

**City of Oak Harbor
City Council Agenda Bill**

Bill No. 7.a
Date: March 1, 2016
Subject: Ordinance No. 1756: Issuance
of Waterworks Utility Bonds

FROM: Dr. Merriman, City Administrator

INITIALED AS APPROVED FOR SUBMITTAL TO THE COUNCIL BY:

- ⊙ Bob Severns, Mayor
- ⊙ Doug Merriman, City Administrator/Finance Director
- ⊙ Nikki Esparza, City Attorney, as to form

RECOMMENDED ACTION

Adopt Ordinance No. 1756

BACKGROUND / SUMMARY INFORMATION

An ordinance to authorize the issuance of revenue bonds, in an amount up to but not to exceed \$50 million dollars, to fund the construction of the City's Clean Water Facility. The ordinance specifies the details of issuance, including the assignment of negotiating the sale of bonds to the City Administrator.

The projected sale date of the bonds is schedule for June 1, 2016. The initial issuance will be for approximately \$25 million, with the ability to do a second "wrap-up" issuance, if needed, at the end of the project.

LEGAL AUTHORITY

FISCAL IMPACT

PREVIOUS COUNCIL / BOARD / CITIZEN INPUT

ATTACHMENTS

1. [Ordinance No. 1756](#)

CITY OF OAK HARBOR, WASHINGTON

ORDINANCE NO. 1756

AN ORDINANCE of the City of Oak Harbor, Washington, relating to the Waterworks Utility of the City; providing for the issuance of one or more series of Waterworks Utility revenue bonds in an aggregate principal amount not to exceed \$50,000,000 for the purpose of providing funds necessary to pay or reimburse a portion of the costs of carrying out the Project, to repay the City's Waterworks Utility Revenue Bond Anticipation Note, 2015, to fund the reserve account, and to pay the costs of issuance of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; appointing the City's designated representative to approve the Sale Terms for the bonds; and providing for other related matters.

Passed March 1, 2016

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TABLE OF CONTENTS*

		<u>Page</u>
Section 1.	Findings and Determinations	1
Section 2.	Definitions.....	2
Section 3.	Purpose and Authorization of Bonds	9
Section 4.	Description of Bonds; Appointment of Designated Representative	9
Section 5.	Deposit of Bond Proceeds.....	9
Section 6.	Bond Registrar; Registration and Transfer of Bonds.....	9
Section 7.	Form and Execution of Bonds	10
Section 8.	Payment of Bonds	11
Section 9.	Redemption Provisions and Purchase of Bonds	11
Section 10.	Refunding or Defeasance of the Bonds	13
Section 11.	Failure To Pay Bonds.....	13
Section 12.	Pledge of Net Revenue and Lien Position	13
Section 13.	Bond Fund; Payments to Bond Fund	13
Section 14.	Flow of Funds	15
Section 15.	Rate Stabilization Account	16
Section 16.	Additional Covenants.....	16
Section 17.	Provisions for Future Parity Bonds.....	18
Section 18.	Separate Utility Systems	20
Section 19.	Contract Resource Obligations	20
Section 20.	Covenants With Respect to Tax Exemption	21
Section 21.	Amendatory and Supplemental Ordinances.....	22
Section 22.	Defaults and Remedies	24
Section 23.	Sale and Delivery of the Bonds	27
Section 24.	Official Statement; Continuing Disclosure	28
Section 25.	General Authorization and Ratification	28
Section 26.	Severability	29
Section 27.	Effective Date of Ordinance	29
Exhibit A	Parameters for Sale Terms	
Exhibit B	Form of Undertaking to Provide Continuing Disclosure	

**The cover page, table of contents and section headings of this ordinance are for convenience of reference only, and shall not be used to resolve any question of interpretation of this ordinance.*

CITY OF OAK HARBOR, WASHINGTON

ORDINANCE NO. _____

AN ORDINANCE of the City of Oak Harbor, Washington, relating to the Waterworks Utility of the City; providing for the issuance of one or more series of Waterworks Utility revenue bonds in an aggregate principal amount not to exceed \$50,000,000 for the purpose of providing funds necessary to pay or reimburse a portion of the costs of carrying out the Project, to repay the City's Waterworks Utility Revenue Bond Anticipation Note, 2015, to fund the reserve account, and to pay the costs of issuance of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; appointing the City's designated representative to approve the Sale Terms for the bonds; and providing for other related matters.

