonds shall have been authenticated or delivered by the Bond Registrar or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the City as though said person had not ceased to be such officer. Any Bond may be signed and attested on behalf of the City by such persons who, at the actual date of execution of such Bond shall be the proper officer of the City, although at the original date of such Bond such persons were not such officers of the City.

Only such Bonds as shall bear thereon a Certificate of Authentication manually executed by an authorized representative of the Bond Registrar shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this ordinance.

Section 12. Mutilated, Lost, Stolen or Destroyed Bonds.

If any Bond becomes mutilated, lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond of the same maturity and interest rate and of like tenor and effect in

substitution therefor, all in accordance with law. If such mutilated, lost, stolen or destroyed Bond has matured, the City at its option, may pay the same without the surrender thereof. However, no such substitution or payment shall be made unless and until the applicant shall furnish (a) evidence satisfactory to the Bond Registrar of the destruction or loss of the original Bond and of the ownership thereof, and (b) such additional security, indemnity or evidence as may be required by or on behalf of the City. No substitute Bond shall be furnished unless the applicant shall reimburse the City and the Bond Registrar for their respective expenses in the furnishing thereof. Any such substitute Bond so furnished shall be equally and proportionately entitled to the security of this ordinance with all other Bonds issued hereunder.

Section 13. Project Account; Application of Bond Proceeds. There is hereby created and established a separate account to be known as the "Waterworks Utility Revenue Bond Project Account" (the "Project Account").

All of the net proceeds of the Bonds, including any accrued interest and original issue premium, but net of any original issue discount and the underwriter's discount, which shall be retained by the Underwriter) shall be deposited into the Project Account for application to the payment of the costs of the Projects as set forth in the closing memorandum prepared by the Underwriter.

Except as provided by the Code and Section 17 of this ordinance, the income from the investment of Bond proceeds in the Project Account shall be deposited in the Project Account and applied to the payment of the costs of the Projects.

Except as provided by the Code and Section 17 of this ordinance, if any money allocable to the Bond proceeds remains in the Project Account after payment of all the costs of the Projects or after termination of the Projects by the City, such money shall be transferred to the Bond Account and applied after consultation with Bond Counsel to the payment of the principal of or interest on the Bonds.

Pending application as described in this Section 13 and subject to the requirements of the Code and Section 17 of this ordinance, money allocable to the Bond proceeds in the Project Account may be temporarily deposited in such institutions or invested in Permitted Investments.

Section 14. Sale of the Bonds; Delivery. The Bonds shall be sold at negotiated sale to the Underwriter pursuant to the terms of the Purchase Agreement. The Financial Advisor has advised the City Council that market conditions are fluctuating and, as a result, the most favorable market conditions may occur on a day other than a regular meeting date of the City Council. The City Council has determined that it would be in the best interest of the City to delegate to the Designated Representative for a limited time the authority to approve the final interest

rates, aggregate principal amount, and principal amounts of each maturity of the Bonds, and redemption rights for the Bonds.

The Designated Representative is hereby authorized to approve the final interest rates, aggregate principal amount, principal maturities, and redemption rights for the Bonds in the manner provided hereafter so long as:

(1) the aggregate principal amount of the Bonds does not exceed \$26,700,000,

(2) the final maturity date for the Bonds is no later than December 1, 2034,

(3) the aggregate purchase price for the Bonds shall not be less than 98% of the aggregate stated principal amount of the Bonds, excluding any original issue discount, and

(4) the true interest cost for the Bonds (in the aggregate) does not exceed 4.25%.

Subject to the terms and conditions set forth in this section, the Designated Representative is hereby authorized to execute the Purchase Agreement.

Following the execution of the Purchase Agreement, the Designated Representative shall provide a report to the City Council describing the final terms of the Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Representative by this Section 14 shall expire 12 months after the effective date of this ordinance. If a Purchase Agreement for the Bonds has not been executed within 12 months after the effective date of this ordinance, the

authorization for the issuance of the Bonds shall be rescinded, and the Bonds shall not be issued nor their sale approved unless such Bonds shall have been re-authorized by ordinance of the City Council. The ordinance re-authorizing the issuance and sale of such Bonds may be in the form of a new ordinance repealing this ordinance in whole or in part or may be in the form of an amendatory ordinance approving a Purchase Agreement or establishing terms and conditions for the authority delegated under this Section 14.

