



ORDINANCE NO. 27405

1 AN ORDINANCE relating to the water system of the City of Tacoma, providing
2 for the sale and issuance of water system revenue and refunding bonds in
3 the aggregate principal amount of not to exceed \$62,000,000 to provide
4 funds to finance or refinance costs of capital improvements to the water
5 system and to refund a portion of the City's outstanding Water System
6 Revenue Bonds, 1997, and specifying the terms and covenants of the
7 bonds.

8 WHEREAS the City of Tacoma (the "City") owns and operates a water
9 system (the "Water System") financed through the issuance of water revenue
10 bonds, and

11 WHEREAS, pursuant to Ordinance No. 26122, the City issued its
12 \$19,850,000 Water System Revenue Bonds, 1997 (the "1997 Bonds"), and

13 WHEREAS, pursuant to Ordinance No. 26849, the City issued its
14 \$32,900,000 Water System Revenue Refunding Bonds, 2001 (the "2001
15 Bonds"), and

16 WHEREAS, pursuant to Ordinance No. 27109, the City issued its
17 \$51,380,000 Water System Revenue and Refunding Bonds, 2003 (the "2003
18 Bonds" and collectively with the outstanding 1997 Bonds and 2001 Bonds, the
19 "Outstanding Parity Bonds"), and

20 WHEREAS, pursuant to the ordinances authorizing the Outstanding
21 Parity Bonds, the City is authorized to issue water system revenue bonds on a
22 parity with the lien and charge on net revenue of the Water System equal to the
23 lien and charge thereon of the Outstanding Parity Bonds for purposes of the
24 Water System or to refund a portion of the Outstanding Parity Bonds, if
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1 specified conditions are met and complied with at the time of the issuance of
2 those bonds, and

3 WHEREAS the Outstanding Parity Bonds, together with the Public
4 Works Trust Fund loans, are the only outstanding revenue obligations of the
5 City pledged against the net revenue of the Water System, and

6 WHEREAS the 1997 Bonds maturing in the years 2008 through 2017
7 (the "Refunded Bonds") may be refunded in advance of their maturity,
8 producing a debt service savings for the City and its ratepayers, and

9 WHEREAS it is deemed necessary and advisable to acquire and
10 construct certain additions and betterments to and extensions of the Water
11 System, and

12 WHEREAS the Public Utility Board has initiated and has recommended
13 to the City Council for its approval the issuance of water revenue and refunding
14 bonds (the "Bonds") to finance or refinance such capital improvements to the
15 Water System, to refund the Refunded Bonds and to pay costs of issuance, and

16 WHEREAS the City has determined that it is in the best interests of the
17 City and its ratepayers to issue the Bonds to provide the funds to finance or
18 refinance costs of capital improvements to the Water System, to refund the
19 Refunded Bonds, and pay the cost of issuance and sale of the Bonds; Now,
20 Therefore,
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23 BE IT ORDAINED BY THE CITY OF TACOMA:
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1 Section 1. Definitions. As used in this ordinance and for the purposes of
2 this ordinance the following words shall have the following meanings:

3 "Accreted Value" means either: (1) with respect to any Capital
4 Appreciation Bonds, as of the time of calculation, the sum of the amount
5 representing the initial principal amount of such Capital Appreciation Bonds as
6 set forth in the applicable Parity Bond Authorizing Ordinance plus the interest
7 accumulated, compounded and unpaid thereon as of the most recent
8 compounding date; or (2) with respect to original issue discount bonds under
9 the Code, as of the time of calculation, the amount representing the initial public
10 offering price of such original issue discount bonds plus the amount of the
11 discounted principal which has accreted since the date of issue, determined in
12 accordance with the provisions of the applicable Parity Bond Authorizing
13 Ordinance.
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15 "Annual Debt Service" means, for any fiscal year of the Water System, all
16 amounts required to be paid in respect of interest on and principal of Parity
17 Bonds (excluding interest payments capitalized by Parity Bonds and excluding
18 the accrued interest paid to the City upon the issuance of Parity Bonds) and
19 Payment Agreement Payments in respect of Parity Payment Agreements,
20 subject to the following:
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22 (1) Debt Service on Term Bonds. For purposes of calculating
23 debt service on Term Bonds, only the scheduled mandatory redemption
24 amounts payable in respect of principal of Term Bonds shall be taken into
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1 account in any fiscal year prior to the Term Bond Maturity Year, and only the
2 principal amount scheduled to remain outstanding after payment of all prior
3 mandatory redemption amounts shall be taken into account in the Term Bond
4 Maturity Year;

5 (2) Interest on Parity Bonds. For purposes of determining
6 compliance with the Coverage Requirement, the Reserve Requirement and the
7 conditions for the issuance of Future Parity Bonds or the creation of Contract
8 Resource Obligations:

9 (a) Generally. Except as otherwise provided by
10 Subparagraph (2)(b) with respect to Variable Interest Rate Bonds and by
11 Subsection 32.1 with respect to Parity Bonds with respect to which a Payment
12 Agreement is in force, interest on any issue of Parity Bonds payable in a fiscal
13 year shall be calculated based on the actual amount of accrued, accreted or
14 otherwise accumulated interest that is payable in that fiscal year in respect of
15 that issue taken as a whole, at the rate or rates set forth in the Parity Bond
16 Authorizing Ordinance;

17 (b) Interest on Variable Interest Rate Bonds. The amount
18 of interest deemed to be payable on any issue of Variable Interest Rate Bonds
19 shall be calculated on the assumption that the interest rate on those bonds
20 would be equal to the rate (the "assumed RBI-based rate") that is 90 percent of
21 the average Bond Buyer Revenue Bond Index or comparable index during the
22 fiscal quarter preceding the quarter in which the calculation is made; except
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1 that, for purposes of determining actual compliance with the Coverage
2 Requirement under Section 20(b)(2) in any past fiscal year, the actual amount
3 of interest paid on any issue of Variable Interest Rate Bonds shall be taken into
4 account;

5 (c) Interest on Parity Bonds With Respect to Which a
6 Payment Agreement or Parity Payment Agreement is in Force. Debt service on
7 Parity Bonds with respect to which a Payment Agreement or Parity Payment
8 Agreement is in force shall be based on the net economic effect on the City
9 expected to be produced by the terms of the Parity Bonds and the terms of the
10 Payment Agreement, including but not limited to the effects set forth in
11 Section 32 of this ordinance.
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13 "Average Annual Debt Service" means the sum of the Annual Debt
14 Service for the remaining years to the last scheduled maturity of the applicable
15 issue or issues of Parity Bonds divided by the number of those years.

16 "Bond Counsel" means a firm of lawyers nationally recognized and
17 accepted as bond counsel and so employed by the City for any purpose under
18 this ordinance applicable to the use of that term.
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20 "Bond Fund" means that special fund of the City known as the Water
21 Revenue Bond Fund, created by Ordinance No. 25392 in the Water Division
22 Fund of the City for the payment of the principal of, mandatory sinking fund
23 payments and interest on the Parity Bonds.
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“Bond Insurance” means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

“Bond Insurer” means any provider of Bond Insurance approved by the City Council by ordinance or resolution.

“Bond Register” means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the owners of each of the Bonds.

“Bond Registrar” means the Fiscal Agency.

“Bond Sale Resolution” means a resolution or resolutions of the City Council adopted pursuant to this ordinance and confirming the sale and final terms of the Bonds.

“Bonds” means the Water System Revenue [and Refunding] Bonds, 2005, authorized to be issued by this ordinance.

“Capital Appreciation Bonds” means any Parity Bonds, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Authorizing Ordinance and is payable only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are issued as Capital Appreciation Bonds, but later convert to obligations on which interest is paid periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be

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1 Capital Appreciation Bonds, but shall be treated as having a principal amount
2 equal to their Accreted Value on the conversion date.

3 "City" means the City of Tacoma, Washington.

4 "City Clerk" means the City Clerk of the City, or any other officer who
5 succeeds to substantially all of the responsibilities of that office specified in this
6 ordinance.

7 "Code" means the Internal Revenue Code of 1986, as amended,
8 together with corresponding and applicable final, temporary or proposed
9 regulations and revenue rulings issued or amended with respect thereto by the
10 United States Treasury Department or the Internal Revenue Service, to the
11 extent applicable to the Bonds.

12 "Commission" means the Securities and Exchange Commission.

13 "Construction Fund" means the 2005 Water Division Construction Fund,
14 created by this ordinance in the Water Division Fund.

15 "Contract Resource Obligation" means an obligation of the City,
16 designated as a Contract Resource Obligation and entered into pursuant to
17 Section 25 of this ordinance, to make payments for water supply, transmission
18 or other commodity or service to another person or entity (including, without
19 limitation, a separate utility system created pursuant to Section 24 of this
20 ordinance). The Water System has designated the Regional System as a
21 Contract Resource Obligation.
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“Coverage Requirement” in any fiscal year of the Water System means an amount of Net Revenue of the Water System equal to at least 1.25 times the Annual Debt Service that year on all Parity Bonds.

“DTC” means The Depository Trust Company.

“Finance Director” means the Director of the Department of Finance of the City, or any other officer who succeeds to substantially all of the responsibilities of that office specified in this ordinance.

“Fiscal Agency” means the fiscal agency of the State of Washington in New York, New York, whose duties include registering and authenticating the Bonds, maintaining the Bond Register, transferring ownership of the Bonds, and paying the principal of and interest on the Bonds.

“Future Parity Bonds” means all revenue bonds and other obligations (including Parity Payment Agreements) of the City issued or entered into after the date of the issuance of the Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net Revenue of the Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Bonds and the Outstanding Parity Bonds.

“Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

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1 "Gross Revenue of the Water System" or "Gross Revenue" means in any
2 fiscal year of the Water System all of the revenues of the Water System,
3 including, but not limited to, revenue from the sale or transmission of water; the
4 sale, lease, or furnishing of other commodities, services, properties or facilities;
5 the imposition of connection, capital improvement or other charges; utility local
6 improvement district assessments that are pledged to Parity Bonds; and
7 earnings from the investment of money in the Water Division Fund. However,
8 Gross Revenue shall not include earnings of the Regional System or any other
9 separate utility system that may be acquired or constructed by the City pursuant
10 to Section 24 hereof; principal proceeds of Parity Bonds or other borrowing;
11 grants or other capital contributions; or earnings or proceeds from any
12 investments in a trust, defeasance or escrow fund created to defease or refund
13 Water System obligations (until commingled with other earnings and revenues
14 of the Water System defined as Gross Revenue) or held in a special account for
15 the purpose of paying a rebate to the United States government under the
16 Code.
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19 "Independent Consulting Engineer" means either (1) an independent
20 licensed professional engineer experienced in the design, construction or
21 operation of municipal utilities of comparable size and character to the Water
22 System; or (2) an independent certified public accountant or other professional
23 consultant experienced in the development of rates and charges for municipal
24 utilities of comparable size and character to the Water System.
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“Letter of Representations” means the Blanket Letter of Representations from the City to DTC in the form on file with the Finance Director.

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

“MSRB” means the Municipal Securities Rulemaking Board or any successor to its functions.