THE CITY COUNCIL OF THE CITY OF OAK HARBOR, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Findings and Determinations. The City Council makes the findings and determinations set forth below. Capitalized terms have the meanings given in Section 2.

(a) *Waterworks Utility.* Pursuant to RCW 35A.80.010 and chapter 35.67 RCW, the City now owns, operates and maintains the Waterworks Utility, currently consisting of its existing water utility and sewer utility, as they now exist, and including any and all additions, extensions and betterments thereto.

(b) *Outstanding Utility Revenue Debt.* The City currently has no outstanding bonds which are secured by the revenues of its Waterworks Utility senior to all outstanding Subordinate Debt. The City currently has outstanding its Waterworks Utility Revenue Bond Anticipation Note, 2015 (the "Note"), the proceeds of which were used to finance the costs of certain improvements to the City's Waterworks Utility. The Note is a Subordinate Debt of the Waterworks Utility. The terms of the currently outstanding Subordinate Debt, including the Note, permit the City to issue debt constituting a lien and charge upon the Net Revenue and ULID Assessments prior and superior to the currently outstanding Subordinate Debt. The City expects to repay the Note with a portion of the proceeds of the Bonds authorized pursuant to this ordinance.

(c) *Plan of Additions.* The City specifies, adopts and orders the carrying out of that portion of the Plan of Additions defined herein as the Project. The aggregate estimated total cost of the Project is \$110,000,000. The City does not have available sufficient funds from current resources, grants and state loans to pay the costs and is in need of funds with which to finance the remaining costs of the Project. The Project shall be carried out in accordance with the plans and specifications therefor prepared by the City's engineers and consulting engineers. The City Council may modify the details of the Project where, in its judgment, it appears advisable if such

modifications do not substantially alter the purpose of the Project. The cost of the Project, including the cost of issuance and sale of the Bonds, shall be paid from the proceeds of the Bonds and from other money available to the Waterworks Utility, including current resources, grants and loans. The average expected useful life of the Project exceeds the maximum maturity of the Bonds authorized herein.

(d) *Sufficiency of Gross Revenue.* The City Council finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the Waterworks Utility at the rates to be charged for services from the Waterworks Utility will be more than sufficient to meet all Operating 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 when due. The City Council declares that in fixing the amounts to be paid into the Bond Fund under this ordinance it has exercised due regard for Operating and Maintenance Expenses and has not obligated the City to set aside and pay into the Bond Fund a greater amount of Gross Revenue of the Waterworks Utility than in its judgment will be available over and above such Operating and Maintenance Expenses.

(e) *Issuance and Sale of the Bonds.* For the purposes described in Section 3, the City Council finds that it is in the best interests of the City and its ratepayers to issue and sell the Bonds pursuant to Sale Terms approved by the City's Designated Representative consistent with this ordinance.

Section 2. Definitions. As used in this ordinance, the following capitalized terms shall have the following meanings:

(a) "Adjusted Net Revenue" means Net Revenue, plus withdrawals from the Rate Stabilization Account and less deposits into the Rate Stabilization Account.

(b) "Annual Debt Service" means for any calendar year for the Parity Bonds (or for any series thereof, as applicable), all the interest, plus all principal (except principal of Term Bonds due in any Term Bond Maturity Year), plus all mandatory redemption and sinking fund installments for that year, less all bond interest expected to be paid from the proceeds of any such Parity Bonds in that year. Annual Debt Service shall be calculated net of any Tax Credit Subsidy Payment reasonably expected to be received in that calendar year. For purposes of calculating the Reserve Requirement and Coverage Requirement, calculations of Annual Debt Service shall include all Parity Bonds then outstanding, excluding those maturities that have been redeemed or defeased as of the date of the calculation. If the calculation is performed in connection with the issuance of Future Parity Bonds, the issue date of such Future Parity Bonds may be deemed to be the calculation date.

