

CITY OF EDMONDS, WASHINGTON

ORDINANCE NO. 3446

AN ORDINANCE relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the Waterworks Utility of the City; providing for the issuance of \$7,875,000 par value Water and Sewer Revenue Improvement and Refunding Bonds, 2003, for the purpose of providing the funds to (a) pay costs of carrying out that system or plan, (b) pay costs of refunding in a current refunding of the callable portion of the City's outstanding Water and Sewer Revenue Refunding Bonds, 1992, and pay the administrative costs of such refunding, and (c) pay the costs of issuance of the bonds; fixing the date, form, maturities, interest rates, terms and covenants of those bonds; providing for and authorizing the purchase of certain obligations out of the proceeds of the sale of the bonds herein authorized and for the use and application of the money derived from those obligations; authorizing the execution of an agreement with a refunding trustee; providing for the call, payment and redemption of the outstanding bonds to be refunded; providing for bond insurance; approving the sale and providing for the delivery of the bonds to Seattle-Northwest Securities Corporation of Seattle, Washington; and establishing an effective date of this ordinance.

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WHEREAS, the City of Edmonds, Washington (the "City"), by Ordinance No. 1957 passed and approved November 15, 1977, specified and adopted a plan or system for the acquisition and construction of certain additions and betterments to and extensions and improvements of the combined water and sewerage systems comprising the waterworks utility of the City (the "System"); declared the estimated cost thereof as nearly as may be; and provided for the issuance of \$4,805,000 par value Water and Sewer Revenue Refunding and Construction Bonds, 1977 (the "1977 Bonds"), for the purpose of providing a part of the funds (a) to carry out the plan or system for the acquisition and construction of certain additions and betterments to and extensions and improvements of the System specified and adopted in that ordinance, and (b) to pay, retire and refund the outstanding Water and Sewer Revenue Bonds, 1959, Water and Sewer Revenue Bonds,

1960, Water and Sewer Revenue Bonds, 1961, Water and Sewer Revenue Bonds, 1965, Water and Sewer Revenue Bonds, 1966, Water and Sewer Revenue Bonds, 1967, Water and Sewer Revenue Bonds, 1970 (interest only), Water and Sewer Revenue Refunding Bonds, 1972, and Water and Sewer Revenue Refunding Bonds, 1976, of the City, which 1977 Bonds were issued under date of November 1, 1977; and

WHEREAS, by Section 16 of Ordinance No. 1957, the City reserved the right to issue additional and/or refunding water and sewer revenue bonds (therein called "Future Parity Bonds") which would constitute a lien and charge upon the gross revenue of the System on a parity with such 1977 Bonds if the following conditions are met and complied with at the time of the issuance of such Future Parity Bonds:

"(1) At the time of issuance of such Future Parity Bonds, there shall not be any deficiency in the Bond Fund or the Reserve Account therein.

"(2) Each ordinance providing for the issuance of such Future Parity Bonds shall require that all Assessments levied in any ULID created in connection with the Future Parity Bonds then being issued will be paid directly into the Bond Fund.

"(3) Each ordinance providing for the issuance of such Future Parity Bonds shall provide for the payment of the principal thereof and interest thereon out of the Bond Fund.

"(4) The ordinance authorizing any Future Parity Bonds shall require that the Reserve Account be increased within a period of five years after the date of issuance of the Future Parity Bonds to an amount equal to the average annual principal and interest requirements on all Future Parity Bonds, including the Bonds and the Future Parity Bonds proposed to be issued, excluding from such amount the principal amount of any Term Bonds included in the Future Parity Bonds issue.

"(5) At the time of the issuance of such Future Parity Bonds, the City shall have on file a certificate from an independent licensed professional engineer experienced in the design, construction and operation of municipal utilities, showing that in his professional opinion, the annual Revenue of the System, after payment of Operating and Maintenance Expenses, available for debt service on the Bonds, Future Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued for each year shall be at least equal to the Coverage Requirement (1.25 times

that amount of debt service to be paid from operating Revenue and not Assessments).

“In determining whether the City is able to comply with the parity conditions, the Revenue of the System of the City, less Operating and Maintenance Expenses, for any twelve consecutive calendar months out of the immediately preceding twenty-four consecutive months shall be used. The following adjustments may be made to the historical net operating Revenue of the System:

“(1) Any rate change that has taken place or been approved, may be reflected;

“(2) Revenue may be added from customers actually added to the System subsequent to the 12-month base period;

“(3) Revenue may be added from customers to be served by the improvements being constructed out of the proceeds of the Future Parity Bonds to be issued; and

“(4) A full year’s revenue may be included from any customer being served, but who has not been receiving service for the full period of operation used as a basis for the certificate; and

“(5) Actual or reasonably anticipated changes to the Operating and Maintenance Expenses subsequent to such 12-month period shall be added or deducted, as is applicable. . .”;

and

WHEREAS, by Ordinance 2363 passed on April 22, 1983, the City authorized the issuance of \$1,000,000 par value of its Water and Sewer Revenue Bonds, 1983 (the “1983 Bonds”), which bonds were issued on a parity of lien with the 1977 Bonds and all of which have been paid in full;

and

WHEREAS, by Ordinance No. 2363, the first subsections (4) and (5) of Section 16 of Ordinance No. 1957 were amended to read as follows:

“(4) The ordinance authorizing any Future Parity Bonds shall require that the Reserve Account be increased within a period of five years after the date of issuance of the Future Parity Bonds to an amount equal to the average annual principal and interest requirements on all Future Parity Bonds, including the Bonds and the Future Parity Bonds proposed to be issued, excluding from such amount the

principal amount of any Term Bonds included in the Future Parity Bonds issue if the payment for such Term Bonds is being provided for by a sinking fund.