“Net Revenue of the Water System” or “Net Revenue” means the Gross Revenue minus: (1) Operation and Maintenance Expenses; (2) deposits into the Rate Stabilization Account; and (3) proceeds from the sale of property of the Water System, and plus withdrawals from the Rate Stabilization Account.

“NRMSIR” means a nationally-recognized municipal securities information repository.

“Operation and Maintenance Expenses” means all expenses incurred by the City in causing the Water System of the City to be operated and maintained in good repair, working order and condition, including, without limitation: deposits, premiums, assessments, or other payments for insurance, if any, on the Water System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations, including Regional Supply System Costs, but only at the times described in Section 25 of this ordinance; payments made to any other person or entity for the receipt of water supply or transmission or other right, commodity or service; payments made to any other

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1 person or entity that are required in connection with the operation of the Water
2 System or the acquisition or transmission of water and that are not subordinate
3 to the lien of the Parity Bonds; and payments with respect to any other
4 expenses of the Water System that are properly treated as operation and
5 maintenance expenses under generally accepted accounting principles
6 applicable to municipal corporations. Operation and Maintenance Expenses
7 does not include any depreciation or taxes levied or imposed by the City,
8 Payment Agreement Payments, or payments to the City in lieu of taxes, or
9 capital additions or capital replacements to the Water System.

10 "Outstanding Parity Bonds" means the 1997 Bonds, 2001 Bonds, and
11 2003 Bonds.

12 "Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any
13 Future Parity Bonds.

14 "Parity Bond Authorizing Ordinance" means the ordinance and/or
15 resolution of the City that authorizes the issuance and sale and establishes the
16 terms of a particular issue of Parity Bonds.

17 "Parity Payment Agreement" means a Payment Agreement under which
18 the City's payment obligations are expressly stated to constitute a charge and
19 lien on the Net Revenue of the Water System equal in rank with the charge and
20 lien upon such revenue required to be paid into the Bond Fund to pay and
21 secure the payment of the principal of and interest on Parity Bonds.
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“Payment Agreement” means a written agreement, for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates, currencies or commodities, or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty, all as authorized by any applicable laws of the State.

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

“Payment Agreement Receipts” means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

“Plan of Additions” means the system or plan of additions to and betterments and extensions of the Water System described in Section 2 of this ordinance, as such plan of additions may be amended, updated, supplemented, or replaced consistent with the Water Comprehensive Plan.

“Principal and Interest Account” means the account of that name created in the Bond Fund for the payment of the principal of and interest and mandatory redemption requirements, if any, on the Parity Bonds.

“Public Utility Board” means the board of that name created under Section 4.8 of the Tacoma City Charter.



1 "Public Works Trust Fund Loans" means loans to the City by the State of
2 Washington under the Public Works Trust Fund loan program, which loans are
3 secured by a junior lien pledge of Net Revenues.

4 "Qualified Counterparty" means a party (other than the City or a party
5 related to the City) who is the other party to a Payment Agreement and
6 (1)(a) whose senior debt obligations are rated in one of the three highest rating
7 categories of each of the Rating Agencies (without regard to any gradations
8 within a rating category) or (b) whose obligations under the Payment
9 Agreement are guaranteed for the entire term of the Payment Agreement by a
10 bond insurer or other institution which has been assigned a credit rating in one
11 of the two highest rating categories of each of the Rating Agencies, and (2) who
12 is otherwise qualified to act as the other party to a Payment Agreement under
13 any applicable laws of the State.

14 "Rate Stabilization Account" means the account of that name created in
15 the Water Division Fund for the purposes described in this ordinance.

16 "Rating Agencies" means Moody's Investors Service and Standard &
17 Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. and
18 their successors, and any other nationally-recognized securities rating agency
19 or agencies rating Parity Bonds at the request of the City.

20 "Refunded Bonds" means the 1997 Bonds maturing in the years 2008
21 through 2017 to be refunded with proceeds of the Bonds if interest rates are
22 favorable and as provided in the Sale Resolution.

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1 "Regional Supply System Costs" means with respect to each month all
2 costs attributable to the Regional System, to the extent not paid from the
3 proceeds of Parity Bonds or other sources, resulting from the ownership,
4 operation, maintenance, and termination of, and repair, renewals,
5 replacements, additions, improvements, betterments, and modifications to the
6 Regional System, including, without limitation: (1) operating expenses; (2) the
7 amount required to be paid into the bond fund for Regional System bonds;
8 (3) any amount that the City may be required during such month to pay for the
9 prevention or correction of any unusual loss or damage or for renewals,
10 replacements, repairs, additions, improvements, betterments, and modifications
11 that are necessary to keep the Regional System in good operating condition, to
12 improve the operation thereof or to prevent a loss; and (4) all other charges or
13 obligations against the revenues of the Regional System.
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15 "Regional System" means the Regional Water Supply System,
16 comprised of certain property and facilities to obtain and receive deliveries of
17 water for the participants from the exercise by the City of the Second Diversion
18 Water Right from the Green River and granted by the State of Washington
19 Department of Ecology, which property and facilities include: (1) a Main Branch
20 pipeline to Tacoma with a 72 MGD nominal capacity; (2) headworks
21 improvements associated with the second diversion water right; (3) related
22 fisheries and environmental enhancements; (4) improvements and additions to
23 the Howard Hanson Dam to raise the summer storage pool to elevation of
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1 1,167 feet in phase I to provide an additional 20,000 acre feet of water storage,
2 together with improvements and additions related to accommodating fish
3 passage; and (5) additional related water treatment facilities; and as the same
4 will be added to, improved, and extended.

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

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

14 "Reserve Requirement" means as of any date the lesser of Maximum
15 Annual Debt Service or 125 percent of average Annual Debt Service on all the
16 outstanding Parity Bonds. Once the 1997 Bonds and 2001 Bonds are no longer
17 outstanding, the Reserve Requirement for a series of Parity Bonds shall not
18 exceed 10 percent of the net proceeds of such Bonds.

19 "Rule" means the Commission's Rule 15c2-12 under the Securities
20 Exchange Act of 1934, as amended and as the same may be amended from
21 time to time.

22 "State" means the State of Washington.



1 "State Auditor" means the office of the Auditor of the State or such other
2 department or office of the State authorized and directed by State law to make
3 audits.

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

6 "Term Bonds" means those Bonds designated as such in the Bond Sale
7 Resolution and those Parity Bonds designated as such in the applicable Parity
8 Bond Authorizing Ordinance.

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

19 "Variable Interest Rate Bonds" means, for any period of time, any Parity
20 Bonds that bear a Variable Interest Rate during that period, except that Parity
21 Bonds shall not be treated as Variable Interest Rate Bonds if the net economic
22 effect of interest rates on particular Parity Bonds of an issue and interest rates
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1 on other Parity Bonds of the same issue, as set forth in the applicable Parity
2 Bond Authorizing Ordinance, or the net economic effect of a Payment
3 Agreement with respect to particular Parity Bonds, in either case is to produce
4 obligations that bear interest at a fixed interest rate; and Parity Bonds with
5 respect to which a Payment Agreement is in force shall be treated as Variable
6 Interest Rate Bonds if the net economic effect of the Payment Agreement is to
7 produce obligations that bear interest at a Variable Interest Rate.

8 "Water Division Fund" means Fund No. 4600 of the City, or any
9 successor fund or funds, into which is paid the Gross Revenue of the Water
10 System.

11 "Water System" means the water system of the City as it now exists, and
12 all additions thereto and betterments and extensions thereof at any time made
13 for so long as any of the Parity Bonds are outstanding. The Water System shall
14 not include the Regional System or any water supply or service or other
15 facilities that may be created, acquired, or constructed by the City as a separate
16 utility system, as provided in Section 24 of this ordinance.

17 "1997 Bonds" means the City's Water System Revenue Bonds, 1997,
18 issued in the original principal amount of \$19,850,000 pursuant to Ordinance
19 No. 26122, passed on October 7, 1997.

20 "2001 Bonds" means the City's Water System Revenue Refunding
21 Bonds, 2001, issued in the original principal amount of \$32,900,000 pursuant to
22 Ordinance No. 26849, passed on September 18, 2001.



1 "2003 Bonds" means the City's Water System Revenue and Refunding
2 Bonds, 2003, issued in the original principal amount of \$51,380,000 pursuant to
3 Ordinance No. 27109, passed on July 1, 2003.

4 Section 2. Parity and Other Findings.

5 2.1 Parity Findings. In connection with the issuance of the Bonds on a
6 parity of lien with the Outstanding Parity Bonds, the City hereby makes the
7 following findings:

8 (a) There is, and as of the date of the issuance of the Bonds
9 there will be, no deficiency in the Bond Fund, and no Event of Default, as
10 defined in Ordinance Nos. 26122, 26849 or 27109, has occurred or is
11 continuing.
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13 (b) This ordinance provides that all assessments and interest
14 thereon that may be levied in any utility local improvement district created for
15 the purpose of paying, in whole or in part, the principal of and interest on the
16 Bonds, shall be paid directly into the Bond Fund, except for any prepaid
17 assessments permitted by law to be paid into a construction fund or account.
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19 (c) This ordinance provides for the payment of the principal of
20 and interest on the Bonds out of the Bond Fund.

21 (d) This ordinance provides for the payment of amounts into the
22 Bond Fund to meet mandatory redemption requirements applicable to any Term
23 Bonds to be issued and for regular payments to be made of the payment of the
24 principal of such Term Bonds on or before their maturity, or, as an alternative,
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1 the mandatory redemption of those Term Bonds prior to their maturity date from
2 money in the Principal and Interest Account.

3 (e) This ordinance provides for the deposit into the Reserve
4 Account of: (1) an amount, if any, necessary to fund the Reserve Requirement
5 upon the issuance of the Bonds from Bond proceeds or other money legally
6 available; or (2) Reserve Insurance or an amount plus Reserve Insurance
7 necessary to fund the Reserve Requirement upon the issuance of the Bonds.

8 (f) On the date of issuance of the Bonds, there will be on file with
9 the City a certificate of the Finance Director demonstrating that during any
10 12 consecutive calendar months out of the immediately preceding 24 calendar
11 months Net Revenue was at least equal to 1.25 times the projected Maximum
12 Annual Debt Service for all Parity Bonds plus the Bonds.

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14 2.2 Other Findings. The City specifies, adopts, and orders to be carried
15 out the system or plan of additions to and betterments and extensions of the
16 Water System (the "Plan of Additions" and each element thereof an "Addition")
17 as generally provided for in the capital portion of the 2005-2006 Biennial Budget
18 (the "2005-2006 Budget") and as provided in subsequent budgets if Bond
19 proceeds are available after 2006, and described as follows: capital
20 improvements to the Water System, including distribution service, hydrant, and
21 valve replacements, building and other supply system improvements.

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23 The estimated cost of the Plan of Additions to be financed with Bond
24 proceeds is \$40,000,000.

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The Plan of Additions shall include any amendments, updates, supplements, or replacements to the Water comprehensive plan, or budget all of which shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified to include other improvements if the City determines by ordinance or resolution that those amendments or other improvements constitute a system or plan of additions to and betterments and extensions of the Water System.

The Plan of Additions includes the purchase and installation of all materials, supplies, appliances, equipment (including, but not limited to, data processing hardware and software and conservation equipment) and facilities, the acquisition of all permits, franchises, property and property rights, other capital assets, and all engineering, consulting, and other professional services and studies (whether performed by the City or by other public or private entities) necessary or convenient to carry out the Plan of Additions.