Section 15. Delivery of Bonds. The proper City officials, including the Finance Director, are authorized and directed to execute and/or approve, as appropriate, all documents, including but not limited to, the final Official Statement pertaining to the Bonds, and to do everything necessary for the preparation and delivery of a transcript of proceedings pertaining to the Bonds, and the printing, execution and prompt delivery of the Bonds to the Underwriter and for the proper application and use of the proceeds of the sale thereof.

Section 16. Covenants. The City covenants and agrees with the owner of each of the Bonds as follows:

(a) It will establish, maintain, revise as necessary, and collect such rates and charges for the services furnished by the System (including those furnished under contract with wholesale customers) such that Net Revenue will be sufficient to at least equal the Coverage Requirement.

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

(c) It will collect promptly all ULID Assessments, which shall be deposited into the Bond Account and shall be used to pay and secure the payment of the principal of and interest on the Parity Bonds. Such assessments may be used to pay the principal or interest on any Parity Bonds without those assessments being particularly allocated to the payment of principal of or interest on any particular series of Parity Bonds. Nothing in this ordinance or this section shall be construed to prohibit the City from issuing water, sewer or water and sewer revenue bonds junior in lien to the Parity Bonds and pledging as security for their payment assessments levied in any ULID which may have been specifically created to pay part of the cost of improvements to the System for which those junior lien bonds were specifically issued.

(d) It will not sell, lease, mortgage or in any manner encumber or dispose of all the property of the System unless provision is made for payment into the Bond Account of a sum sufficient to pay the principal of and interest on all outstanding Parity Bonds. Furthermore, it will not sell, lease, mortgage, or in any manner encumber or dispose of any part of the property of the System that is used, useful and material to its operation, unless provision is made (a) for the replacement of

that portion of the System, or (b) for the payment into the Bond Account of an amount bearing the same ratio to the par amount of outstanding Parity Bonds as the amount of Net Revenue available for debt service derived during the preceding 12-month period from that portion of the System bears to the total Net Revenue available for debt service for such bonds for the same period. Any such money so paid into the Bond Account shall be used to retire outstanding Parity Bonds at the earliest possible date and may be invested to the same extent and in the same manner as provided for the investment of money in the Reserve Account until so used.

(e) While any of the Parity Bonds remain outstanding it will keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and it will furnish the owner or owners of the Parity Bonds or any subsequent owner or owners thereof, at the written request of such owner or owners, complete operating and income statements of the System in reasonable detail covering any fiscal year. It will grant any owner or owners of at least twenty-five percent of the outstanding Parity Bonds the right at all reasonable times to inspect the entire System and all records, accounts and data relating thereto, and upon request of any owner of any of the Parity Bonds a copy of the most recently completed audit of the System accounts by the State Auditor of Washington.

(f) It will not furnish any service of the System free of charge to any customer whatsoever.

(g) It will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the System as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry adequate public liability insurance (and war risk insurance if available at reasonable rates) at all times. The premiums on such insurance policies are declared to be a normal part of Operations and Maintenance Costs.

(h) It will pay all Operations and Maintenance Costs and otherwise meet the obligations of the City as herein set forth.

(i) It will not change any rate or charge for services of the System as is now established by the existing rate resolution or resolutions of the City, or any contract with a Significant Wholesale Customer, if such change would substantially reduce the annual Net Revenue below that which would have been obtained before such change unless the City has on file a certificate from an Independent Utility Consultant, stating that after such change, the Net Revenue will remain sufficient to comply with all the covenants and requirements of this ordinance, including the Coverage Requirement.

(j) Except as provided in Section 18, the City will not create any special fund or funds for the payment of the principal

of and interest on any other revenue obligations which will have any priority over or which will rank on a parity with the payments required by this ordinance to be made out of the Net Revenue and ULID Assessments, nor will it issue Parity Bonds except as permitted pursuant to Section 18 hereof.

Section 17. Preservation of Tax Exemption for Interest on the Bonds. The City covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the City covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Bonds or any other funds of the City which may be deemed to be proceeds of the Bonds pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the date of delivery of the Bonds to the initial purchasers thereof, would have caused the Bonds to be "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

The City represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications

may not be relied upon. The City will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Bonds.