“(5) At the time of the issuance of such Future Parity Bonds, the City shall have on file a certificate from an independent licensed professional engineer experienced in the design, construction and operation of municipal utilities, showing that in his professional opinion, the annual Revenue of the System, after payment of Operating and Maintenance Expenses, available for debt service on the Bonds, Future Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued for each year shall be at least equal to the Coverage Requirement. . .”;

and

WHEREAS, by Ordinance No. 2678 passed on August 23, 1988, the City authorized the issuance and sale of \$9,990,000 par value of its Water and Sewer Revenue Bonds, 1988 (the “1988 Bonds”), which bonds were issued on a parity of lien with the 1977 Bonds and the 1983 Bonds; and

WHEREAS, by Ordinance No. 2903 passed on December 8, 1992, the City authorized the issuance and sale of \$7,805,000 par value of its Water and Sewer Revenue Refunding Bonds, 1992 (the “1992 Bonds”), which bonds were issued on a parity of lien with the 1977 Bonds, the 1983 Bonds and the 1988 Bonds; and

WHEREAS, by Ordinance No. 2904 passed on December 8, 1992, the City authorized the issuance and sale of \$5,785,000 par value of its Water and Sewer Revenue and Refunding Bonds, 1993 (the “1993 Bonds”), which bonds were issued on a parity of lien with the 1977 Bonds, the 1983 Bonds, the 1988 Bonds and the 1992 Bonds; and

WHEREAS, by Ordinance No. 3191 passed on February 17, 1998, the City authorized the issuance and sale of \$2,420,000 par value of its Water and Sewer Revenue Refunding Bonds, 1998 (the “1998 Bonds”), which bonds were issued on a parity of lien with the 1977 Bonds, the 1988 Bonds, the 1992 Bonds and the 1993 Bonds; and

WHEREAS, all of the 1977 Bonds and 1983 Bonds have been paid in full; and

WHEREAS, by Ordinance No. 2903 the City reserved the right and option to redeem the 1992 Bonds maturing on or after December 1, 2003, prior to their stated maturity dates on or after December 1, 2002, as a whole at any time or in part on any interest payment date thereafter at par plus accrued interest to the date fixed for redemption; and

WHEREAS, there are presently outstanding \$5,815,000 principal amount of 1992 Bonds maturing or subject to mandatory redemption on December 1 in the years 2003 through 2008, inclusive, and bearing interest at various rates from 5.70% to 6.20% per annum (the "Refunded Bonds"); and

WHEREAS, the City Council has determined that the Refunded Bonds may be refunded by the issuance and sale of the water and sewer revenue bonds authorized herein (the "Bonds") so that there will be a debt service savings to the City and the ratepayers of combined water and sewerage systems, which refunding will be effected by:

- (a) The issuance of the Bonds and the payment of the costs of issuance of the Bonds and the costs of the refunding; and
- (b) The payment of the interest on the Refunded Bonds when due up to and including June 1, 2003, and on June 1, 2003, the call, payment and redemption of all of the Refunded Bonds at a price of par;

and

WHEREAS, to effect that refunding in the manner that will be most advantageous to the City and the ratepayers of the combined water and sewerage systems, the City Council finds it necessary and advisable that certain Acquired Obligations (hereinafter defined) bearing interest and maturing at the time or times necessary to accomplish the refunding as aforesaid be purchased out of a portion of the proceeds of the Bonds; and

WHEREAS, the City Council deems it to be in the best interest of the City to issue and sell the Bonds to pay the cost of advance refunding the Refunded bonds and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds; and

WHEREAS, Financial Security Assurance Inc. (the “Bond Insurer”), has made a commitment to issue an insurance policy (the “Municipal Bond Insurance Policy”) insuring the payment when due of the principal of and interest on the Bonds as provided therein, and the City Council deems that the purchase of the Municipal Bond Insurance Policy is in the best interest of the City; and

WHEREAS, Seattle-Northwest Securities Corporation of Seattle, Washington, has offered to purchase the Bonds under the terms and conditions hereinafter set forth in the form of a bond purchase agreement, and the City Council has determined it is in the best interest of the City to accept that offer; NOW, THEREFORE,

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

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

“Acquired Obligations” means United States Treasury Certificates of Indebtedness, Notes and Bonds--State and Local Government Series or other direct non-callable obligations of the United States of America purchase to accomplish the refunding of the Refunded Bonds as authorized by this ordinance.

“Bond Fund” means the special fund of the City known as the Water and Sewer Revenue Bond Fund, 1977, created by Ordinance No. 1957 for the payment of the principal of and interest on the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

“Bond Insurer” means Financial Security Assurance Inc. of New York, New York.

“Bond Register” means the registration books of the Bond Registrar on which are recorded the names of the owners of the Bonds.

“Bond Registrar” means the fiscal agencies of the State of Washington as the same may be designated from time to time.

“Bonds” means the \$7,875,000 par value Water and Sewer Revenue Improvement and Refunding Bonds, 2003, of the City authorized to be issued by this ordinance.

“1977 Bonds” means the outstanding Water and Sewer Revenue Refunding and Construction Bonds, 1977, of the City issued under date of November 1, 1977, pursuant to Ordinance No. 1957, and all of which have been paid in full.

“1992 Bonds” means the outstanding Water and Sewer Revenue Refunding Bonds, 1992, of the City issued under date of December 1, 1992, pursuant to Ordinance No. 2903.

“1998 Bonds” means the outstanding Water and Sewer Revenue Refunding Bonds, 1998, of the City issued under date of March 1, 1998, pursuant to Ordinance No. 3191.

“City” means the City of Edmonds, Washington, a duly organized and existing noncharter code city under the laws of the State of Washington.

“Code” means the Internal Revenue Code of 1986, as amended.

“Construction Fund” means the City’s 412 Construction Fund.

“Coverage Requirement” means 1.25 times the portion of annual debt service, excluding the principal of any Term Bonds if the payment for such Term Bonds is being provided for by a sinking fund, on the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds actually paid from the Revenue of the System and not from ULID Assessments, after payment of Operating and Maintenance Expenses.

“DTC” means The Depository Trust Company.

“Future Parity Bonds” means all revenue bonds of the City issued after the date of the issuance of the Bonds and having a lien upon the Revenue of the System for the payment of the principal thereof and interest thereon equal to the lien upon such Revenue for the payment of the principal of and interest on the Outstanding Parity Bonds and the Bonds.