The Council hereby ratifies the use of remaining proceeds from the 1997 Bonds, 2001 Bonds and 2003 Bonds to finance a portion of the capital improvements to the Water System in 2005 and 2006.

Section 3. Authorization and Description of Bonds. For the purpose of providing all or a part of the money required to: (a) pay part of the cost of carrying out the Plan of Additions; (b) provide for a reserve for the Bonds; (c) refund the Refunded Bonds if interest rates are favorable; and (d) pay the costs of issuance of the Bonds, the City shall issue the Bonds in the principal

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1 amount of not to exceed \$62,000,000. The Bonds shall be designated Water
2 System Revenue and Refunding Bonds, 2005 and may be issued in one or two
3 series, shall be dated as specified in the Bond Sale Resolution, shall be in the
4 denomination of \$5,000 or any integral multiple thereof within a single maturity
5 or such other denomination within a maturity as specified in the Bond Sale
6 Resolution, shall be numbered separately in the manner and with any additional
7 designation as the Bond Registrar deems necessary for the purpose of
8 identification, shall bear interest at such rate or rates (computed on the basis of
9 a 360-day year of 12 30-day months) as shall be specified and approved by the
10 Bond Sale Resolution payable semiannually on the dates as specified in the
11 Bond Sale Resolution; and shall mature on the dates and in years and amounts
12 as specified in the Bond Sale Resolution.
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14 Section 4. Bond Sale Resolution. The City Council may adopt the Bond
15 Sale Resolution and, in that resolution, provide for the matters described in this
16 ordinance and such other matters that the City Council deems necessary and
17 appropriate to carry out the purposes of this ordinance.
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19 The Bond Sale Resolution may provide for Bond Insurance or Reserve
20 Insurance, and conditions or covenants relating thereto, including additional
21 terms, conditions, and covenants relating to the Bonds that are required by the
22 Bond Insurer and are consistent with the provisions of this ordinance, including,
23 but not limited to, restrictions on investments and requirements of notice to and
24 consent of the Bond Insurer or provider of Reserve Insurance.
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The Bond Sale Resolution may approve and authorize the execution and delivery on behalf of the City of any agreements consistent with the provisions of this ordinance for which the City's approval is necessary or to which the City is a party and that are related or incidental to the initial issuance and sale of the Bonds, the refunding plan to effect the refunding of the Refunded Bonds, the establishment of the interest rate or rates on the Bonds, redemption of the Bonds, provision of Bond Insurance, Reserve Insurance, Payment Agreements, and similar agreements.

Section 5. Registration and Transfer or Exchange of Bonds.

5.1 Registrar/Bond Register. The City hereby adopts the system of registration approved by the Washington State Finance Committee, which utilizes the Fiscal Agency, as registrar, authenticating agent, paying agent and transfer agent for the Bonds (collectively, the "Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Bonds (the "Bond Register"), which shall be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of 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 on the Bonds.

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5.2 Registered Ownership. The City and the Bond Registrar may deem and treat the registered owner of each Bond as the absolute owner for all purposes, 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 7, but such registration may be transferred as herein provided. All such payments made as described in Section 7 shall be valid and shall satisfy the liability of the City upon such Bond to the extent of the amount so paid.

5.3 Transfer or Exchange of Registered Ownership; Change in Denominations. The registered ownership of any Bond may be transferred or exchanged, but no transfer of any Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on the 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, 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 canceled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal

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1 aggregate principal amount of Bonds of the same date, maturity, and interest
2 rate in any authorized denomination. The Bond Registrar shall not be obligated
3 to transfer or exchange any Bond during a period beginning at the opening of
4 business on the 15th day of the month next preceding any interest payment
5 date and ending at the close of business on such interest payment date, or, in
6 the case of any proposed redemption of the Bonds, after the mailing of notice of
7 the call of such Bonds for redemption.

8 5.4 Bond Registrar's Ownership of Bonds. The Bond Registrar may
9 become the registered owner of any Bond with the same rights it would have if
10 it were not the Bond Registrar, and to the extent permitted by law, may act as
11 depository for and permit any of its officers or directors to act as member of, or
12 in any other capacity with respect to, any committee formed to protect the rights
13 of the registered owners of the Bonds.
14

15 5.5 Registration Covenant. The City covenants that, until all Bonds
16 have been surrendered and canceled, it will maintain a system for recording the
17 ownership of each Bond that complies with the provisions of Section 149 of the
18 Code.
19

20 Section 6. Lost or Destroyed Bonds. If any Bonds are lost, stolen, or
21 destroyed, the Bond Registrar may authenticate and deliver a new Bond or
22 Bonds of like amount, maturity, and tenor to the registered owner upon the
23 owner paying the expenses and charges of the Bond Registrar and the City in
24 connection with preparation and authentication of the replacement Bond or
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1 Bonds and upon his or her filing with the Bond Registrar and the City evidence
2 satisfactory to both that such Bond or Bonds were actually lost, stolen, or
3 destroyed and of his or her ownership, and upon furnishing the City and the
4 Bond Registrar with indemnity satisfactory to both.

5 Section 7. Payment of Bond Principal and Interest. Both principal of and
6 interest on the Bonds shall be payable in lawful money of the United States of
7 America. Interest on the Bonds shall be paid by checks or drafts mailed by the
8 Bond Registrar on the interest payment date to the registered owners at the
9 addresses appearing on the Bond Register on the 15th day of the month
10 preceding the interest payment date or, at the request of an owner of
11 \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to
12 an account in the United States designated in writing by such owner prior to the
13 record date. Principal of the Bonds shall be payable upon presentation and
14 surrender of the Bonds by the registered owners at either of the principal offices
15 of the Bond Registrar at the option of the owners. The Bonds shall be payable
16 solely out of the Bond Fund and shall not be general obligations of the City.
17 Notwithstanding the foregoing, as long as the Bonds are registered in the name
18 of DTC or its nominee, payment of principal of and interest on the Bonds shall
19 be made in the manner set forth in the Letter of Representations.
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22 Section 8. Redemption and Open Market Purchase of Bonds.
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8.1 Optional Redemption. All or some of the Bonds may be subject to redemption at the option of the City at the times and on the terms set forth in the Bond Sale Resolution.

8.2 Mandatory Redemption. The Finance Director may designate Term Bonds with mandatory redemption amounts as he deems necessary or advisable all to be provided by the Bond Sale Resolution. The City shall redeem any such Term Bonds, if not redeemed under the optional redemption provisions or purchased in the open market, randomly (in such manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Sale Resolution.

If the City shall redeem Term Bonds under the optional redemption provisions or purchase Term Bonds in the open market, 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 City) beginning not earlier than 60 days after the date of the optional redemption or purchase, and the City 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.

8.3 Partial Redemption. 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

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1 of that Bond at either of the principal offices of the Bond Registrar, there shall
2 be issued to the registered owner, without charge therefor, a new Bond (or
3 Bonds, at the option of the registered owner) of the same maturity and interest
4 rate in any of the denominations authorized by this ordinance in the aggregate
5 total principal amount remaining unredeemed.

6 8.4 Purchase for Cancellation. The City reserves the right and option to
7 purchase any or all of the Bonds for cancellation at any time at any price
8 acceptable to the City plus accrued interest to the date of purchase. The
9 principal amount of Term Bonds purchased pursuant to this section shall be
10 credited at the par amount thereof against the next mandatory redemption
11 requirement, or as otherwise directed by the Finance Director.

12
13 Section 9. Notice of Redemption. The City shall cause notice of any
14 intended redemption of Bonds to be given not less than 30 nor more than
15 60 days prior to the date fixed for redemption by first-class mail, postage
16 prepaid, to the registered owner of any Bond to be redeemed at the address
17 appearing on the Bond Register at the time the Bond Registrar prepares the
18 notice, and the requirements of this sentence shall be deemed to have been
19 fulfilled when notice has been mailed as so provided, whether or not it is
20 actually received by the owner of any Bond. Interest on Bonds called for
21 redemption shall cease to accrue on the date fixed for redemption unless the
22 Bond or Bonds called are not redeemed when presented pursuant to the call.
23 In addition, the redemption notice shall be mailed by the Bond Registrar within
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the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to any Bond Insurer for the Bonds, and to such other person and with such additional information as the Finance Director shall determine or as shall be specified in the Bond Sale Resolution, but these additional mailings shall not be a condition precedent to the redemption of Bonds. The Bond Registrar shall provide additional notice of redemption (at least 30 days) to each NRMSIR and SID, if any.

Section 10. 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 each of those unpaid Bonds.

Section 11. Form and Execution of Bonds.

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

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UNITED STATES OF AMERICA

NO. _____ \$ _____

STATE OF WASHINGTON
CITY OF TACOMA, WASHINGTON
WATER SYSTEM REVENUE AND REFUNDING BONDS, 2005

INTEREST RATE: % MATURITY DATE: CUSIP NO.:

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT:

The City of Tacoma, Washington (the "City") hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from _____, 2005, or the most recent date to which interest has been paid or duly provided for, until payment of this bond at the Interest Rate set forth above, payable on _____ 1, _____, and semiannually thereafter on the first days of each succeeding _____ and _____. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the City to the DTC. In the event that the bonds of this issue are no longer held in fully immobilized form, interest on this bond shall be paid by check or draft mailed to the Registered Owner at the address appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of this bond shall be payable upon presentation and surrender of this bond by the Registered Owner at the principal office at the principal office of the fiscal agency of the State of Washington in New York, New York (the "Bond Registrar"); provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

This bond is one of an authorized issue of bonds of like date and tenor, except as to number, amount, rate of interest, and date of maturity, in the aggregate principal amount of \$ _____ (the "Bonds"), and is issued pursuant to Ordinance No. _____ and Resolution No. _____ (the "Bond Ordinance") passed by the City Council on _____, 2005, and _____, 2005, respectively, to finance or refinance capital improvements to the Water System,

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1 redemption, the Bonds so called shall cease to accrue interest after such
2 redemption date, and all such Bonds shall no longer be deemed to be
3 outstanding for any purpose, except that the Registered Owners shall be
4 entitled to receive payment of the redemption price and accrued interest to the
5 redemption date from the money set aside for such purpose.

6 The Bonds are payable solely from the special fund of the City known as
7 the Water Revenue Bond Fund of the Water Division Fund (the "Bond Fund"),
8 created by Ordinance No. 25392. The City has irrevocably obligated and bound
9 itself to pay into the Bond Fund out of Net Revenue of the Water System or
10 from such other money as may be provided for such purpose certain amounts
11 necessary to pay and secure the payment of the principal and interest on the
12 Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

13 The City has pledged to set aside from the Gross Revenue of the Water
14 System and to pay into the Bond Fund the various amounts required by the
15 Bond Ordinance to be paid into and maintained in such Fund within the times
16 provided by the Bond Ordinance.

17 To the extent more particularly provided by the Bond Ordinance, the
18 amounts so pledged to be paid out of the Gross Revenue of the System into the
19 Bond Fund shall be a lien and charge thereon equal in rank to the lien and
20 charge upon such Gross Revenue of the amounts required to pay and secure
21 the payment of the City's Outstanding Parity Bonds and any Future Parity
22 Bonds, and superior to all other liens and charges of any kind or nature, except
23 subject to the Operation and Maintenance Expenses of the Water System.