(c) "Assessment Bonds" means the principal portion of any issue of Parity Bonds allocated to the financing of improvements within a ULID. The allocation shall be determined as of the issue date of each series of Parity Bonds (and as of any date on which any Parity Bonds are redeemed, defeased or purchased), and the total amount so allocated shall be equal to the principal amount of ULID Assessments on the final assessment roll for that ULID remaining unpaid as of that date. Assessment Bonds shall be allocated pro rata to each maturity within a series of Parity Bonds. (For example, if the then-outstanding assessments equal 70% of the total

principal amount of a series of bonds that financed ULID improvements, then 70% of each maturity of that series shall be deemed Assessment Bonds.) Upon redemption, defeasance or purchase of all or a portion of a series of Parity Bonds that includes an allocation of Assessment Bonds, the amount of Assessment Bonds remaining outstanding shall be reduced on a pro rata basis with bonds that are not deemed Assessment Bonds.

(d) “Authorized Denomination” means \$5,000 or any integral multiple thereof within a maturity of a Series.

(e) “Average Annual Debt Service” means, as of its date of calculation, the sum of the Annual Debt Service for the current calendar year and the calendar years remaining to the last scheduled maturity of the applicable series of Parity Bonds, divided by the number of those years. For purposes of computing the Reserve Requirement, the estimated amount of bonds to be redeemed prior to maturity may be taken into account if required under federal arbitrage regulations.

(f) “Beneficial Owner” means, with respect to a Bond, the owner of any beneficial interest in that Bond.

(g) “Bond” means each bond issued as provided in this ordinance.

(h) “Bond Counsel” means the firm of Foster Pepper PLLC, its successor, or any other attorney or firm of attorneys selected by the City with a nationally recognized standing as bond counsel in the field of municipal finance.

(i) “Bond Fund” means that special fund of the City created by this ordinance and to be known as the Waterworks Utility Bond Fund, to be used solely to secure and pay the principal of and interest on the Parity Bonds.

(j) “Bond Insurance Policy” means a municipal bond insurance policy issued by a Bond Insurer insuring the payment when due of the principal of and interest on Parity Bonds as provided in such policy.

(k) “Bond Insurer” or “Insurer” means a bond insurance company providing a Bond Insurance Policy for the Bonds, if included in the Sale Terms approved by the Designated Representative in accordance with Exhibit A.

(l) “Bond Purchase Agreement” means an offer to purchase a Series of the Bonds, incorporating the Sale Terms and setting forth certain other terms and conditions of the issuance, sale and delivery of those Bonds, which offer is authorized to be accepted by the Designated Representative on behalf of the City, if consistent with this ordinance. In the case of a competitive sale, the official notice of sale, the Purchaser’s bid and the award by the City shall constitute the Bond Purchase Agreement for purposes of this ordinance.

(m) “Bond Register” means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of each Bond.

(n) “Bond Registrar” means the Fiscal Agent, or any successor bond registrar selected by the City.

(o) “City” means the City of Oak Harbor, Washington, a code city duly organized and existing under the laws of the State.

(p) “City Council” means the legislative authority of the City, as duly and regularly constituted from time to time.

(q) “Code” means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

(r) “Construction Fund” means such fund, subfund or account within the Waterworks Utility System Fund as is designated by the Finance Director for paying or reimbursing the costs of carrying out the Project and paying the costs of issuance of the Bonds.

(s) “Contract Resource Obligation” means an obligation of the City, designated as a Contract Resource Obligation in accordance with Section 19 of this ordinance, to make payments for water supply, sewer service, water or sewage transmission or other commodity or service to another person or entity (including without limitation any Separate Utility System).