(b) *Private Person Use Limitation.* The City covenants that for as long as the Bonds are outstanding, it will not permit:

(1) More than 10% of the Net Proceeds of the Bonds to be used for any Private Person Use; and

(2) More than 10% of the principal or interest payments on the Bonds in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the City) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The City further covenants that, if:

(3) More than five percent of the Net Proceeds of the Bonds are to be used for any Private Person Use; and

(4) More than five percent of the principal or interest payments on the Bonds in a Bond Year are (under the terms of this ordinance or any underlying arrangement) directly or indirectly:

(A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or

(B) derived from payments (whether or not made to the City) in respect of property, or borrowed money, used or to be used for any Private Person Use,

then, (i) any Private Person Use of the projects described in subsection (3) hereof or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the projects financed and/or refinanced with the Bonds, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Bonds used for the state or local governmental use portion of the projects to which the Private Person Use of such portion of the projects relates. The City further covenants that it will comply with any limitations on the use of the projects financed and/or refinanced with the Bonds by other than state and local governmental users that are necessary, in the opinion of nationally recognized Bond Counsel, to preserve the tax exemption of the interest on the Bonds.

(c) *Modification of Tax Covenants.* The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds. To that end, the provisions of this section may be modified or eliminated without any requirement for formal amendment thereof upon receipt of an opinion of nationally recognized Bond Counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Bonds.

Section 18. Future Parity Bonds; Subordinate Lien Obligations.

(a) The City may issue Future Parity Bonds only for lawful System purposes and only if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds:

(1) The ordinance providing for the issuance of such Future Parity Bonds must provide that all ULID Assessments (including interest on those assessments) imposed in any ULID created for the purpose of paying in whole or in part the principal of and interest on such Future Parity Bonds is to be paid directly into the Bond Account;

(2) The ordinance authorizing those Future Parity Bonds must provide for the payment of the principal of and interest thereon out of the Bond Account;

(3) The City shall not be in default with respect to any of its obligations under this ordinance or the 2008 Parity Bond Ordinance.

(4) The applicable ordinance authorizing those Future Parity Bonds must provide for the deposit into the Reserve Account (in the case of Covered Bonds) or any other applicable reserve account of any combination of Future Parity Bond proceeds, Reserve Account Credit Facilities or other money legally available, in the amount necessary (if any) to make the amount on deposit in the Reserve Account or other applicable

reserve account equal to the applicable Reserve Requirement upon the issuance of those Future Parity Bonds.

(5) Except as provided in Section 18(b) hereof, there shall be on file with the City a certificate (prepared as described in Section 18(c) or Section 18(d) hereof) demonstrating fulfillment of the Parity Requirement, commencing with the first full fiscal year following the date on which any portion of interest on the series of Future Parity Bonds then being issued no longer will be paid from the proceeds of such series of Future Parity Bonds.

(b) The certificate described in Section 18(a)(5) hereof shall not be required as a condition to the issuance of Future Parity Bonds:

(1) If the Future Parity Bonds being issued are for the purpose of refunding outstanding Parity Bonds (including incidental costs and costs related to the sale and issuance thereof and providing for any applicable Reserve Requirement); or

(2) If the Future Parity Bonds are being issued to pay costs of construction of facilities of the System for which Future Parity Bonds have been issued previously and the principal amount of such Future Parity Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of Parity Bonds theretofore issued for such facilities and reasonably allocable to the facilities to be completed as shown in a certificate of the Finance Director, and there is delivered a written certificate of the Mayor stating

that the nature and purpose of such facilities has not materially changed.

(c) If required pursuant to Section 18(a)(5) hereof, a certificate may be delivered by the City (executed by the Finance Director) without an Independent Utility Consultant if Net Revenues for the Base Period (confirmed by an audit) demonstrate that the Parity Requirement will be fulfilled commencing with the first full fiscal year following the date on which any portion of interest on the series of Future Parity Bonds then being issued will not be paid from the proceeds of such series of Future Parity Bonds.