“Government Obligations” means direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Letter of Representations” means the Blanket Issuer Letter of Representations dated August 6, 1996, between DTC and the City.

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

“Operating and Maintenance Expenses” means all reasonable expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition, but shall not include any depreciation or taxes or charges in lieu of taxes levied or imposed by the City.

“Outstanding Parity Bonds” means the outstanding 1998 Bonds.

“Plan of Additions” means the system or plan of additions and improvements to and betterments and extensions of the Waterworks Utility specified, adopted and ordered to be carried out by Section 3 of this ordinance.

“Principal and Interest Account” means the account of that name created in the Bond Fund for the payment of the principal of and interest on the Outstanding Parity Bonds, the Bonds and all Future Parity Bonds of the City payable out of that fund.

“Refunded Bonds” means the outstanding Water and Sewer Revenue Refunding Bonds, 1992, of the City maturing in the years 2003 through 2008, inclusive, issued pursuant to Ordinance No. 2093, the refunding of which has been provided for by this ordinance.

“Refunding Plan” means:

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

(b) the payment of the interest on the Refunded Bonds when due up to and including June 1, 2003, and, on June 1, 2003, the call, payment and redemption of all of the Refunded Bonds at a price of par; and

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

“Refunding Trust Agreement” means a Refunding Trust Agreement between the City and the Refunding Trustee substantially in the form of that which is on file with the City Clerk and by this reference made a part hereof.

“Refunding Trustee” means U.S. Bank National Association of Seattle, Washington.

“Reserve Account” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Outstanding Parity Bonds, the Bonds and all Future Parity Bonds of the City payable out of that fund.

“Revenue of the System” means all the earnings and revenue received by the System from any source whatsoever, except general *ad valorem* taxes, ULID Assessments, proceeds from the sale of City property, bond proceeds, and earnings on funds held for payment to the United States of America under Section 148 of the Code.

“System” means the combined water supply and distribution system and sanitary sewage disposal system of the City as the same may be added to, improved and extended for as long as any of the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are outstanding.

“Term Bond Maturity Year” means any maturity year in which the outstanding principal amount of revenue bonds payable out of the Bond Fund scheduled to mature (regardless of any reservation of rights of redemption prior to maturity) is more than 1.25 times the average annual principal maturity of the bonds payable out of that fund for the three years immediately preceding the Term Bond Maturity Year.

“Term Bonds” means the outstanding bonds payable out of the Bond Fund maturing in any Term Bond Maturity Year.

“ULID” means utility local improvement district.

“ULID Assessments” means the assessments levied in such ULID of the City which may hereafter be created pursuant to state law and shall include installments thereof and interest and any penalties thereon.

Section 2. Compliance with Parity Provisions. In accordance with the provisions of Ordinance No. 1957, Ordinance No. 2903, Ordinance No. 2904, and Ordinance No. 3191, the City Council finds and declares that:

(a) At the time of issuance of the Bonds, there will be no deficiency in the Bond Fund or the Reserve Account therein;

(b) No ULID is created in connection with the issuance of the Bonds;

(c) Provision is made herein for the payment of the principal of and interest on the Bonds out of the Bond Fund;

(d) Provision is made herein for the deposit from proceeds of the Bonds of the required additional amount in the Reserve Account of the Bond Fund for the Bonds; and

(e) At the time of issuance of the Bonds, there will be on file with the City a certificate from an independent licensed professional engineer experienced in the design, construction and operation of municipal utilities, or another qualifying independent licensed professional engineer, showing that, in his professional opinion, the annual Revenue of the System, after payment of Operating and

Maintenance Expenses, available for debt service on the Outstanding Parity Bonds and the Bonds for each year shall be at least equal to the Coverage Requirement.

Section 3. Adoption of Plan of Additions. The City specifies, adopts and orders the carrying out of the following projects as a system or plan of additions to and betterments and extensions of the Waterworks Utility (the “Plan of Additions”):

- Water main replacement.
- Repairs and renovations to sewer lift stations.
- Storm drainage improvements.
- Other utility related projects.

All of the foregoing shall be in accordance with the plans and specifications therefor prepared by the City’s engineers and consulting engineers.

The City Council may modify the details of the foregoing Plan of Additions 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 Plan of Additions is declared to be at least 15 years. The estimated cost of carrying out the Plan of Additions, including the costs of issuance and sale of the Bonds and is declared to be at least \$4,900,000, which cost shall be paid from the proceeds of the Bonds authorized in this ordinance and to the extent it exceeds that amount from other money available to the City.

Section 4. Authorization and Description of Bonds. For the purpose of providing the funds to pay the costs of carrying out the Plan of Additions and Refunding Plan, and paying costs of issuance of the Bonds, the City shall issue the Bonds in the aggregate principal amount of \$7,875,000.

The Bonds shall be called Water and Sewer Revenue Improvement and Refunding Bonds, 2003; shall be dated April 1, 2003; shall be in the denomination of \$5,000 or any integral multiple

thereof within a single maturity; shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; shall bear interest (computed on the basis of a 360-day year of twelve 30-day months), payable semiannually on each June 1 and December 1, commencing June 1, 2003, to the maturity or call date of the Bonds; and shall mature on December 1 in years and amounts and bear interest at the rates per annum as follows:

| <u>Maturity Years</u> | <u>Amounts</u> | <u>Interest Rates</u> |
|---------------------------|----------------|---------------------------|
| 2003 | \$ 955,000 | 2.00% |
| 2004 | 965,000 | 2.00 |
| 2005 | 990,000 | 2.25 |
| 2006 | 1,025,000 | 2.50 |
| 2007 | 1,045,000 | 2.75 |
| 2008 | 585,000 | 3.00 |
| 2009 | 130,000 | 3.25 |
| 2010 | 135,000 | 3.50 |
| 2011 | 135,000 | 3.75 |
| 2012 | 120,000 | 4.00 |
| ** | *** | ** |
| 2014 | 305,000 | 4.00 |
| ** | *** | ** |
| 2016 | 325,000 | 4.05 |
| ** | *** | ** |
| 2018 | 355,000 | 4.20 |
| ** | *** | ** |
| 2020 | 385,000 | 4.35 |
| ** | *** | ** |
| 2022 | 420,000 | 4.45 |