(t) “Coverage Requirement” means, for any calendar year, an amount of Adjusted Net Revenue at least equal to 1.25 times the Annual Debt Service in that year on all then-outstanding Parity Bonds that are not Assessment Bonds. If any Assessment Bonds are outstanding, the Coverage Requirement shall also mean, in any calendar year, an amount of ULID Assessments (plus Adjusted Net Revenue available after satisfying the requirements of the preceding sentence) at least equal to 1.0 times the Annual Debt Service in that year on all Parity Bonds that are Assessment Bonds.

(u) “DTC” means The Depository Trust Company, New York, New York, or its nominee.

(v) “Designated Representative” means the officer of the City appointed in Section 4 of this ordinance to serve as the City’s designated representative in accordance with RCW 39.46.040(2).

(w) “Finance Director” means the Finance Director or such other officer of the City who succeeds to substantially all of the responsibilities of that office.

(x) “Financial Advisor” means Public Financial Management, Inc., or any other Financial Advisor then appointed and acting as financial advisor to the City.

(y) “Fiscal Agent” means the fiscal agent of the State, as the same may be designated by the State from time to time.

(z) “Future Parity Bond Authorizing Ordinance” means an ordinance of the City authorizing the issuance of Future Parity Bonds.

(aa) “Future Parity Bonds” means any and all revenue bonds or other obligations of the Waterworks Utility issued or incurred after the Issue Date of the Bonds, the payment of the principal of and interest on which constitutes a lien and charge against the Net Revenue and ULID Assessments equal in rank with the lien and charge securing the payment of the principal of and interest on the Bonds.

(bb) “Government Obligations” has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended and which are otherwise legal investments of the City at the time of such investment.

(cc) “Gross Revenue” means all of the earnings and revenues received by the City from the maintenance and operation of the Waterworks Utility and all earnings from the investment of money in the Bond Fund, which earnings are deposited in the Principal and Interest Account, and connection and capital improvement charges collected for the purpose of defraying the costs of capital facilities of the Waterworks Utility. Gross Revenue shall not include (1) revenues from City-imposed utility or similar taxes; (2) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the Waterworks Utility (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (3) income and revenue which may not legally be pledged for revenue bond debt service; (4) improvement district assessments (including ULID Assessments); (5) federal or state grants, and gifts from any source allocated to capital projects; (6) payments under bond insurance or any other credit enhancement policy or device; (7) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (8) proceeds from the sale of Waterworks Utility property; (9) deposits to the Rate Stabilization Account; (10) Tax Credit Subsidy Payments; or (11) revenue from any Separate Utility System.

(dd) “Independent Utility Consultant” means an independent consultant experienced with municipal utilities of comparable size and character to the Waterworks Utility and in such areas as are relevant to the purpose for which he or she is being retained. Such a consultant shall be deemed independent if he or she is not an employee or officer of the City.

(ee) “Issue Date” means, with respect to a Bond, the date of initial issuance and delivery of that Bond to the Purchaser in exchange for the purchase price of that Bond.

(ff) “Letter of Representations” means the Blanket Issuer Letter of Representations between the City and DTC, dated November 16, 2004, as it may be amended from time to time, and any successor or substitute letter relating to the operational procedures of the Securities Depository.

(gg) “MSRB” means the Municipal Securities Rulemaking Board.

(hh) “Maximum Annual Debt Service” means, as of the date of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current calendar year or any future calendar year.

(ii) “Net Revenue” means the Gross Revenue, less Operating and Maintenance Expenses.

(jj) “Note” means the City’s Waterworks Utility Revenue Bond Anticipation Note, 2015, dated November 12, 2015, issued pursuant to Ordinance No. 1749.

(kk) “Official Statement” means an offering document, disclosure document, private placement memorandum or substantially similar disclosure document provided to purchasers and potential purchasers in connection with the initial offering of a Series of the Bonds in conformance with Rule 15c2-12 or other applicable regulations of the SEC.