24 The City has further bound itself to maintain the Water System in good
25 repair, working order and condition, to operate the same in an efficient manner
26 and at a reasonable cost, and to establish, maintain, and collect rates and
charges for as long as any of the Bonds are outstanding that will make
available, for the payment of the principal thereof and interest thereon as the
same shall become due, Net Revenue in an amount at least equal to the
Coverage Requirement. The City hereby covenants that it will perform all the
covenants of this Bond and of the Bond Ordinance, and reference is hereby
made to the Bond Ordinance for a complete statement of such covenants.

The pledge of Net Revenue of the Water System and other obligations of
the City under the Bond Ordinance may be discharged at or prior to the maturity
or redemption of the bonds of this issue upon the making of provision for the
payment thereof on the terms and conditions set forth in the Bond Ordinance.

This Bond is a special limited obligation of the City and is not an
obligation of the State of Washington or any political subdivision thereof other

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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 this Bond.

This Bond shall 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 has been manually signed by the Bond Registrar.

This Bond is transferable only on the records maintained by the Bond Registrar for that purpose upon the surrender of this Bond by the Registered Owner or his or her duly authorized agent and only if endorsed in the manner provided hereon, and a new fully registered Bond of like principal amount, maturity, and interest rate shall be issued to the transferee in exchange. Such exchange or transfer shall be without cost to the Registered Owner or transferee. The City and Bond Registrar may deem the person in whose name this Bond is registered to be the absolute owner for the purpose of receiving payment of the principal of and interest on this Bond and for all other purposes.

The Bond Registrar is not required to issue, register, transfer, or exchange any Bonds during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on the interest payment date, or, in the case of any proposed redemption of the Bonds, after the mailing of notice of the call of such Bonds for redemption.

It is hereby certified that all acts, conditions, and things required by the Constitution and statutes of the State of Washington and the Charter and ordinances of the City to exist, to have happened, been done, and performed precedent to and in the issuance of this Bond have happened, been done, and performed and that the issuance of this bond and the bonds of this series does not violate any constitutional, statutory, or other limitation upon the amount of bonded indebtedness that the City may incur.

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The City has caused this Bond to be executed by the manual or facsimile signature of the Mayor and to be attested by the manual or facsimile signature of the City Clerk, and has caused the seal of the City to be impressed or imprinted on this Bond, as of this _____, 2005.

CITY OF TACOMA, WASHINGTON

By _____ /s/ _____
Mayor

ATTEST:

_____/s/_____
City Clerk

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

CERTIFICATE OF AUTHENTICATION

This is one of the Water System Revenue and Refunding Bonds, 2005 of the City of Tacoma, Washington, dated _____, 2005, described in the Bond Ordinance.

WASHINGTON STATE FISCAL AGENCY, as Bond Registrar

By _____
Authorized Signatory

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ASSIGNMENT

1 FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and
2 transfers unto _____

(PLEASE INSERT SOCIAL SECURITY OR TAXPAYER
IDENTIFICATION NUMBER OF TRANSFEREE)

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5 _____
6 (Please print or typewrite name and address, including zip code, of transferee)

7 the within bond and does hereby irrevocably constitute and appoint _____ as
8 attorney-in-fact to transfer said Bond on the books kept for registration thereof
9 with full power of substitution in the premises.

10 DATED: _____, _____.

11 SIGNATURE GUARANTEED:

12
13 NOTICE: Signature(s) must be
14 guaranteed pursuant to law.

15 NOTE: The signature on this
16 Assignment must correspond with the
17 name of the Registered Owner as it
18 appears upon the face of the within
19 Bond in every particular, without
20 alteration or enlargement or any
21 change whatever.

22 11.2 Execution of the Bonds. The Bonds shall be signed by the Mayor
23 and City Clerk, either or both of whose signatures may be manual or in
24 facsimile, and the seal of the City or a facsimile reproduction thereof shall be
25 impressed or printed thereon.

26 Only Bonds bearing a Certificate of Authentication in the form set forth
above, manually signed by the Bond Registrar, shall be valid or obligatory for

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

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

15
16 Section 12. Bond Registrar. The Bond Registrar shall keep, or cause to
17 be kept, at its principal corporate trust office, sufficient books for the registration
18 and transfer of the Bonds which shall at all times be open to inspection by the
19 City. The Bond Registrar is authorized, on behalf of the City, to authenticate
20 and deliver Bonds transferred or exchanged in accordance with the provisions
21 of the Bonds and this ordinance, to serve as the City's paying agent for the
22 Bonds, and to carry out all of the Bond Registrar's powers and duties under this
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1 ordinance and Ordinance No. 22999, establishing a system of registration for
2 the City's bonds and obligations.

3 The City reserves the right in its discretion to appoint special paying
4 agents, registrars, or trustees in connection with the payment of some or all of
5 the principal of or interest on the Bonds. If a new Bond Registrar is appointed
6 by the City, notice of the name and address of the new Bond Registrar shall be
7 mailed to the registered owners of the Bonds. The notice may be mailed
8 together with the next interest payment due on the Bonds, but, to the extent
9 practicable, shall be mailed not less than 15 days prior to a maturity date of the
10 principal or a mandatory redemption date of any Bond.

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

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20 Section 13. Continuing Disclosure.

21 (a) Contract/Undertaking. This section constitutes the City's
22 written undertaking for the benefit of the owners and beneficial owners of the
23 Bonds, as required by Section (b)(5) of the Rule.



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(b) Financial Statements/Operating Data. The City agrees to

provide, or cause to be provided, to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2006 for the fiscal year ended December 31, 2005):

(1) Annual financial statements, which statements may or may not be audited, showing ending fund balances for the Water System 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);

(2) Principal amount of outstanding Parity Bonds and debt service coverage;

(3) Water rates; and

(4) Number of customers and water sales.

The information and data described above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIR, the SID, or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

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1 If not provided as part of the annual financial information discussed
2 above, the City shall provide the City's audited annual financial statement
3 prepared in accordance with the Budget Accounting and Reporting System
4 prescribed by the Washington State Auditor, pursuant to RCW 43.09.200 (or
5 any successor statute) when and if available to each then existing NRMSIR and
6 the SID, if any.

7 (c) Material Events. The City agrees to provide or cause to be
8 provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the
9 MSRB notice of the occurrence of any of the following events with respect to
10 the Bonds, if material:

- 11 (1) Principal and interest payment delinquencies;
- 12 (2) Non-payment related defaults;
- 13 (3) Unscheduled draws on debt service reserves reflecting
14 financial difficulties;
- 15 (4) Unscheduled draws on credit enhancements reflecting
16 financial difficulties;
- 17 (5) Substitution of credit or liquidity providers, or their
18 failure to perform;
- 19 (6) Adverse tax opinions or events affecting the
20 tax-exempt status of the Bonds;
- 21 (7) Modifications to the rights of Bond owners;
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(8) Bond calls (optional, contingent, or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the Bonds; and

(11) Rating changes.

(d) Notification Upon Failure to Provide Financial Data. The City agrees to provide, or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described in Subsection (b) above on or prior to the date set forth in Subsection (b) above.

(e) Termination/Modification. The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal 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 Bond Counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively, or otherwise does not apply to the Bonds; and (2) notifies each NRMSIR and the SID, if any, of such opinion and the cancellation of this section.

The City may amend this section with an opinion of Bond Counsel in accordance with the Rule. In the event of any amendment of this section, the

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City shall describe such amendment in the next annual report, and shall 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, (i) notice of such change shall be given in the same manner as for a material event under Subsection (c), and (ii) the annual report for the year in which the change is made shall 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 shall be limited to a right to obtain specific enforcement of the City's obligations under this section, 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, "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 14. Bond Fund. The Bond Fund has been created in the Water Division Fund, known as the Water Revenue Bond Fund, and is further divided

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into two accounts: the Principal and Interest Account and the Reserve Account.

So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Bond Fund out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account on or before each interest or principal and interest payment date of any Parity Bonds at least an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest, to become due and payable on the Parity Bonds on that payment date, including any Parity Bonds subject to mandatory redemption on that date, and net payments due on Parity Payment Agreements; and

(b) Into the Reserve Account the Reserve Requirement for the Bonds. The City may, at any time, provide all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance shall be credited against the Reserve Requirement, subject to the following:

The Reserve Insurance shall not be cancelable on less than three years' notice. On receipt of a notice of cancellation of any Reserve Insurance or upon notice that the entity providing the Reserve Insurance no longer meets the requirements specified herein, the City shall substitute Reserve Insurance in the amount required to make up the deficiency created in the Reserve Account or in the alternative shall create a special account in the Water Division Fund

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and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) one 1/36th of the amount sufficient, together with other money and investments on deposit in the Reserve Account, to equal the Reserve Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective. Those amounts shall be deposited in the special account from money in the Water Division Fund after making provision for payment of Operation and Maintenance Expenses and for required payments into the Bond Fund. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Account on the effective date of any cancellation of a Reserve Insurance to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Account may be transferred back to the Water Division Fund and used for any purpose if and when qualifying Reserve Insurance is obtained.

Except for withdrawals therefrom and payments over time as authorized herein, the Reserve Account shall be maintained at the Reserve Requirement, as it is adjusted from time to time, at all times so long as any Parity Bonds are outstanding. For the purpose of determining the amount credited to the Reserve Account, obligations in which money in the Reserve Account has been invested shall be valued at the greater of cost or accreted value.

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In the event that there shall be a deficiency in the Principal and Interest Account to meet maturing installments of either principal or interest or mandatory redemption requirements, 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, within 12 months, be made up from Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Account.

The money in the Reserve Account may be applied to the payment of the last outstanding bonds payable out of the Bond Fund, except that any money in the Reserve Account (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Account and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Water System purpose. When the total amount in the Bond Fund (including investment earnings) shall equal the total amount of principal and interest for all Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund.

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

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All money in the Bond Fund may be kept in cash or invested in legal investments maturing, for investments in the Principal and Interest Account, not later than the dates when the funds are required for the payment of principal of or interest on the Parity Bonds and, for investments in the Reserve Account, maturing (or subject to redemption, or repurchase and redemption, at the option of the City) on a date not later than 15 years from the date of investment.

Earnings from investments in the Principal and Interest Account shall be deposited in that account. Earnings from investments in the Reserve Account shall be deposited in that account. Notwithstanding the provisions for the deposit of earnings, any earnings that are subject to federal arbitrage rebate requirements may be withdrawn from the Bond Fund for deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

If the City provides for all or part of the Reserve Requirement by Reserve Insurance, excess amounts in the Reserve Account may be withdrawn from that account and deposited either in the Principal and Interest Account and/or in the Water Division Fund, subject to applicable state and federal law.

The City may create sinking fund accounts or other accounts in the Bond Fund 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 such Parity Bonds.