(d) Unless compliance with the requirements of Section 18(a)(5) hereof have been satisfied as provided in Section 18(c) hereof, compliance with the Parity Requirement shall be demonstrated conclusively by a certificate of an Independent Utility Consultant.

In making the computations of Net Revenues for the purpose of certifying compliance with the Parity Requirement, the Independent Utility Consultant shall use as a basis the Net Revenues (which may be based upon unaudited financial statements of the City if the applicable audit has not yet been completed) for the Base Period. Such Net Revenues shall be determined by adding the following:

(1) The historical net revenue of the System for the Base Period being issued as determined by an Independent Utility Consultant.

(2) The net revenue derived from those customers of the System that have become customers during such 12-month period or thereafter and prior to the date of such certificate, adjusted to reflect a full year's net revenue from each such customer to the extent such net revenue was not included as described in Section 18(d)(1) hereof.

(3) The estimated annual net revenue to be derived from any person, firm, association, private or municipal corporation under any executed contract for service, which net revenue was not included in any of the sources of net revenue described in this Section 18(d).

(4) The estimated annual net revenue to be derived from the operation of any additions or improvements to or extensions of the System under construction but not completed at the time of such certificate and not being paid for out of the proceeds of sale of such Future Parity Bonds being issued, and which net revenue is not otherwise included in any of the sources of net revenue described in this Section 18(d).

(5) The estimated annual net revenue to be derived from the operation of any additions and improvements to or extensions of the System being paid for out of the proceeds of sale of such Future Parity Bonds being issued.

(6) Transfers into or out of the Rate Stabilization Account pursuant to Section 8 hereof may be taken into account, and those amounts may be added to or deducted from Net Revenues, as applicable.

In the event the System will not derive any revenue as a result of the construction of the additions, improvements or extensions being made or to be made to the System within the provisions of Sections 18(d)(4) and 18(d)(5) hereof, the estimated normal Operations and Maintenance Costs (excluding any transfer of money to other funds of the City and license fees, taxes and payments in lieu of taxes payable to the City) of such additions, improvements and extensions shall be deducted from estimated annual net revenue.

The words "historical net revenue" or "net revenue" as used in this Section 18(d) shall mean the Gross Revenue or any part or parts thereof less the normal expenses of maintenance and operation of the System or any part or parts thereof, but before depreciation.

Such "historical net revenue" or "net revenue" shall be adjusted to reflect the rates and charges effective on the date of such certificate if there has been any change in such rates and charges during or after such 12-consecutive-month period.

(e) Nothing contained in this Section 18 shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Net Revenue of the System junior or inferior to the payments required by this ordinance to be made out of such Net Revenue to pay and secure the payment of any outstanding Parity Bonds. Such junior or inferior obligations shall not be subject to acceleration. This prohibition against acceleration shall not be deemed to prohibit mandatory tender or other tender

provisions with respect to variable rate obligations or to prohibit the payment of a termination amount with respect to an Other Derivative Product or a Parity Derivative Product.

(f) Nothing contained in this Section 18 shall prevent the City from issuing revenue bonds to refund maturing Parity Bonds for the payment of which moneys are not otherwise available.

Section 19. Derivative Products. The City hereby reserves the right to enter into Parity Derivative Products and Other Derivative Products. The City may amend this ordinance to accommodate new or modified definitions of Debt Service in connection with a Parity Derivative Product, to implement the City's intent that regularly scheduled payments made by or received by the City in connection with a Parity Derivative Product be added to or deducted from, respectively, Debt Service on such Parity Bonds. The City may amend this ordinance to reflect the lien position and priority of any payments made in connection with a Parity Derivative Product or Other Derivative Product; provided, however, that any lien to secure regularly scheduled payments made in connection with a Parity Derivative Product may not be prior to the lien of the Parity Bonds and that any lien to secure any other payments under Parity Derivative Products and all payments under any Other Derivative Products must be subordinate to the lien of Parity Bonds. If the City enters into a Parity Derivative Product, the City shall not be required to satisfy the conditions set forth in Section 18 of this ordinance with respect to the Parity Derivative Product

provided that the conditions set forth in Section 18 of this ordinance are satisfied with respect to the associated Parity Bonds. Each Parity Derivative Product shall set forth the manner in which the City's and its counterparty's payments are to be calculated and a schedule of payment dates.