Portions of the above maturity amounts are allocated to paying the respective costs of the Plan of Additions and of carrying out the Refunding Plan, including a ratable share of proceeds used to pay the costs of issuance of the Bonds, in accordance with the following schedule:

| <u>Maturity Years</u> | <u>Refunding Allocation</u> | <u>New Money Allocation</u> | <u>Total</u> |
|---------------------------|---------------------------------|---------------------------------|--------------|
| 2003 | \$880,000 | \$ 75,000 | \$ 955,000 |
| 2004 | 850,000 | 115,000 | 965,000 |
| 2005 | 875,000 | 115,000 | 990,000 |
| 2006 | 905,000 | 120,000 | 1,025,000 |
| 2007 | 925,000 | 120,000 | 1,045,000 |
| 2008 | 460,000 | 125,000 | 585,000 |
| 2009 | | 130,000 | 130,000 |
| 2010 | | 135,000 | 135,000 |
| 2011 | | 135,000 | 135,000 |
| 2012 | | 140,000 | 140,000 |
| ** | *** | ** | |
| 2014 | | 305,000 | 305,000 |
| ** | *** | ** | |
| 2016 | | 325,000 | 325,000 |
| ** | *** | ** | |
| 2018 | | 355,000 | 355,000 |
| ** | *** | ** | |
| 2020 | | 385,000 | 385,000 |
| ** | *** | ** | |
| 2022 | | 420,000 | 420,000 |

Section 5. Registration and Transfer of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days preceding any principal payment or redemption date.

The Bonds initially shall be registered in the name of CEDE & CO., as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to registered owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For so long as any Bonds are held in fully immobilized form, DTC or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its nominees and shall not mean the owners of any beneficial interests in the Bonds. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the City or such substitute depository's successor; or (iii) to any person if the Bonds are no longer held in immobilized form.

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 City that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the City may 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.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the City determines that the Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in fully immobilized form.

Section 6. Payment of Bonds. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at either of the principal offices of the Bond Registrar at the option of the owners.

Section 7. Redemption Provisions and Open Market Purchase of Bonds. Bonds maturing in the years 2003 through 2012, inclusive, shall be issued without the right or option of the City to redeem those Bonds prior to their stated maturity dates. The City reserves the right and option to redeem the Bonds maturing on or after December 1, 2013, prior to their stated maturity dates at any time on or after December 1, 2012, as a whole or in part (within one or more maturities selected by the City and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

Bonds maturing in 2014, 2016, 2018, 2020 and 2022 are Term Bonds and, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, shall be called for redemption randomly (in such manner as the Bond Registrar shall determine) at par plus accrued interest on December 1 in years and amounts as follows:

| <u>Mandatory Redemption Years</u> | <u>Mandatory Redemption Amounts</u> |
|---|---|
|---|---|

Term Bonds Maturing in 2014

| | |
|-----------------|-----------|
| 2013 | \$150,000 |
| 2014 (maturity) | 155,000 |

Term Bonds Maturing in 2016

| | |
|-----------------|-----------|
| 2015 | \$160,000 |
| 2016 (maturity) | 165,000 |

Term Bonds Maturing in 2018

| | |
|-----------------|-----------|
| 2017 | \$175,000 |
| 2018 (maturity) | 180,000 |

Term Bonds Maturing in 2020

| | |
|-----------------|-----------|
| 2019 | \$190,000 |
| 2020 (maturity) | 195,000 |

Term Bonds Maturing in 2022

| | |
|-----------------|-----------|
| 2021 | \$205,000 |
| 2022 (maturity) | 215,000 |

If the District shall redeem Term Bonds under the optional redemption provisions set forth above or purchase Term Bonds in the open market as set forth below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds (as allocated by the District) beginning not earlier than 60 days after the date of the optional redemption or purchase, and the District shall promptly notify the Bond Registrar in writing of the manner in which the credit for the Term Bonds so redeemed or purchased has been allocated.

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

The City further reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

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

Notwithstanding the foregoing, for so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, selection of Bonds for redemption shall be in accordance with the Letter of Representations (as it may be changed).

Section 8. Notice of Redemption. The City shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed within the same period, postage prepaid, to Moody's Investors Service, Inc., and Standard & Poor's at their offices in New York, New York, or their successors, to Seattle-Northwest Securities Corporation at its principal office

in Seattle, Washington, or its successor, to the Bond Insurer at its principal office in New York, New York, or its successor, and to such other persons and with such additional information as the City Director of Finance shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds. Notwithstanding the foregoing, for so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, notice of redemption shall be given in accordance with the Letter of Representations (as it may be changed).

Section 9. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the registered owner of that unpaid Bond.

Section 10. Form and Execution of Bonds. The Bonds shall be printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance and state law, shall be signed by the Mayor and City Clerk, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

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

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered City of Edmonds, Washington, Water and Sewer Revenue Improvement and Refunding Bonds, 2003, described in the Bond Ordinance.

WASHINGTON STATE FISCAL AGENCY
Bond Registrar

By _____
Authorized Officer

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

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

Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and City

Ordinance No. 2451 establishing a system of registration for the City's bonds and obligations.

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

Section 12. Deposits to Bond Fund. So long as Bonds are outstanding against the Bond Fund, the City Director of Finance shall set aside and pay into the Bond Fund out of the Revenue of the System, in addition to the amounts to be deposited therein for the Outstanding Parity Bonds, a fixed amount, without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account, at least 20 days prior to each principal payment date and each interest payment date, an amount sufficient, together with any ULID Assessment collections deposited therein in connection with any Future Parity Bonds hereafter issued, to pay the principal amount maturing on each maturity date of the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds hereafter issued and outstanding and an amount sufficient to pay the interest payable on the Outstanding Parity Bonds, the Bonds and those Future Parity Bonds on such interest payment date; and

(b) Into the Reserve Account from money legally available to be used therefor such amount so that on and after the date of delivery of the Bonds to the purchaser thereof and payment therefor, there shall be on deposit in such Reserve Account a total reserve at least equal to the average annual debt service requirements, both principal and interest, of the Outstanding Parity Bonds and the Bonds, excluding the principal of any Term Bonds if the payment for such Term Bonds is being provided for by a sinking fund.