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Section 15. Construction Funds and Deposit of Bond Proceeds. There is created in the Water Division Fund a fund known as the 2005 Water Division Construction Fund (the "Construction Fund"). The principal proceeds of the sale of the Bonds remaining after: (a) the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Account; (b) the deposit of any proceeds as determined by the Bond Sale Resolution into the Reserve Account; and (c) the deposit to the Refunding Account of the amounts set forth in Sale Resolution, shall be deposited into the Construction Fund as determined by the Director of Utilities to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay for the costs of issuance of the Bonds. Money in the Construction Fund may be used to reimburse the Water Division Fund for prior expenditures in connection with the Plan of Additions described and ordered to be carried out in Section 2. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any legal investment, and the investment earnings may be retained in the Construction Fund and be spent for the purposes of those funds or may be deposited in the Bond Fund.

Section 16. Refunding Plan and Procedures.

16.1 Refunding Plan. The Finance Director is authorized to determine, in consultation with the City's financial advisor, which of the Refunded Bonds, if any, are to be defeased and refunded. The final plan of defeasance and

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1 refunding and call for redemption of the Refunded Bonds shall be set forth in
2 the Sale Resolution.

3 16.2 Refunding Account. There is hereby authorized to be created in
4 the Bond Fund an account known as the "Refunding Account," which account is
5 to be drawn upon for the sole purpose of paying the principal of and interest on
6 the Refunded Bonds until their date of redemption and of paying costs related
7 to the refunding of the Refunded Bonds.

8 16.3 Escrow Agent/Escrow Agreement. To carry out the advance
9 refunding and defeasance of the Refunded Bonds, the Finance Director is
10 hereby authorized to appoint as escrow agent a bank or trust company qualified
11 by law to perform the duties described herein (the "Escrow Agent"). A
12 beginning cash balance, if any, and Government Obligations shall be deposited
13 irrevocably with the Escrow Agent in an amount sufficient to defease the
14 Refunded Bonds. The cash and proceeds of the Bonds remaining in the
15 Refunding Account after acquisition of the Government Obligations and
16 provision for the necessary beginning cash balance shall be utilized to pay
17 expenses of the acquisition and safekeeping of the Government Obligations.
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20 In order to carry out the purposes of this section, the Director of Finance,
21 Treasurer, or the Superintendent of Water of the City are authorized and
22 directed to execute and deliver to the Escrow Agent, an Escrow Deposit
23 Agreement (the "Escrow Agreement").
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The Escrow Agent is hereby authorized and directed to provide for the giving of notices of the redemption of the Refunded Bonds in accordance with the applicable provisions of the ordinance and resolution authorizing the issuance of the Refunded Bonds. The Director of Finance is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notices therefor. The costs of publication of such notices shall be an expense of the City.

The City will take such actions as are found necessary to ensure that all necessary and proper fees, compensation, and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

Section 17. Rate Stabilization Account. There has previously been established in the Water Division Fund a Rate Stabilization Account. The City may, at any time, as determined by the City and as consistent with Section 21 of this ordinance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Water System and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. The City may withdraw money from the Rate Stabilization Account for inclusion in the Net Revenue for any fiscal year of the Water System, except that: (a) the total amount withdrawn from the Rate Stabilization Account in any fiscal year of the Water System may not exceed the total debt service of the Water System in that year; and (b) the Net Revenue in that fiscal year, disregarding the amounts withdrawn from the Rate Stabilization Account, must equal at least 1.0 times the

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Annual Debt Service that year on all Parity Bonds. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year.

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

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

Section 18. Finding as to Sufficiency of Gross Revenue. The City finds that the Gross Revenue and benefits to be derived from the operation and maintenance of the Water System of the City at the rates to be charged for water and other services and commodities from the Water System will be more than sufficient to meet all Operation and Maintenance Expenses and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the principal of and interest on the Bonds and any mandatory redemption requirements when due. The City further declares that in creating the Bond Fund and in fixing the amounts to be paid into the Bond Fund it has exercised due regard for Operation and Maintenance Expenses, and the City has not bound and obligated itself to set aside and pay into the Bond Fund a greater amount or proportion of the Gross Revenue than in the judgment of the

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1 City will be available over and above the Operation and Maintenance
2 Expenses.

3 Section 19. Pledge of Net Revenue and Lien Position. The Net
4 Revenue of the Water System and all money and investments held in the Bond
5 Fund, the Rate Stabilization Account, and the Construction Fund (except money
6 and investments held in a separate fund or account created for the purpose of
7 compliance with rebate requirements under the Code), is pledged to the
8 payment of the Parity Bonds and to make payments into the Reserve Account
9 required by this ordinance, the Parity Bond Authorizing Ordinances and the
10 Bond Sale Resolution, and this pledge shall constitute a lien and charge upon
11 the Net Revenue prior and superior to any other charges whatsoever.
12

13 Section 20. Covenants. The City covenants and agrees with the owner
14 of each Bond at any time outstanding, as follows:

15 (a) Operation and Maintenance. It will at all times maintain,
16 preserve, and keep the properties of the Water System in good repair, working
17 order, and condition; will make all necessary and proper additions, betterments,
18 renewals, and repairs thereto, and improvements, replacements, and
19 extensions thereof; and will at all times operate or cause to be operated the
20 properties of the Water System and the business in connection therewith in an
21 efficient manner and at a reasonable cost.
22

23 (b) Establishment and Collection of Rates and Charges. It will
24 establish, maintain, and collect rates and charges for services and facilities
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1 provided by the Water System which will be fair and equitable, and will adjust
2 those rates and charges from time to time so that:

3 (1) The Gross Revenue will be sufficient to: (i) pay all
4 Operation and Maintenance Expenses; (ii) pay when due all amounts that the
5 City is obligated to pay into the Bond Fund and the accounts therein; and
6 (iii) pay all taxes, assessments, or other governmental charges lawfully imposed
7 on the Water System or the revenue therefrom or payments in lieu thereof and
8 any and all other amounts which the City may now or hereafter become
9 obligated to pay from the Gross Revenue by law or contract; and

10 (2) The Net Revenue of the Water System in each fiscal
11 year of the Water System will be at least equal to the Coverage Requirement;
12 and

13 (3) The failure of the City to comply with
14 subparagraphs (1) and (2) of this paragraph (b) shall not be an Event of Default
15 as defined in Section 31 of this ordinance if the City promptly retains an
16 Independent Consulting Engineer to recommend to the City Council
17 adjustments in the rates of the Water System necessary to meet the
18 requirements of those subparagraphs and if the City Council adopts the
19 recommended modifications within 180 days of the date the failure become
20 known to the City Council.
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23 (c) Sale, Transfer, or Disposition of the Water System. It will sell,
24 transfer, or otherwise dispose of any of the works, plant, properties, facilities, or
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1 other part of the Water System or any real or personal property comprising a
2 part of the Water System only upon approval by ordinance and only consistent
3 with one or more of the following:

4 (1) The City may exchange any of the works, plant,
5 properties, facilities, or other part of the Water System for works, plant,
6 properties, or facilities of substantially the same type, use and value; or

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

13 (3) The City, in its discretion, may carry out such a transfer
14 if the aggregate depreciated cost value of the facilities or property being
15 transferred under this subparagraph (3) in any fiscal year of the Water System
16 comprises no more than three percent of the total assets of the Water System;
17 or
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19 (4) The City may sell, lease, mortgage, or otherwise
20 dispose of the Water System, including all additions to and betterments and
21 extensions thereof at any time made, that are used, useful, or material in the
22 operation of the Water System, if provision is made for the replacement thereof
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1 or if the City receives from the purchaser or transferee an amount equal to or
2 greater than the greatest of the following:

3 (i) An amount which will be in the same proportion
4 to the net amount of Bonds and Future Parity Bonds then outstanding (defined
5 as the total amount of the Parity Bonds less the amount of cash and
6 investments in the Bond Fund and accounts therein) that the Gross Revenue of
7 the Water System from the portion of the Water System sold or disposed of for
8 the preceding year bears to the total Gross Revenue of the Water System for
9 that period;

10 (ii) An amount which will be in the same proportion
11 to the net amount of Bonds and Future Parity Bonds then outstanding (as
12 defined above) that the Net Revenue from the portion of the Water System sold
13 or disposed of for the preceding year bears to the total Net Revenue of the
14 Water System for such period; or

15 (iii) An amount which will be in the same proportion
16 to the net amount of Bonds and Future Parity Bonds then outstanding (as
17 defined above) that the depreciated cost value of the portion of the Water
18 System sold or disposed of bears to the depreciated cost value of the entire
19 Water System immediately prior to such sale or disposition.

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22 The amount required to be paid to the City under
23 this paragraph may be reduced by any "equity credits" or similar amounts based
24 on prior capital contributions or other payments to the City which, under any
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1 contract between the City and the purchaser or transferee, are allowed as a
2 setoff against the purchase or transfer price that would otherwise be payable to
3 the City.

4 The City may accept from the purchaser or transferee the amount
5 calculated as described in this paragraph, payable, with interest, amortized over
6 the number of years of remaining life of the portion of the Water System sold or
7 disposed of or such shorter period of time as determined by the City. However,
8 the contract of transfer or sale must provide that the payments to the City shall
9 be either superior to or equal to the lien on the revenues of the purchaser or
10 transferee of all other obligations of the purchaser or transferee.

11 (d) No Free Service. Except to aid the poor or infirm and for
12 firefighting purposes, it will not furnish or supply or permit the furnishing or
13 supplying of any service or facility in connection with the operation of the Water
14 System free of charge to any person, firm, or corporation, public or private.

15 (e) Liens Upon the Water System. Except as otherwise provided
16 in this ordinance, it will not at any time create or permit to accrue or to exist any
17 lien or other encumbrance or indebtedness upon the Gross Revenue or any
18 part thereof, prior or superior to the lien thereon for the payment of the Parity
19 Bonds, and will pay and discharge, or cause to be paid and discharged, any
20 and all lawful claims for labor, materials, or supplies which, if unpaid, might
21 become a lien or charge upon the Gross Revenue or any part thereof, prior or
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1 superior to, or on a parity with, the lien of the Parity Bonds, or which might
2 impair the security of the Parity Bonds.

3 (f) Books and Accounts. It will keep proper books, records, and
4 accounts with respect to the operations, income, and expenditures of the Water
5 System in accordance with generally accepted accounting practices relating to
6 the municipal utilities and any applicable rules and regulations prescribed by the
7 State, and will cause those books, records, and accounts to be audited on an
8 annual basis by the State Auditor and/or Independent Auditor (or, if such audit
9 is not made by the State Auditor within 270 days after the close of any fiscal
10 year of the Water System, by a certified public accountant selected by the City).
11 It will prepare annual financial and operating statements as soon as practicable
12 after the close of each fiscal year of the Water System showing in reasonable
13 detail the financial condition of the Water System as of the close of the previous
14 year, and the income and expenses for such year, including the amounts paid
15 into the Bond Fund and into any and all special funds or accounts created
16 pursuant to the provisions of this ordinance, the status of all funds and accounts
17 as of the end of such year, and the amounts expended for maintenance,
18 renewals, replacements, and capital additions to the Water System. Such
19 statements shall be sent to the owner of any Parity Bonds upon written request
20 therefor being made to the City. The City may charge a reasonable cost for
21 providing such financial statements.
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(g) Collection of Delinquent Accounts. On at least an annual basis, it will determine all accounts that are delinquent and will take such actions as the City determines are reasonably necessary to enforce payment of those delinquent accounts.