Section 20. Separate Utility Systems. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, sewer service, water, sewage or stormwater transmission, treatment or other commodity or utility service. The revenue of that Separate System, and any ULID Assessments payable solely with respect to improvements to a Separate System, shall not be included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the Separate System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a separate utility Separate System except that the Net Revenue may be pledged on a basis subordinate to the lien of the Parity Bonds.

Section 21. Contract Resource Obligations. The City may at any time enter into one or more contracts or other obligations for the acquisition, from facilities to be constructed, of water, sewer or storm water supply, transmission, treatment or other commodity or service relating to the System. The City may determine that such contract or other obligation is a Contract Resource Obligation, and may provide that all payments under that Contract Resource Obligation (including payments prior to the

time that water, sewer or storm water supply, transmission, treatment or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and Maintenance Expenses if the following requirements are met at the time such Contract Resource Obligation is entered into:

(a) The City shall not be in default with respect to any of its obligations under this ordinance or the 2008 Parity Bond Ordinance.

(b) There shall be on file a certificate of an Independent Utility Consultant stating that (1) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply, transmission, treatment or other service rendered; (2) the source of any new supply, and any facilities to be constructed to provide the supply, transmission, treatment or other service, are sound from a water, sewer or storm water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission or other service no later than a date set forth in the Independent Utility Consultant's certification; and (3) the Net Revenue computed in the manner described in Section 18 of this ordinance (further adjusted by the Independent Utility Consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract

Resource Obligation is incurred, as such Net Revenue is estimated by the Independent Utility Consultant (with such estimate based on such factors as he or she considers reasonable), will be at least equal to 1.20 times the Annual Debt Service (after deducting ULID Assessments allocated to the years in which they would be received if the unpaid balance of each ULID Assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the ULID Assessment roll).

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

Nothing in this Section 21 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission, treatment or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Expenses of the System so long as such service is actually being supplied. Nothing in this Section 21 shall be deemed to prevent the City from entering into other agreements for the acquisition of water, sewer or storm water supply, transmission, treatment or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 22. Flow of Funds. The Net Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds and, without duplication, to make regularly scheduled payments due with respect to any Parity Derivative Product.

(b) To make when due the required payments into the Principal and Interest Account in respect of principal of and premium, if any, on the Parity Bonds, whether at maturity or pursuant to redemption prior to maturity, and to make payments due under any reimbursement agreement with a provider of a Credit Facility for any Parity Bonds that requires those payments to be made on a parity with the Parity Bonds.

(c) To make when due all payments required to be made into the Reserve Account for the Covered Bonds, all payments required to be made into any other reserve account created in the future to secure the payment of debt service on other Future Parity Bonds, and all payments required to be made under any reimbursement agreement with a provider of a Reserve Account Credit Facility that requires those payments to be made on a parity with the payments required to be made into the Reserve Account or such other reserve account created in the future to secure the payment of debt service on other Future Parity Bonds.

(d) To make when due all payments required to be made under any reimbursement agreement with a provider of a Credit Facility for any Parity Bonds other than payments to be made on a parity with the Parity Bonds, and all payments required to be made under any reimbursement agreement with a provider of a Reserve Account Credit Facility other than payments to be made on a parity with the payments to be made into the Reserve Account or such other reserve account created in the future to secure the payment of debt service on other Future Parity Bonds, in any priority not inconsistent with this ordinance that the City may hereafter establish by ordinance.

(e) To make when due the payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay and secure the payment of any revenue bonds, warrants, notes or other obligations of the System having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the principal of and premium (if any), and interest on the Parity Bonds, or under any reimbursement agreement with a provider of a Credit Facility or reserve account credit facility therefor, and all regularly scheduled payments due pursuant to an Other Derivative Product, as set forth in such Other Derivative Product, in any priority not inconsistent with this ordinance, that the City may hereafter establish by ordinance.

(f) To make when due all nonscheduled payments (i.e., any termination payment or other fees) under any Parity Derivative

Product as set forth in such Parity Derivative Product and under any Other Derivative Product as set forth in such Other Derivative Product, and for any other lawful System purposes, in any priority not inconsistent with this ordinance, that the City may hereafter establish by ordinance.