(ll) “Operating and Maintenance Expenses” means all reasonable expenses incurred by the City in causing the Waterworks Utility to be operated and maintained in good repair, working order and condition, including payments made pursuant to contract for such service to any other municipal corporation or private entity for sewage treatment and disposal, water supply and distribution or stormwater, or other utility service, and including budget charges for the City’s overhead expenses allocated to the Waterworks Utility. The term Operating and Maintenance Expense does not include any depreciation or other non-cash expenses or capital additions or capital replacements to the Waterworks Utility and shall not include any utility taxes collected by the City.

(mm) “Owner” means, without distinction, the Registered Owner and the Beneficial Owner.

(nn) “Parity Bond Authorizing Ordinance(s)” means this ordinance and any Future Parity Bond Authorizing Ordinance.

(oo) “Parity Bonds” means the Bonds and any Future Parity Bonds.

(pp) “Permitted Investments” means any investment that, at the time of such investment, is permitted as a legal investment for City funds under State law.

(qq) “Plan of Additions” means the system or plan of additions and improvements to and betterments and extensions of the Waterworks Utility set forth in the Capital Improvements Plan of the City, as adopted and in effect from time to time (most recently, approved in the 2015-2020 Capital Improvements Plan, dated December 2, 2014).

(rr) “Principal and Interest Account” means the account of that name created in the Bond Fund for the payment of the principal of and interest on the Parity Bonds.

(ss) “Project” means the portion of the Plan of Additions consisting of the design, construction and equipping of a new Wastewater Treatment Plant and all related capital costs allocable thereto.

(tt) “Purchaser” means the corporation, firm, association, partnership, trust, bank, financial institution or other legal entity or group of entities selected by the Designated Representative to serve as purchaser in a private placement, underwriter or placement agent in a

negotiated sale or awarded as the successful bidder in a competitive sale of any Series of the Bonds.

(uu) “Rate Stabilization Account” means the account of that name created within the Waterworks Utility System Fund pursuant to Section 15 of this ordinance.

(vv) “Rating Agency” means any nationally recognized rating agency then maintaining a rating on the Bonds at the request of the City.

(ww) “Record Date” means the Bond Registrar’s close of business on the 15th day of the month preceding an interest payment date. With respect to redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s close of business on the date on which the Bond Registrar sends the notice of redemption in accordance with Section 9.

(xx) “Registered Owner” means, with respect to a Bond, the person in whose name that Bond is registered on the Bond Register. For so long as the City utilizes the book-entry only system for the Bonds under the Letter of Representations, Registered Owner shall mean the Securities Depository.

(yy) “Reserve Account” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

(zz) “Reserve Requirement” means, with respect to all Parity Bonds secured by the Reserve Account outstanding at the time of calculation, an amount equal to the least of (1) Maximum Annual Debt Service, (2) 125% of Average Annual Debt Service, or (3) 10% of the original proceeds of those then-outstanding Parity Bonds. The Reserve Requirement shall be satisfied in accordance with Section 13(c). In connection with any Reserve Security, the amount credited against the required deposit into the Reserve Account shall be equal to the maximum amount payable under such Reserve Security.

(aaa) “Reserve Security” means any bond insurance, reserve insurance, reserve surety, collateral, security, 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 Parity Bonds, issued by an institution which has been assigned a credit rating by a Rating Agency, at the time that such Reserve Security is obtained by the City, in one of the three highest rating categories without regard to gradations within those categories (i.e., Aaa, Aa or A). Investments purchased with cash deposited into the Reserve Account shall not constitute Reserve Securities.

(bbb) “Rule 15c2-12” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

(ccc) “SEC” means the United States Securities and Exchange Commission.

(ddd) “Sale Terms” means the terms and conditions for the sale of a Series of the Bonds including the amount, date or dates, denominations, interest rate or rates (or mechanism for determining interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms or covenants.