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

(i) Condemnation Awards and Insurance Proceeds. If the City receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the Water System, it shall apply the condemnation award or insurance proceeds, in the City's sole discretion, either: (1) to the cost of replacing or repairing the lost or damaged properties; (2) to the payment, purchase or redemption of Parity Bonds; or (3) to the cost of improvements to the Water System.

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Section 21. Flow of Funds. The Gross Revenue of the Water System shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operation and Maintenance Expenses;

(b) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;

(c) To pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

(d) To make all payments required to be made into the Reserve Account, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Account;

(e) To make all 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 or secure the payment of the principal of and interest on any revenue bonds, notes, warrants, or other obligations of the City having a lien upon the revenue of the Water System

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1 junior and inferior to the lien thereon for the payment of the principal of and
2 interest on the Parity Bonds, including the Public Works Trust Fund loans; and

3 (f) To retire by redemption or purchase in the open market any
4 outstanding revenue bonds or other revenue obligations of the Water System;
5 to make necessary additional betterments, improvements, and repairs to or
6 extensions and replacements of the Water System; to make deposits into the
7 Rate Stabilization Account; or for any other lawful Water System purposes.

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

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13 Section 22. Provisions for Future Parity Bonds. The City reserves the
14 right to issue Future Parity Bonds and to enter into Parity Payment Agreements
15 for purposes of the Water System or to refund a portion of the Parity Bonds if
16 the following conditions are met and complied with at the time of the issuance of
17 those Future Parity Bonds or entering into the Parity Payment Agreement:

18 (a) There shall be no deficiency in the Bond Fund and no Event
19 of Default as defined in Section 31 shall have occurred and be continuing.

20
21 (b) The Parity Bond Authorizing Ordinance shall provide that all
22 assessments and interest thereon that may be levied in any utility local
23 improvement district created for the purpose of paying, in whole or in part, the
24 principal of and interest on those Future Parity Bonds, shall be paid directly into
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1 the Bond Fund, except for any prepaid assessments permitted by law to be paid
2 into a construction fund or account.

3 (c) The Parity Bond Authorizing Ordinance shall provide for the
4 payment of the principal thereof and interest thereon out of the Bond Fund.

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

12 (e) The Parity Bond Authorizing Ordinance shall provide for the
13 deposit into the Reserve Account of: (1) an amount, if any, necessary to fund
14 the Reserve Requirement upon the issuance of those Future Parity Bonds from
15 Future Parity Bond proceeds or other money legally available; or (2) Reserve
16 Insurance or an amount plus Reserve Insurance necessary to fund the Reserve
17 Requirement upon the issuance of those Future Parity Bonds; or (3) amounts
18 necessary to fund the Reserve Requirement from Net Revenue within five years
19 from the date of issuance of those Future Parity Bonds, in five approximately
20 equal annual payments.
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23 (f) There shall be on file with the City either:
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(1) A certificate of the Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to 1.25 times the projected Maximum Annual Debt Service for all Parity Bonds plus the Future Parity Bonds proposed to be issued; or

(2) A certificate of an Independent Consulting Engineer that, in his or her opinion, the Net Revenue will be at least equal to 1.25 times the projected Average Annual Debt Service for all Parity Bonds plus the Future Parity Bonds proposed to be issued. In providing that certificate, the Independent Consulting Engineer may take into account the following adjustments:

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

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

(iii) The Independent Consulting Engineer's estimate of customers anticipated to be served by facilities or improvements

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1 financed in substantial part by those Future Parity Bonds (or additional Parity
2 Bonds expected to be issued during the five-year period); and

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

7 If the Future Parity Bonds proposed to be issued are for the sole purpose
8 of refunding outstanding bonds payable from the Bond Fund, no such coverage
9 certification shall be required if the Annual Debt Service on the Parity Bonds
10 after the issuance of the Future Parity Bonds is not, for any year in which Parity
11 Bonds are outstanding, more than \$5,000 over the Annual Debt Service on the
12 Parity Bonds prior to the issuance of those Future Parity Bonds.

13
14 Nothing contained herein shall prevent the City from issuing Future
15 Parity Bonds to refund maturing Parity Bonds, money for the payment of which
16 is not otherwise available, or revenue bonds that are a charge or lien upon the
17 Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from
18 pledging the payment of utility local improvement district assessments into a
19 bond redemption fund created for the payment of the principal of and interest on
20 those junior lien bonds as long as such utility local improvement district
21 assessments are levied for improvements constructed from the proceeds of
22 those junior lien bonds.
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Section 23. Reimbursement Obligations. If the City elects to meet the Reserve Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any issue of Parity Bonds through the use of Bond Insurance, the City may contract with the entity providing such Reserve Insurance or Bond Insurance to the effect that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

Section 24. Separate Utility Systems. The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission, treatment, or other commodity or service. The Regional System has been created as a separate system. The revenue of any separate utility system shall not be included in the Gross Revenue of the Water System and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the Water System shall be pledged by the City to the payment of any obligations of a separate utility system except: (a) as a Contract Resource Obligation upon compliance with Section 25 hereof; and/or (b) with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

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Section 25. 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 supply, transmission, treatment, or other commodity or service relating to the Water System. The City's obligation with respect to the Regional System are a Contract Resource Obligation. 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 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) No Event of Default as defined in Section 31 of this ordinance has occurred and is continuing.

(b) There shall be on file a certificate of an Independent Consulting Engineer 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 or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely

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1 to provide supply or transmission or other service no later than a date set forth
2 in the Independent Consulting Engineer's certification; and (3) the Net Revenue
3 (further adjusted by the Independent Consulting Engineer's estimate of the
4 payments to be made in accordance with the Contract Resource Obligation) for
5 the five fiscal years following the year in which the Contract Resource
6 Obligation is incurred, as such Net Revenue is estimated by the Independent
7 Consulting Engineer (with such estimate based on such factors as he or she
8 considers reasonable), will be at least equal to the Coverage Requirement.

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

11 Nothing in this Section 25 shall be deemed to prevent the City from
12 entering into other agreements for the acquisition of water supply, transmission,
13 treatment, or other commodity or service from existing facilities and from
14 treating those payments as Operation and Maintenance Expenses of the Water
15 System. Nothing in this Section 25 shall be deemed to prevent the City from
16 entering into other agreements for the acquisition of water supply, transmission,
17 treatment, or other commodity or service from facilities to be constructed and
18 from agreeing to make payments with respect thereto, such payments
19 constituting a lien and charge on Net Revenue subordinate to that of Parity
20 Bonds.
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23 Section 26. Tax Covenant. The City covenants to undertake all actions
24 required to maintain the tax-exempt status of interest on the Bonds under
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1 Section 103 of the Code as set forth in the Arbitrage and Tax Certification that
2 will be executed at the closing of the Bonds.

3 Section 27. Advance Refunding or Defeasance of Bonds. The City may
4 issue advance refunding bonds pursuant to the laws of the State or use money
5 available from any other lawful source to pay the principal of and interest on the
6 Bonds, or such portion thereof included in a refunding or defeasance plan, as
7 the same become due and payable and to redeem and retire, release, refund,
8 or defease the Bonds (the "Defeased Bonds") and to pay the costs of such
9 refunding or defeasance. In the event that money and/or Government
10 Obligations sufficient in amount, together with known earned income from the
11 investments thereof, to redeem and retire, release, refund, or defease the
12 defeased Bonds in accordance with their terms, are set aside irrevocably in a
13 special fund for and pledged irrevocably to such redemption, retirement, or
14 defeasance (the "trust account"), then all right and interest of the owners of the
15 defeased Bonds in the covenants of this ordinance and in the Net Revenue and
16 the funds and accounts pledged to the payment of such defeased Bonds, other
17 than the right to receive the funds so set aside and pledged, thereafter shall
18 cease and become void. Such owners thereafter shall have the right to receive
19 payment of the principal of and interest or redemption price on the defeased
20 Bonds from the trust account.
21
22

23 After the establishing and full funding of such a trust account, the City
24 then may apply any money in any other fund or account established for the
25



1 payment or redemption of the defeased Bonds to any lawful purposes as it shall
2 determine, subject only to the rights of the owners of any other Parity Bonds.

3 If the refunding plan provides that the defeased Bonds to be issued be
4 secured by money and/or Government Obligations pending the prior
5 redemption of the defeased Bonds and if such refunding plan also provides that
6 certain money and/or Government Obligations are pledged irrevocably for the
7 prior redemption of the defeased Bonds included in that refunding plan, then
8 only the debt service on the Bonds which are not defeased Bonds and the
9 refunding bonds, the payment of which is not so secured by the refunding plan,
10 shall be included in the computation of the Coverage Requirement for the
11 issuance of Future Parity Bonds and the annual computation of the Coverage
12 Requirement for determining compliance with the rate covenants.
13

14 Section 28. Provision for Sale. The Finance Director may provide for
15 the sale of the Bonds by public sale or by a negotiated sale with the
16 underwriters chosen through a selection process determined by the Finance
17 Director. The terms of that sale shall be consistent with this ordinance and
18 confirmed by the Bond Sale Resolution. The Bonds will be delivered to the
19 purchasers as provided in the Bond Sale Resolution immediately upon payment
20 to the City of the purchase price plus accrued interest to the date of closing in
21 immediately available federal funds in Seattle, Washington, or at another time
22 or place upon which the Finance Director and the purchasers may mutually
23 agree.
24
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1 The proper City officials are authorized and directed to do everything
2 necessary for the prompt delivery of the Bonds to the purchaser and for the
3 proper application and use of the proceeds of the sale thereof.

4 Section 29. Approval of Preliminary Official Statement. For the
5 purposes of the purchaser's compliance with Securities and Exchange
6 Commission Rule 15c2-12(b)(1), the Finance Director, Director of the
7 Department of Public Utilities, or Superintendent of the Water Division is
8 authorized to "deem final" the preliminary official statement prepared in
9 connection with the sale of the Bonds, as of its date, except for the omission of
10 information as to offering prices, interest rates, selling compensation, aggregate
11 principal amount, principal amount per maturity, maturity dates, options of
12 redemption, delivery dates, ratings, and other terms of the Bonds dependent on
13 such matters. The Finance Director, Director of the Department of Public
14 Utilities, or Superintendent of the Water Division is further authorized to approve
15 and execute the final official statement.
16

17 Section 30. Amendatory and Supplemental Ordinances.

18 (a) This ordinance shall not be modified or amended in any
19 respect subsequent to the initial issuance of the Bonds, except as provided in
20 and in accordance with and subject to the provisions of this section.
21

22 (b) The City, from time to time, and at any time, without the
23 consent of or notice to the registered owners of the Bonds, may pass
24 supplemental or amendatory ordinances as follows:
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(1) To cure any formal defect, omission, inconsistency, or ambiguity in this ordinance in a manner not adverse to the owner of any Parity Bond;

(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 theretofore 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 or inconsistent with this ordinance as theretofore 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 modify, alter, amend, or supplement this ordinance in any other respect which is not materially adverse to the registered owners of

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1 the Parity Bonds and which does not involve a change described in
2 Subparagraph (c) of this Section 30;

3 (7) Because of change in federal law or rulings, to maintain
4 the exclusion from gross income of the interest on the Bonds from federal
5 income taxation; and

6 (8) To add to the covenants and agreements of, and
7 limitations and restrictions upon, the City in this ordinance, other covenants,
8 agreements, limitations, and restrictions to be observed by the City which are
9 requested by a Bond Insurer or provider of Reserve Insurance and which are
10 not materially adverse to the registered owners of the Parity Bonds.