Section 23. Refunding or Defeasance of Parity Bonds. The City may issue refunding bonds pursuant to the laws of the State of Washington or use money available from any other lawful source to pay when due the principal of and interest on any Parity Bonds, or any portion thereof included in a refunding or defeasance plan (the "Defeased Bonds"), and to redeem and retire, refund or defease such Defeased Bonds and to pay the costs of such refunding or defeasance.

If the City deposits irrevocably with an escrow agent money and/or Government Obligations sufficient in amount, together with the earnings thereon, to pay the principal of and premium, if any, on such Defeased Bonds, together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, all liability of the System with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be outstanding hereunder and the Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds, and that

escrow agent shall hold such money, Government Obligations and earnings in trust exclusively for those Owners and such money, Government Obligations and earnings shall not secure any other Parity Bonds under this ordinance. After establishing such an escrow account, the City 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 Parity Bonds then outstanding. Defeased Bonds shall be excluded from computation of the Coverage Requirement and other covenants under this ordinance.

Section 24. Supplemental Ordinances.

(a) 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.

(b) The City may from time to time and at any time, without the consent of or notice to the registered owners of the Parity Bonds, pass supplemental ordinances for any one or more of the following purposes:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance;

(2) 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 previously in effect;

(3) 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 to or inconsistent with this ordinance as previously in effect;

(4) 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;

(5) 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;

(6) To authorize the issuance of any (A) Future Parity Bonds, (B) revenue bonds or other obligations which are a charge upon the Net Revenue of the System junior or inferior to the payments required by this ordinance to be made out of such Net Revenue to pay and secure the payment of any outstanding Parity Bonds, or (C) revenue bonds to refund maturing Parity Bonds for the payment of which moneys are not otherwise available, in each case, to the extent permitted by this ordinance; or

(7) 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 Section 24(c) hereof.

Before any supplemental ordinance described in this Section 24(b) shall become effective, there shall be delivered to the City and the Bond Registrar an opinion of Bond Counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance and will, upon its effective date, 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.

(c) (1) Except for any supplemental ordinance passed pursuant to Section 24(b) hereof, subject to the terms and provisions contained in this Section 24(c) and not otherwise, registered owners of not less than a majority of the aggregate principal amount of the Parity 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 purposes modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance.

However, unless approved in writing by each registered owner of each Parity Bond then outstanding, nothing contained in this Section 24 shall permit, or be construed as permitting:

(A) 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 or 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;

(B) A preference or priority of any Bond or Bonds over any other Bond or Bonds, or

(C) 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.

(2) If at any time the City shall pass any supplemental ordinance for any of the purposes of this Section 24(c), 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 Parity Bonds, to each Rating Agency that has provided a rating on an issue of the Parity Bonds. 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.

(3) Within two years after the date of the mailing of such notice, the City may pass such supplemental ordinance in substantially the form described in such notice, but only if

there shall have first been delivered to the Bond Registrar: (A) the required consents, in writing, of the registered owners, and (B) an opinion of Bond Counsel, 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 exclusion from federal income taxation of interest on the Bonds.

(4) If the registered owners of not less than the percentage of Parity Bonds required by this subsection (c) have consented to and approved the execution and delivery thereof as herein provided, no owner of the Parity Bonds shall have any right to object to the passage 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 passage thereof, or to enjoin or restrain the City or the Bond Registrar from passing the same or from taking any action pursuant to the provisions thereof.

(5) 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 Owners shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

Section 25. Preliminary Official Statement. The Finance Director is hereby authorized to ratify and to deem final the preliminary Official Statement relating to the Bonds for the purposes of the Rule. The Finance Director is further authorized to ratify and to approve for purposes of the Rule, on behalf of the City, the Official Statement relating to the issuance and sale of the Bonds and the distribution of the Official Statement pursuant thereto with such changes, if any, as may be deemed by him or her to be appropriate.

Section 26. Undertaking to Provide Continuing Disclosure. This section constitutes the City's written undertaking for the benefit of the Owners of the Bonds required by subsection (b)(5)(i) of the Rule.