The Reserve Account shall be maintained at that total average annual debt service required reserve amount, except for withdrawals therefrom as authorized herein, at all times so long as any of the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are outstanding; except that the amount in the Reserve Account may be reduced at any time to an amount not less than the

average annual debt service requirements for the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds then outstanding. When the total amount in the Bond Fund shall equal the total amount of principal and interest for all outstanding bonds payable out of the Bond Fund to the last maturity thereof, no further payment need be made into the Bond Fund.

In the event that there shall be a deficiency in the Principal and Interest Account in the Bond Fund to meet maturing installments of either principal or interest, as the case may be, that deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom for that purpose. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from the Revenue of the System and/or ULID Assessments, if any, payable into the Bond Fund first available after making necessary provision for the required payments into the Principal and Interest Account. The money in the Reserve Account shall otherwise be held intact and may be applied against the last outstanding bonds payable out of the Bond Fund.

All money in the Bond Fund not needed to meet the payments of principal and interest when due may be kept on deposit in the official bank depository of the City or in any national bank or may be invested in any legal investment. Interest on any such investment or on such bank account shall be deposited in and become a part of the Bond Fund.

In the judgment of the City Council, the Revenue of the System anticipated to be derived from the operation and maintenance of the System will be more than sufficient to pay the Operating and Maintenance Expenses and to permit the setting aside into the Bond Fund out of the Revenue of the System of sufficient amounts to pay the interest on the Outstanding Parity Bonds and the Bonds when due and to pay and redeem all of the Outstanding Parity Bonds and the Bonds at maturity or earlier mandatory redemption date.

The City Council further declares that in fixing the amounts to be paid into the Bond Fund it has considered and had due regard for Operating and Maintenance Expenses (and the cost of operation and maintenance as used in RCW 35.92) and has not set aside into the Bond Fund a greater amount or proportion of the Revenue of the System that in its judgment will be available over and above Operating and Maintenance Expenses (and such cost of operation and maintenance), and that no portion of the Revenue of the System has been previously pledged for any other outstanding indebtedness except for payment of the Outstanding Parity Bonds.

Section 13. Lien Position of Bonds. All Revenue of the System is pledged to the payments required to be made into the Bond Fund, and the Bonds shall constitute a charge and lien upon that Revenue prior and superior to all other charges and liens whatsoever, excluding Operating and Maintenance Expenses, except that the charge and lien upon that Revenue for the Bonds shall be on a parity with the charge and lien upon that Revenue and upon any ULID Assessments hereafter pledged to be paid into the Bond Fund for the Outstanding Parity Bonds and any Future Parity Bonds.

Section 14. Deposit of Bond Proceeds. The accrued interest on the Bonds, if any, received from the sale and delivery of the Bonds shall be deposited in the Principal and Interest Account of the Bond Fund. A sufficient amount of the proceeds of the Bonds shall be deposited in accordance with the provisions of Section 15 herein. The remaining proceeds of the Bonds shall be deposited in the Construction Fund and used to carry out the Plan of Additions.

Section 15. Refunding of the Refunded Bonds.

(a) Appointment of Refunding Trustee. U.S. Bank National Association, of Seattle, Washington, is appointed Refunding Trustee.

(b) Use of Bond Proceeds; Acquisition of Acquired Obligations. A sufficient amount of the proceeds of the sale of the Bonds, exclusive of the accrued interest which shall be paid into the Principal and Interest Account, shall be deposited immediately upon the receipt thereof with the Refunding Trustee and used to discharge the obligations of the City relating to the Refunded Bonds under Ordinance No. 2904 by providing for the payment of the amounts required to be paid by the Refunding Plan. To the extent practicable, such obligations shall be discharged fully by the Refunding Trustee's simultaneous purchase of the Acquired Obligations, bearing such interest and maturing as to principal and interest in such amounts and at such times so as to provide, together with a beginning cash balance, if necessary, for the payment of the amounts required to be paid by the Refunding Plan. The Acquired Obligations are listed and more particularly described in Schedule A attached to the Refunding Trust Agreement, but are subject to substitution as set forth below. Any Bond proceeds or other money deposited with the Refunding Trustee not needed to purchase the Acquired Obligations and provide a beginning cash balance, if any, and pay the costs of issuance of the Bonds shall be returned to the City at the time of delivery of the Bonds to the initial purchaser thereof and deposited in the Principal and Interest Account to pay interest on the Bonds on the first interest payment date.

(c) Substitution of Acquired Obligations. Prior to the purchase of any Acquired Obligations, the City reserves the right to substitute other direct, non-callable obligations of the United States of America ("Government Obligations") for any of the Acquired Obligations and to use any savings created thereby for any lawful City purpose if, (a) in the opinion of Foster Pepper & Shefelman PLLC, the City's bond counsel, the interest on the Bonds and the Refunded Bonds will remain excluded from gross income for federal income tax purposes under Sections 103, 148 and 149(d) of the Code, and (b) such substitution shall not impair the timely payment of the amounts

required to be paid by the Refunding Plan, as verified by a nationally recognized independent certified public accounting firm.

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

(d) Administration of Refunding Plan. The Refunding Trustee is authorized and directed to purchase the Acquired Obligations (or substitute obligations) and to make the payments

required to be made by the Refunding Plan from the Acquired Obligations (or substitute obligations) and money deposited with the Refunding Trustee pursuant to this ordinance. All Acquired Obligations (or substitute obligations) and the money deposited with the Refunding Trustee and any income therefrom shall be held irrevocably, invested and applied in accordance with the provisions of Ordinance No. 2903, this ordinance, chapter 39.53 RCW and other applicable statutes of the State of Washington, and the Refunding Trust Agreement. All necessary and proper fees, compensation and expenses of the Refunding Trustee for the Bonds and all other costs incidental to establishing the escrow to accomplish the refunding of the outstanding Refunded Bonds and costs related to the issuance and delivery of the Bonds, including bond printing, rating service fees, verification fees, bond counsel's fees and other related expenses, shall be paid out of the proceeds of the Bonds.