11
12 Before the City shall adopt any such supplemental ordinance pursuant to
13 this subsection, there shall have been delivered to the City and the Bond
14 Registrar an opinion of Bond Counsel, stating that such supplemental ordinance
15 is authorized or permitted by this ordinance and, upon the execution and
16 delivery thereof, will be valid and binding upon the City in accordance with its
17 terms and will not adversely affect the exclusion from gross income for federal
18 income tax purposes of interest on the Bonds.

19
20 (c) (1) Except for any supplemental ordinance entered into
21 pursuant to Subparagraph (b) of this Section 30, subject to the terms and
22 provisions contained in this Subparagraph (c) and not otherwise, registered
23 owners of not less than 60 percent in aggregate principal amount of the Parity
24 Bonds shall have the right from time to time to consent to and approve the
25



1 passage by the City of any supplemental ordinance deemed necessary or
2 desirable by the City for the purpose of modifying, altering, amending,
3 supplementing, or rescinding, in any particular, any of the terms or provisions
4 contained in this ordinance; except that, unless approved in writing by the
5 registered owners of all Parity Bonds, nothing contained in this section shall
6 permit, or be construed as permitting:

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

12 (ii) A preference of priority of any Parity Bond or
13 Bonds or any other bond or bonds; or
14

15 (iii) A reduction in the aggregate principal amount of
16 Parity Bonds, the consent of the registered owners of Parity Bonds of which is
17 required for any such supplemental ordinance.
18

19 (2) If, at any time, the City shall pass any supplemental
20 ordinance for any of the purposes of this Subparagraph (c), the Bond Registrar
21 shall cause notice of the proposed supplemental ordinance to be given by first-
22 class United States mail to all registered owners of the Parity Bonds, to any
23 Bond Insurer, and to the Rating Agencies if the Bonds are rated by those
24 agencies. Such notice shall briefly set forth the nature of the proposed
25

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1 supplemental ordinance and shall state that a copy thereof is on file at the office
2 of the Bond Registrar for inspection by all registered owners of the Parity
3 Bonds.

4 (3) Within two years after the date of the mailing of such
5 notice, the City may adopt such supplemental ordinance in substantially the
6 form described in such notice, but only if there shall have first been delivered to
7 the Bond Registrar: (i) the required consents, in writing, of the registered
8 owners of the Parity Bonds; and (ii) an opinion of bond counsel stating that such
9 supplemental ordinance is authorized or permitted by this ordinance and, upon
10 the execution and delivery thereof, will be valid and binding upon the City in
11 accordance with its terms and will not adversely affect the exclusion from gross
12 income for federal income tax purposes of interest on the Parity Bonds.

13
14 (4) If registered owners of not less than the percentage of
15 Parity Bonds required by this Subparagraph (c) shall have consented to and
16 approved the execution and delivery thereof as herein provided, no owner of
17 the Parity Bonds shall have any right to object to the passage of such
18 supplemental ordinance, or to object to any of the terms and provisions
19 contained therein or the operation thereof, or in any manner to question the
20 propriety of the passage thereof, or to enjoin or restrain the City or the Bond
21 Registrar from passing the same or from taking any action pursuant to the
22 provisions thereof.
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1 (d) Upon the execution and delivery of any supplemental
2 ordinance pursuant to the provisions of this Section 30, this ordinance shall be,
3 and be deemed to be, modified and amended in accordance therewith, and the
4 respective rights, duties, and obligations under this ordinance of the City, the
5 Bond Registrar and all registered owners of Parity Bonds, shall thereafter be
6 determined, exercised and enforced under this ordinance subject in all respects
7 to such modifications and amendments.

8 Section 31. Defaults and Remedies.

9 31.1 Events of Default. The following shall constitute "Events of Default"
10 with respect to the Bonds:
11

12 (a) If a default is made in the payment of the principal of or
13 interest on any of the Bonds when the same shall become due and payable;

14 (b) If the City defaults in the observance and performance of any
15 other of the covenants, conditions, and agreements on the part of the City set
16 forth in this ordinance or any covenants, conditions, or agreements on the part
17 of the City contained in any Parity Bond Authorizing Ordinance and such default
18 or defaults have continued for a period of six months after they have received
19 from the Bondowners' Trustee (as defined below) or from the registered owners
20 of not less than 25 percent in principal amount of the Parity Bonds, a written
21 notice specifying and demanding the cure of such default. However, if the
22 default in the observance and performance of any other of the covenants,
23 conditions, and agreements is one which cannot be completely remedied within
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1 the six months after written notice has been given, it shall not be an Event of
2 Default with respect to the Bonds as long as the City has taken active steps
3 within the six months after written notice has been given to remedy the default
4 and is diligently pursuing such remedy.

5 (c) If the City files a petition in bankruptcy or is placed in
6 receivership under any state or federal bankruptcy or insolvency law.

7 31.2 Bondowners' Trustee. So long as such Event of Default has not
8 been remedied, a bondowners' trustee (the "Bondowners' Trustee") may be
9 appointed by the registered owners of 25 percent in principal amount of the
10 Parity Bonds, by an instrument or concurrent instruments in writing signed and
11 acknowledged by such registered owners of the Parity Bonds or by their
12 attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee,
13 notification thereof being given to the City. That appointment shall become
14 effective immediately upon acceptance thereof by the Bondowners' Trustee.
15 Any Bondowners' Trustee appointed under the provisions of this
16 Subsection 31.2 shall be a bank or trust company organized under the laws of
17 the State of Washington, the State of New York, or a national banking
18 association. The bank or trust company acting as Bondowners' Trustee may be
19 removed at any time, and a successor Bondowners' Trustee may be appointed,
20 by the registered owners of a majority in principal amount of the Parity Bonds,
21 by an instrument or concurrent instruments in writing signed and acknowledged
22 by such registered owners of the Bonds or by their attorneys-in-fact duly
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1 authorized. The Bondowners' Trustee may require such security and indemnity
2 as may be reasonable against the costs, expenses, and liabilities that may be
3 incurred in the performance of its duties. In the event that any Event of Default
4 in the sole judgment of the Bondowners' Trustee is cured and the Bondowners'
5 Trustee furnishes to the City a certificate so stating, that Event of Default shall
6 be conclusively deemed to be cured and the City, the Bondowners' Trustee and
7 the registered owners of the Parity Bonds shall be restored to the same rights
8 and position which they would have held if no Event of Default had occurred.

9 The Bondowners' Trustee appointed in the manner herein provided, and
10 each successor thereto, is declared to be a trustee for the registered owners of
11 all the Parity Bonds and is empowered to exercise all the rights and powers
12 herein conferred on the Bondowners' Trustee.

13
14 31.3 Suits at Law or in Equity. Upon the happening of an Event of
15 Default and during the continuance thereof, the Bondowners' Trustee may, and
16 upon the written request of the registered owners of not less than 25 percent in
17 principal amount of the Parity Bonds outstanding shall, take such steps and
18 institute such suits, actions, or other proceedings, all as it may deem
19 appropriate for the protection and enforcement of the rights of the registered
20 owners of the Parity Bonds, to collect any amounts due and owing to or from
21 the City, or to obtain other appropriate relief, and may enforce the specific
22 performance of any covenant, agreement, or condition contained in this
23 ordinance or in any of the Parity Bonds.
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Nothing contained in this Section 31 shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit, or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action, or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit, or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing

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1 herein shall be deemed to authorize or empower the Bondowners' Trustee to
2 consent to accept or adopt, on behalf of any registered owner of the Parity
3 Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or
4 any right of any registered owner thereof, or to authorize or empower the
5 Bondowners' Trustee to vote the claims of the registered owners thereof in any
6 receivership, insolvency, liquidation, bankruptcy, reorganization, or other
7 proceeding to which the City is a party.

8 31.4 Application of Money Collected by Bondowners' Trustee. Any
9 money collected by the Bondowners' Trustee, at any time pursuant to this
10 Section 31, shall be applied in the following order of priority:

11 (a) first, to the payment of the charges, expenses, advances, and
12 compensation of the Bondowners' Trustee and the charges, expenses, counsel
13 fees, disbursements, and compensation of its agents and attorneys;

14 (b) second, to the payment to the persons entitled thereto of all
15 installments of interest then due on the Parity Bonds in the order of maturity of
16 such installments and, if the amount available shall not be sufficient to pay in
17 full any installment or installments maturing on the same date, then to the
18 payment thereof ratably, according to the amounts due thereon to the persons
19 entitled thereto, without any discrimination or preference; and
20

21 (c) third, to the payment to the persons entitled thereto of the
22 unpaid principal amounts of any Parity Bonds which shall have become due
23 (other than Parity Bonds previously called for redemption for the payment of
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1 which money is held pursuant to the provisions hereto), whether at maturity or
2 by proceedings for redemption or otherwise, in the order of their due dates and,
3 if the amount available shall not be sufficient to pay in full the principal amounts
4 due on the same date, then to the payment thereof ratably, according to the
5 principal amounts due thereon to the persons entitled thereto, without any
6 discrimination or preference.

7 31.5 Duties and Obligations of Bondowners' Trustee. The Bondowners'
8 Trustee shall not be liable except for the performance of such duties as are
9 specifically set forth herein. During an Event of Default, the Bondowners'
10 Trustee shall exercise such of the rights and powers vested in it hereby, and
11 shall use the same degree of care and skill in its exercise, as a prudent person
12 would exercise or use under the circumstances in the conduct of his or her own
13 affairs. The Bondowners' Trustee shall have no liability for any act or omission
14 to act hereunder except for the Bondowners Trustee's own negligent action, its
15 own negligent failure to act or its own willful misconduct. The duties and
16 obligations of the Bondowners' Trustee shall be determined solely by the
17 express provisions of this ordinance, and no implied powers, duties, or
18 obligations of the Bondowners' Trustee shall be read into this ordinance.
19
20

21 The Bondowners' Trustee shall not be required to expend or risk its own
22 funds or otherwise incur individual liability in the performance of any of its duties
23 or in the exercise of any of its rights or powers as the Bondowners' Trustee,
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1 except as may result from its own negligent action, its own negligent failure to
2 act or its own willful misconduct.

3 The Bondowners' Trustee shall not be bound to recognize any person as
4 a registered owner of any Bond until his title thereto, if disputed, has been
5 established to its reasonable satisfaction.

6 The Bondowners' Trustee may consult with counsel and the opinion of
7 such counsel shall be full and complete authorization and protection in respect
8 of any action taken or suffered by it hereunder in good faith and in accordance
9 with the opinion of such counsel. The Bondowners' Trustee shall not be
10 answerable for any neglect or default of any person, firm, or corporation
11 employed and selected by it with reasonable care.