(a) The City hereby agrees to provide or cause to be provided to the MSRB the following annual financial information and operating data (collectively, the "Annual Financial Information") for each prior fiscal year, commencing in 2014 with the fiscal year ending December 31, 2013, on or before the last day of the seventh month following the end of such prior fiscal year:

(1) Annual financial statements prepared in accordance with the generally accepted accounting principles applicable to governmental units, as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and

available to the City, they will be provided (the "Annual Financial Statements");

(2) A statement of authorized, issued and outstanding bonded debt secured by the Net Revenue;

(3) Debt service coverage ratios;

(4) Largest customers of the System; and

(5) Number of water, wastewater and stormwater customers; and

(6) A narrative explanation of the reasons for any amendments to this Section 26 made during the previous fiscal year and the impact of such amendments on the Annual Financial Information being provided.

Items (2) - (6) shall be required only to the extent that such information is not included in the annual financial statements provided pursuant to (1).

The City's fiscal year currently ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross refer to other documents available to the public on the MSRB's internet website or filed with the Commission.

If not provided as part of the annual financial information discussed above, the City shall provide to the MSRB the City's audited annual financial statement prepared in accordance with the Budget Accounting and Reporting System prescribed by the

Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available.

(b) *Notice of Listed Events.* The City agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Bond calls, if material, and tender offers;
- Defeasances;

- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the City;
- The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that no property or credit enhancements secure payment of the Bonds.

(c) *Notification Upon Failure to Provide Financial Data.* The City agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of the City's failure to provide the annual financial information described in subsection (a) above on or prior to the date set forth in subsection (a) above.

(d) *Format for Filings with the MSRB.* All notices, financial information and operating data required by this

undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(e) *Termination/Modification.* The City's obligations to provide annual financial information and notices of listed events shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this section shall be null and void if the City (1) obtains an opinion of nationally recognized Bond Counsel to the effect that the portion of the Rule requiring that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (2) notifies the MSRB of such opinion and the cancellation of the provision.

Notwithstanding any other provision of this ordinance, the City may amend this Section 26 with an approving opinion of nationally recognized Bond Counsel and in accordance with the Rule. In the event of any amendment of a provision of this Section 26, the City will describe the amendment in the next annual report, and will include a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change will be given in the same manner as for a

listed event under subsection (b), and (2) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Bond Owner's Remedies Under This Section.* The right of any Bond Owner or beneficial owner of Bonds to enforce the provisions of this section are limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. For purposes of this Section 26, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 27. Contract, Severability. The covenants contained in this ordinance shall constitute a contract between the City and the Owners of each and every Bond. The City unconditionally covenants that it will keep and perform all of the covenants of the Bonds and this ordinance. If any one or more of the provisions of this ordinance shall be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining provisions of this ordinance or the Bonds, and this ordinance and the Bonds shall be

construed and enforced as if such unconstitutional or invalid provision had not been contained herein.

Section 28. Effective Date. This ordinance shall take effect five days after passage and publication of an approved summary consisting of the title, or as otherwise provided by law.


ADOPTED by the Redmond City Council this 17th day of June, 2014.

CITY OF REDMOND



JOHN MARCHIONE, MAYOR

ATTEST:



MICHELLE M. HART, MMC, CITY CLERK

(SEAL)

APPROVED AS TO FORM:



JAMES HANEY, CITY ATTORNEY

FILED WITH THE CITY CLERK: June 3, 2014
PASSED BY THE CITY COUNCIL: June 17, 2014
SIGNED BY THE MAYOR: June 20, 2014
PUBLISHED: June 23, 2014
EFFECTIVE DATE: June 28, 2014
ORDINANCE NO. 2743

YES: Allen, Carson, Flynn, Margeson, Myers, Shutz, Stilin

CERTIFICATION


I, the undersigned, City Clerk of the City of Redmond, Washington (the "City"), hereby certify as follows:

1. The attached copy of Ordinance No. 2743 (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a regular meeting of the City Council of the City held at the regular time and meeting place thereof on June 17, 2014, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect after its passage; and

2. A quorum of the members of the City Council was present throughout the meeting and a majority of those members present voted in the proper manner for the passage of the Ordinance.

IN WITNESS WHEREOF, I have hereunto set my hand this 17th day of June, 2014.

CITY OF REDMOND, WASHINGTON


Michelle M. Hart, MMC,
City Clerk