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

Section 16. Call for Redemption of the Refunded Bonds. The City calls for redemption on June 1, 2003, all of the Refunded Bonds at par plus accrued interest. Such call for redemption shall be irrevocable after the delivery of the Bonds to the initial purchaser thereof. The date on which the Refunded Bonds are herein called for redemption is the first date on which those bonds may be called.

The proper City officials are authorized and directed to give or cause to be given such notices as required, at the times and in the manner required by Ordinance No. 2903 in order to effect the redemption prior to their maturity of the Refunded Bonds.

Section 17. City Findings with Respect to Refunding. The City Council finds and determines that the issuance and sale of the Bonds at this time will effect a savings to the City and is in the best interest of the City and its ratepayers and in the public interest. In making such finding and determination, the City Council has given consideration to the fixed maturities of the Bonds and the Refunded Bonds, the costs of issuance of the Bonds and the known earned income from the investment of the proceeds of the issuance and sale of the Bonds pending payment and redemption of the Refunded Bonds.

The City Council further finds and determines that the money to be deposited with the Refunding Trustee for the Refunded Bonds in accordance with Section 15 of this ordinance will discharge and satisfy the obligations of the City under Ordinance No. 2903 with respect to the Refunded Bonds, and the pledges, charges, trusts, covenants and agreements of the City therein made or provided for as to the Refunded Bonds, and that the Refunded Bonds shall no longer be deemed to be outstanding under such ordinance immediately upon the deposit of such money with the Refunding Trustee.

Section 18. Covenants. The City covenants and agrees with the owner of each Bond at

any time outstanding as follows:

(a) It will establish, maintain and collect such rates and charges for water and sanitary sewage disposal service so long as any Outstanding Parity Bonds, Bonds and Future Parity Bonds are outstanding which, together with other miscellaneous Revenue of the System (excluding ULID Assessments), will provide amounts annually at least equal to the Coverage Requirement. In determining the amount of debt service subject to coverage, there shall be deducted from the annual principal and interest required to be paid each year an amount equal to the percentage of the debt service for each year on each issue of outstanding Outstanding Parity Bonds, Bonds and Future Parity Bonds, equal to the percentage arrived at by dividing the original total amount of the ULID Assessments specifically pledged to the Bond Fund in that issue by the original total principal amount of that issue. To simplify, where ULIDs are involved, only the debt service on that portion of any Future Parity Bond issue not covered by ULID Assessments must be subject to 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 the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) 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 Fund of a sum sufficient to pay the principal of and interest on all bonds payable out of the Bond Fund at any time outstanding, and that 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 the operation thereof unless provision is made for replacement thereof or for payment into the Bond Fund of the total amount of Revenue received which shall not be less than an amount which shall bear the same ratio to the amount of outstanding bonds payable out of the Bond Fund as the Revenue available for debt service for such outstanding bonds for the twelve months preceding such sale, lease, encumbrance or disposal from the portion of the System sold, leased, encumbered or disposed of bears to the Revenue available for debt service for those bonds from the entire System for the same period. Any money so paid into the Bond Fund shall be used to retire those outstanding bonds at the earliest possible date.

(d) While any of the 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 its System, and it will furnish any subsequent owner or owners of the Bonds, if the Bonds shall be owned by other than a Fund of the City, at the written request of such owner or owners, complete operating and income statements of the System in reasonable detail covering any calendar year, showing the financial condition of the water and sewer departments and compliance with the terms and conditions of this ordinance, not more than 120 days after the close of that calendar year, and it will grant any owner or owners of at least 25% of the

outstanding Bonds the right at all reasonable times to inspect the entire System and all records, accounts and data of the City relating thereto. Upon request of any owner of any of such Bonds, it will also furnish to that owner a copy of the most recently completed audit of the City's accounts by the State Auditor of Washington or such other audit as is authorized by law in lieu thereof.

(e) It will not furnish water or sanitary sewage disposal service to any customer whatsoever free of charge and will promptly take legal action to enforce collection of all delinquent accounts.

(f) It will carry the types of insurance on its System properties in the amounts normally carried by private water and sewer companies engaged in the operation of water and sewerage systems or, in lieu thereof, after the retirement or redemption of all of the outstanding 1977 Bonds, or after irrevocable provision is made for the payment of those bonds, the City may self-insure or participate in a joint intergovernmental insurance pool or similar plan providing coverage in the amounts normally carried by such private water companies, and the cost of that insurance or self-insurance shall be considered a part of Operating and Maintenance Expenses. If, as and when the United States of America or some agency thereof shall provide for War Risk Insurance, the City further agrees to take out and maintain such insurance on all or such portions of the System on which such War Risk Insurance may be written in an amount or amounts to cover adequately the value thereof, except that after the retirement or redemption of the outstanding 1977 Bonds, or after irrevocable provision is made for the payment of those bonds, the City will take out and maintain such insurance only if available at rates acceptable to the City.

(g) It will pay all Operating and Maintenance Expenses and otherwise meet the obligations of the City as herein set forth.

(h) If a ULID is ever established hereafter in connection with the issuance of Future Parity Bonds and the ULID Assessments therefrom pledged to be paid into the Bond Fund, the City will promptly collect all Assessments levied therein. Such Assessments may be used to pay the principal of and interest on any bonds payable out of the Bond Fund without those Assessments being particularly allocated to the payment of principal and interest on any particular series of such Future Parity Bonds, including the Outstanding Parity Bonds and the Bonds.

(i) It will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City also covenants that, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the Bonds, it will take all actions necessary to comply (or to be treated as having complied) with

those requirements in connection with the Bonds, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bonds from being included in gross income for federal income tax purposes.

The City certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(j) It will use, pay out and distribute the Revenue of the System, other than money deposited in bond redemption funds, in the following order of priority:

(1) To pay Operating and Maintenance Expense.