12
13 31.6 Suits by Individual Bondowners Restricted. Neither the registered
14 owner nor the beneficial owner of any one or more of Parity Bonds shall have
15 any right to institute any action, suit, or proceeding at law or in equity for the
16 enforcement of same unless:

- 17 (a) An Event of Default has happened and is continuing;
18 (b) A Bondowners' Trustee has been appointed;
19 (c) Such owner previously shall have given to the Bondowners'
20 Trustee written notice of the Event of Default on account of which such suit,
21 action, or proceeding is to be instituted;
22 (d) The registered owners of 25 percent in principal amount of the
23 Parity Bonds, after the occurrence of such Event of Default, has made written
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1 request of the Bondowners' Trustee and have afforded the Bondowners'
2 Trustee a reasonable opportunity to institute such suit, action, or proceeding;

3 (e) There have been offered to the Bondowners' Trustee security
4 and indemnity satisfactory to it against the costs, expenses, and liabilities to be
5 incurred therein or thereby; and

6 (f) The Bondowners' Trustee has refused or neglected to comply
7 with such request within a reasonable time.

8 No registered owner or beneficial owner of any Parity Bond shall
9 have any right in any manner whatever by his action to affect or impair the
10 obligation of the City to pay from the Net Revenue the principal of and interest
11 on such Parity Bonds to the respective owners thereof when due.

12
13 31.7 Payment Solely From Net Revenue and Certain Funds. Nothing in
14 this Section 31 shall be deemed to require payment to Bondowners from any
15 source other than the Net Revenue and money and investments in the funds
16 pledged in Section 19 of this ordinance.

17 Section 32. Payment Agreements and Parity Payment Agreements.

18
19 32.1 Calculation of Debt Service on Parity Bonds With Respect to Which
20 a Payment Agreement Is in Force. Debt service on Parity Bonds with respect to
21 which a Payment Agreement is in force shall be calculated based on the net
22 economic effect on the City expected to be produced by the terms of the Parity
23 Bonds and the terms of the Payment Agreement, including, but not limited to,
24 the effects that: (a) Parity Bonds that would, but for a Payment Agreement, be
25



1 treated as obligations bearing interest at a Variable Interest Rate instead shall
2 be treated as obligations bearing interest at a fixed interest rate; and (b) Parity
3 Bonds that would, but for a Payment Agreement, be treated as obligations
4 bearing interest at a fixed interest rate instead shall be treated as obligations
5 bearing interest at a Variable Interest Rate. Accordingly, the amount of interest
6 deemed to be payable on any Parity Bonds with respect to which a Payment
7 Agreement is in force shall be an amount equal to the amount of interest that
8 would be payable at the rate or rates stated in those Parity Bonds plus Payment
9 Agreement Payments minus Payment Agreement Receipts. For the purposes
10 of calculating as nearly as practicable Payment Agreement Receipts and
11 Payment Agreement Payments, under a Payment Agreement that includes a
12 variable rate component determined by reference to a pricing mechanism or
13 index that is not the same as the pricing mechanism or index used to determine
14 the variable rate interest component on the Parity Bonds to which the Payment
15 Agreement is related, it shall be assumed that the fixed rate used in calculating
16 Payment Agreement Payments will be equal to 105 percent of the fixed rate
17 specified by the Payment Agreement and that the pricing mechanism or index
18 specified by the Payment Agreement is the same as the pricing mechanism or
19 index specified by the Parity Bonds.
20
21

22 32.2 Debt Service on Parity Payment Agreements. No additional debt
23 service shall be taken into account with respect to a Parity Payment Agreement
24 for any period during which Payment Agreement Payments on that Parity
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1 Payment Agreement are taken into account in determining Annual Debt Service
2 on related Parity Bonds under Section 34.1. However, for any period during
3 which Payment Agreement Payments are not taken into account in calculating
4 Annual Debt Service on any outstanding Parity Bonds because the Parity
5 Payment Agreement is not then related to any outstanding Parity Bonds, debt
6 service on that Parity Payment Agreement shall be taken into account by
7 assuming:

8 (a) City Obligated to Make Payments Based on Fixed Rate. If the
9 City is obligated to make Payment Agreement Payments based on a fixed rate
10 and the Qualified Counterparty is obligated to make payments based on a
11 variable rate index, that payments by the City will be based on the assumed
12 fixed pay or rate, and that payments by the Qualified Counterparty will be based
13 on a rate equal to the average rate determined by the variable rate index
14 specified by the Parity Payment Agreement during the fiscal quarter preceding
15 the quarter in which the calculation is made; and
16

17 (b) City Obligated to Make Payments Based on Variable Rate
18 Index. If the City is obligated to make Payment Agreement Payments based on
19 a variable rate index and the Qualified Counterparty is obligated to make
20 payment based on a fixed rate, that payments by the City will be based on a
21 rate equal to the average rate determined by the variable rate index specified
22 by the Parity Payment Agreement during the fiscal quarter preceding the
23 quarter in which the calculation is made, and that the Qualified Counterparty will
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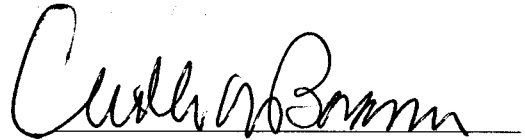
1 make payments based on the fixed rate specified by the Parity Payment
2 Agreement.

3 Section 33. Ratification of Prior Acts. Any action taken consistent with
4 the authority and prior to the effective date of this ordinance is ratified,
5 approved, and confirmed.

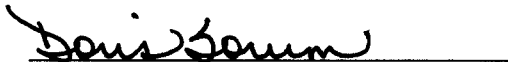
6 Section 34. Effective Date of Ordinance. This ordinance shall take
7 effect and be in force 30 days from and after its publication.

8 AUG 30 2005

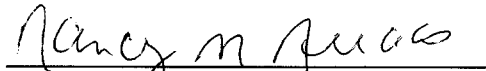
9 Passed _____

10 
11 Mayor

12 Attest:

13 
14 City Clerk

15
16 Approved as to form and legality:

17 
18 Nancy M. Neraas
19 Preston Gates & Ellis LLP
20 Bond Counsel to the City
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REQUEST FOR ORDINANCE OR RESOLUTION

RECEIVED

2005 AUG -3 AM 11:13

CITY CLERK USE

Request #:	10619
Ordinance #:	27405
Resolution #:	

CITY CLERK'S
OFFICE

1. DATE: July 29., 2005

SPONSORED BY: Jane Evancho and Steve Marcotte

2. REQUESTING DEPARTMENT/DIVISION/PROGRAM Tacoma Water Finance	3. CONTACT PERSON (for questions): Jane Evancho Steve Marcott	PHONE/EXTENSION 502-8738 591-5802
--	---	---

4. PREPARATION OF Ordinance IS REQUESTED FOR THE CITY COUNCIL MEETING OF TUESDAY August 16, 2005.

5. SUMMARY TITLE/RECOMMENDATION: (A concise sentence, as it will appear on the Council agenda.)

Authorize Bond Ordinance for City of Tacoma, Washington, Department of Public Utilities, Water Division, water system revenue bonds in an amount not to exceed \$62,000,000.

6. BACKGROUND INFORMATION/GENERAL DISCUSSION: (Why is this request necessary? Are there legal requirements? What are the viable alternatives? Who has been involved in the process?)

Authorize and approve the proposed ordinance for an amount not to exceed \$62,000,000 for the Water Division 2005 Water System Revenue Bonds. The proceeds will provide for additions and betterments to and extension of the existing water system, and refunding of all Water Division's 1997 Bonds. The proposed amount may be decreased depending on market conditions.

7. FINANCIAL IMPACT:

- A. NO
- B. YES OVER \$100,000 (Fiscal note not required on any bond ordinances)
- C. YES, UNDER \$100,000, Provide funding source information below

FUNDING SOURCE: (Enter amount of funding from each source)

Fund Number & Name:	State \$	City \$	Other \$	Total Amount
Water Bonds			\$62,000,000	\$62,000,000
Fund 4600-05CON Tacoma Water 2005 Construction Fund				

8. LIST ALL MATERIAL AVAILABLE AS BACKUP INFORMATION FOR THE REQUEST AND INDICATE WHERE FILED:

Source Documents/Backup Material	Location of Document
Letter to Public Utility Board, Mayor and City Council dated July 29, 2005	City Clerk's Office
Proposed Bond Ordinance	City Clerk's Office

9. ATTORNEY CONTACT: (Enter name of attorney with whom you've been working.)

Nancy Neraas of Preston Gates and Ellis and Anne Spangler, Chief Assistant City Attorney

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10. Department Director/Utility Division Approval	City Manager/Finance Director Approval	City Manager/Director Utilities Approval

Request #:

TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409-3192

27405

July 29, 2005

To the Honorable Mayor and Members of the City Council
And
To the Chairman and Members of the Public Utility Board

Resolution U-
Proposed Water Division Bonds, 2005

A proposed bond ordinance has been prepared in an amount not to exceed \$62,000,000 for City of Tacoma, Washington, Department of Public Utilities, Water Division Water System Revenue Bonds, 2005. The purpose of this bond issue is to provide for capital improvement to and extensions of the existing Water System and refunding of existing 1997 bonds. This bond issue is consistent with the approved 2005/2006 budget and the water rates adopted in January 2005. These bonds will be sold through a competitive bid process rather than a negotiated sale because the Water Division's credit is well established, the debt issue is straightforward, and the market is stable.

Background

The Water Division last issued debt in September 2003 to fund the 2003/2004 capital projects. The Division now proposes to issue water system revenue bonds to fund the 2005/2006 capital projects and to refund the 1997 bonds. The 2005/2006 capital budget proposed a debt financing of \$39,975,000.

The 1997 water system bonds have an average coupon rate of 5.23 percent that have been identified as a possible candidate for refunding. There is a projected net present value savings of \$558,000 at present interest rates to refund the \$15,540,000 of outstanding 1997 bonds.

The proposed bond ordinance covenants are identical to the 2003 bond ordinance covenants.



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Mayor and Members of the City Council and
Chairman and Members of the Public Utility Board
July 29, 2005
Page 2


Proposed Structure

Our current estimated amount of the issue size is \$62,000,000. We are reviewing the option of replacing the cash in the reserve account with a bond insurance "surety" policy and using the cash for projects, thereby reducing the issuance amount. Major contributors to the proposed issuance include:

- \$39,975,000 that will fund the 2005/2006 capital projects.
- \$15,540,000 that will refund the 1997 bonds.
- Approximately \$4,229,000 for a debt service reserve account and costs of issuance.

It is recommended that the Public Utility Board and City Council take the necessary approving action.

Sincerely,


Mark Crisson
for Director of Utilities

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27405

Ordinance No. _____

First Reading of Ordinance: AUG 23 2005

Final Reading of Ordinance: AUG 30 2005

Passed: AUG 30 2005

Roll Call Vote:

MEMBERS	AYES	NAYS	ABSTAIN	ABSENT
Ms. Anderson				
Mr. Evans				
Ms. Ladenburg				
Mr. Lonergan				
Mr. Manthou				
Mr. Phillips				
Mr. Stenger				
Mr. Talbert				
Mayor Baarsma				

MEMBERS	AYES	NAYS	ABSTAIN	ABSENT
Ms. Anderson				
Mr. Evans				
Mr. Ladenburg				
Mr. Lonergan				
Mr. Manthou				
Mr. Stenger				
Mr. Talbert				
Mayor Baarsma				