(2) To meet the required debt service payments, including Reserve Account accumulation in the Bond Fund, on the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

(3) To meet the required debt service on any water and sewer revenue bonds issued having a charge and lien on the Revenue of the System junior to the Outstanding Parity, the Bonds and any Future Parity Bonds.

(4) To redeem and retire by optional redemption or to purchase in the open market any outstanding water and sewer revenue bonds or obligations of the City, to make necessary betterments and replacements of or repairs, additions or extensions to the System, or for any other lawful purpose.

Section 19. Designation of Bonds as “Qualified Tax-Exempt Obligations.” The City has determined and certifies that (a) the Bonds are not “private activity bonds” within the meaning of Section 141 of the Code; (b) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) which the City and any entity subordinate to the City (including any entity that the City controls, that derives its authority to issue tax-exempt obligations from the City, or that issues tax-exempt obligations on behalf of the City) will issue during the calendar year in which the Bonds are issued will not exceed \$10,000,000; and (c) the amount of tax-exempt obligations, including the Bonds, designated by the City as “qualified tax-exempt obligations” for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bonds are issued does not

exceed \$10,000,000. The City designates the Bonds as “qualified tax-exempt obligations” for the purposes of Section 265(b)(3) of the Code.

Section 20. Provision for Future Parity Bonds. The City reserves the right to issue Future Parity Bonds which will constitute a charge and lien upon the Revenue of the System and ULID Assessments hereafter pledged to be paid into the Bond Fund on a parity with the Outstanding Parity Bonds and the Bonds if the conditions set forth in Section 16 of Ordinance No. 1957, as amended by Section 3 of Ordinance No. 2363, shall be met and complied with at the time of the issuance of those Future Parity Bonds, which sections are incorporated herein and made a part of this ordinance.

Nothing contained in the provisions for parity shall prevent the City from issuing revenue bonds having a junior lien on the Revenue of the System or from pledging the payment of ULID Assessments into a bond redemption fund or account created to pay and secure the payment of the principal of and interest on such junior lien bonds as long as such ULID Assessments are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such junior lien bonds. Neither shall anything contained in this ordinance prevent the City from issuing revenue bonds to refund maturing revenue bonds of the City for the payment of which money is not otherwise available.

Section 21. Refunding or Defeasance. 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 the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease all such then-outstanding Bonds (hereinafter collectively called the “defeased Bonds”) and to pay the costs of the refunding or defeasance. If money and/or Government Obligations maturing at a time or

times and bearing interest in amounts (together with money, if necessary) sufficient to redeem and retire, refund or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement or defeasance of defeased Bonds (hereinafter called the “trust account”), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance, in the Revenue of the System and in the funds and accounts, including ULID Assessments, obligated to the payment of the defeased Bonds shall cease and become void, except the owners of defeased Bonds shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds. The defeased Bonds shall be deemed no longer outstanding, and 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 bonds then outstanding.

In the event that the refunding plan provides that the Bonds being refunded the refunding bonds to be issued be secured by cash and/or direct obligations of the United States of America or Government Obligations pending the prior redemption of those Bonds being refunded and if such refunding plan also provides that certain cash and/or direct obligations of the United States of America or Government Obligations are irrevocably pledged for the prior redemption of those Bonds included in the refunding or defeasance plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the

refunding plan, shall be included in the computation of coverage for issuance of Future Parity Bonds and the annual computation of coverage for determining compliance with the rate covenants.

Notwithstanding anything in this section to the contrary, if the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall be treated as remaining outstanding for all purposes, not defeased or otherwise satisfied and shall not be considered paid by the City, and the covenants, agreements and other obligations of the City to the registered owners of the Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of those registered owners.

Section 22. Approval of Bond Purchase Agreement. Seattle-Northwest Securities Corporation of Seattle, Washington, has presented a bond purchase agreement (the “Bond Purchase Agreement”) to the City offering to purchase the Bonds under the terms and conditions provided in the Bond Purchase Agreement, which written Bond Purchase Agreement is on file with the City Clerk and is incorporated herein by this reference. The City Council finds that entering into the Bond Purchase Agreement is in the City’s best interest and therefore accepts the offer contained therein and authorizes its execution by City officials.

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

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

Section 23. Preliminary Official Statement Deemed Final. The City Council has been provided with copies of a preliminary official statement dated March 18, 2003 (the “Preliminary Official Statement”), prepared in connection with the sale of the Bonds. For the sole purpose of the Bond purchaser’s compliance with Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(1), the City “deems final” that Preliminary Official Statement as of its date, except for the omission of information as to offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, maturity dates, options of redemption, delivery dates, ratings and other terms of the Bonds dependent on such matters.

Section 24. Undertaking to Provide Continuing Disclosure. To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the City makes the following written undertaking (the “Undertaking”) for the benefit of holders of the Bonds:

(a) Undertaking to Provide Annual Financial Information and Notice of Material Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent:

(i) To each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if any, established in the State of Washington (the “SID”) annual financial information and operating data of the type included in the final official statement for the Bonds and described in Section 24(b) (“annual financial information”);

(ii) To each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes; and

(iii) To each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified in Section 24(b).

(b) Type of Annual Financial Information Undertaken to be Provided.

The annual financial information that the City undertakes to provide in Section 24(a):

(i) Shall consist of (1) annual financial statements of the City, which statements will include the Combined Water/Sewer/Drainage Utility Fund; (2) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the System; (3) debt service coverage ratios; (4) data of the type presented under the headings “Sewage Treated,” “Water Sold” and “Water and Sewer Utility Connections”; and (5) current System rates;

(ii) Shall be prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles applicable to governmental units, as such principles may be changed from time to time and as permitted by State law;

(iii) Shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the City they will be provided;

(iv) Shall be provided to each NRMSIR and the SID, not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City’s fiscal year ending December 31, 2003; and

(v) May be provided in a single or multiple documents, and may be incorporated by reference to other documents that have been filed with each NRMSIR and the SID, or, if the document incorporated by reference is a “final official statement” with respect to other obligations of the City, that has been filed with the MSRB.

(c) Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. The Undertaking evidenced by this Section 24 shall inure to the benefit of the City and any holder of Bonds, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if those provisions of the Rule which require the City to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to each NRMSIR or the MSRB and the SID.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

(g) Designation of Official Responsible to Administer Undertaking. The Director of Finance of the City (or such other officer of the City who may in the future perform the duties of the Director of Finance) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertaking of the City in respect of the Bonds set forth in this Section 24 and in accordance with the Rule, including, without limitation, the following actions:

(i) Preparing and filing the annual financial information undertaken to be provided;

(ii) Determining whether any event specified in Section 24(a) has occurred, assessing its materiality with respect to the Bonds, and, if material, preparing and disseminating notice of its occurrence;

(iii) Determining whether any person other than the City is an “obligated person” within the meaning of the Rule with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of material events for that person in accordance with the Rule;

(iv) Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise the City in carrying out the Undertaking; and

(v) Effecting any necessary amendment of the Undertaking.

Section 25. Bond Insurance. The City Council finds that it is in the City’s best interest to purchase, and that a savings will result from purchasing, the Municipal Bond Insurance Policy for the Bonds. The Mayor or Director of Finance are hereby authorized to execute the Bond Insurer’s Municipal Bond Insurance Commitment. The City shall purchase from the Bond Insurer the Municipal Bond Insurance Policy insuring the prompt payment of the principal of and interest on the Bonds and agrees to the conditions for obtaining that policy, including the payment of the premium therefor.

Section 26. Provisions Relating to Bond Insurance. The Bond Insurer requires that the following sections be included in this ordinance, the provisions of which section or article shall be stated in this ordinance to govern, notwithstanding anything to the contrary set forth in this ordinance, or individually in the appropriate sections:

“(a) Insurance Policy” shall be defined as follows: "the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due". "Insurer" shall be defined as follows: "Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof".

“(c) The Insurer shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any

consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant the article of the Ordinance pertaining to defaults and remedies and the article of the Ordinance pertaining to the duties and obligations of the Trustee, if any. Remedies of the Bondholders shall include mandamus whenever the source of payment includes municipal revenues or tax receipts.

“(g) The Insurer shall be included as a third party beneficiary to the Ordinance.

“(i) No modification or amendment to the Ordinance or any other transaction document including any underlying security agreement (each a "Related Document") may become effective except upon obtaining the prior written consent of the Insurer. Copies of any modification or amendment to the Ordinance or any other Related Document shall be sent to Standard & Poor's Credit Market Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

“(k) The rights granted to the Insurer under the Ordinance or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Insurer.

“(l) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively or (5) securities eligible for "AAA" defeasance under then existing criteria of S & P or any combination thereof, shall be authorized to be used to effect defeasance of the Bonds unless the Insurer otherwise approves.

“To accomplish defeasance the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Ordinance and (iv) if there is a Trustee for the Bonds a certificate of discharge of the Trustee with respect to the

Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, the Trustee and the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

“Bonds shall be deemed "Outstanding" under the Ordinance unless and until they are in fact paid and retired or the above criteria are met.

“(m) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Ordinance and shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with the Ordinance. The Ordinance shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

“(o) Claims Upon the Insurance Policy and Payments by and to the Insurer.

“If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Ordinance, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

“In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Bondholders who surrender their Bonds a new Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered. The Trustee shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid

(without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Issuer on any Bond or the subrogation rights of the Insurer.

“The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

“Upon payment of a claim under the Insurance Policy the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Ordinance, and to the extent permitted by law, in the event amounts paid under the Insurance Policy are applied to claims for payment of principal of or interest on the Bonds, interest on such principal of and interest on such Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

“Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Insurer.

“(p) The Insurer shall, to the extent it makes any payment of principal of (or, in the case of Capital Appreciation Bonds, accreted value) or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. The obligations to the Insurer shall survive discharge or termination of the Related Documents.

“(q) The Issuer shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Ordinance or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Ordinance or any other Related Document whether or not executed or completed, (iv) the violation by the Issuer or the Obligor of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Ordinance or any other Related Document or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Ordinance or any other Related Document.

“(t) The notice address of the Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director – Surveillance, Re: Policy No. _____, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

“(u) The Insurer shall be provided with the following information:

“(i) Annual audited financial statements within 150 days after the end of the Issuer's fiscal year (together with a certification of the Issuer that it is not aware of any default or Event of Default under the Ordinance), and the Issuer's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

“(ii) Notice of any draw upon the Debt Service Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Debt Service Reserve Requirement and (ii) withdrawals in connection with a refunding of Bonds;

“(iii) Notice of any default known to the Trustee [or the Issuer] within five Business Days after knowledge thereof;

“(iv) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

“(v) Notice of the resignation or removal of the Trustee, Paying Agent and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;

“(vi) Notice of the commencement of any proceeding by or against the Issuer or the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

“(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

“(viii) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Related Documents; and

“(ix) All reports, notices and correspondence to be delivered to Bondholders under the terms of the Related Documents.

“(v) Notwithstanding satisfaction of other conditions to the issuance of Additional Bonds contained in the Ordinance, no such issuance may occur (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance and (2) unless the Debt Service Reserve Fund is fully funded at its requirement (including the new issue) upon the issuance of such Additional Bonds, in either case unless otherwise permitted by the Insurer. For tax-backed transactions, subordinate debt shall be subject to the Insurer’s consent.

Section 27. Effective Date. This ordinance, being an exercise of a power delegated to the City legislative body, is not subject to referendum, and shall take effect five days after its passage and publication.

PASSED by the City Council of the City of Edmonds, Washington, at a regular open public meeting thereof and APPROVED by the Mayor this 25th day of March, 2003.

CITY OF EDMONDS, WASHINGTON

By _____
Mayor

ATTEST:

City Clerk

FORM APPROVED:

Bond Counsel

CERTIFICATION

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

1. The attached copy of Ordinance No. 3446 (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 meeting place thereof on March 25, 2003, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect five days after the publication of its summary in the City's official newspaper.

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 ____ day of March, 2003.

CITY OF EDMONDS, WASHINGTON

SANDRA S. CHASE, City Clerk