(eee) “Securities Depository” means DTC, any successor thereto, any substitute securities depository selected by the City that is qualified under applicable laws and regulations to provide the services proposed to be provided by it, or the nominee of any of the foregoing.

(fff) “Separate Utility System” means any water supply, sewage collection or treatment, stormwater or other utility service or facilities that may be created, acquired or constructed by the City as provided in Section 18 of this ordinance.

(ggg) “Series of the Bonds” means a series of Bonds issued pursuant to this ordinance.

(hhh) “State” means the State of Washington.

(iii) “Subordinate Debt” means Public Works Trust Fund loans, State Revolving Fund loans, the Note and any other obligations of the water or sewer utilities that are payable from Net Revenue on a basis that is junior and inferior to the lien and charge on the Net Revenue created by this ordinance in respect of the Parity Bonds.

(jjj) “System of Registration” means the system of registration for the City’s bonds and other obligations set forth in Ordinance No. 789 of the City.

(kkk) “Tax Credit Subsidy Bond” means any bond that is designated by the City as a “build America bond” or other type of tax credit bond, pursuant to the Code, and which is further designated as a “qualified bond” under Section 6431 of the Code (or under similar provisions of the Code providing for “direct-pay” tax credit bonds), and with respect to which the City expects to receive a Tax Credit Subsidy Payment.

(lll) “Tax Credit Subsidy Payment” means the amounts which the City is eligible to request as a tax credit payable by the United States Treasury to the City under Section 6431 of the Code (or under similar provisions of the Code providing for “direct-pay” tax credit bonds), in respect of any bonds issued as Tax Credit Subsidy Bonds.

(mmm) “Term Bond” means each Bond designated as a Term Bond and subject to mandatory redemption in the years and amounts set forth in the Bond Purchase Agreement or each Future Parity Bond designated as a Term Bond in the applicable Parity Bond Authorizing Ordinance.

(nnn) “ULID” means any utility local improvement district now existing or hereafter created for the acquisition or construction of additions, extensions or betterments of any portion of the Waterworks Utility, which additions, extensions or betterments are financed through the issuance of Parity Bonds. As used in this ordinance, the term ULID does not include any utility local improvement district created for the financing of additions, extensions or betterments either by methods other than the issuance of Parity Bonds or as part of a Separate Utility System.

(ooo) “ULID Assessments” means the assessments levied in any ULID, including installment payments of any assessment as well as the interest and penalties (if any) thereon, less any prepaid assessments permitted by law to be paid into a construction fund or account.

(ppp) “Undertaking” means the undertaking to provide continuing disclosure entered into pursuant to Section 24(c).

(qqq) “Waterworks Utility” of the City means the Water System of the City and the Sewer System of the City combined pursuant to Ordinance No. 853 and all additions thereto and betterments and extensions thereof at any time made and shall include any storm and surface water systems or garbage and refuse collection and disposal system hereafter combined with the Waterworks Utility.

(rrr) “Waterworks Utility System Fund” means, collectively, those special funds of the City designated as the Water and Water Reserve Fund and the Sewer and Sewer Reserve Fund, consisting of such subfunds or accounts as the Finance Director may deem appropriate, to discretely account for the costs, expenses and revenues of each component utility.

Section 3. Purpose and Authorization of Bonds. For the purpose of (a) paying or reimbursing the costs of the Project, (b) repaying the Note, (c) making a deposit to the Reserve Account or purchasing a Reserve Security to satisfy the Reserve Requirement, and (d) paying the costs of issuance of the Bonds, the City is authorized to issue Waterworks Utility revenue bonds in one or more series in aggregate principal amount not to exceed \$50,000,000.

Section 4. Description of Bonds; Appointment of Designated Representative. The City Administrator, or in the absence of the City Administrator, the Finance Director is appointed as the Designated Representative of the City and is authorized and directed to conduct the sale of the Bonds in the manner and upon the terms deemed most advantageous to the City, and to approve the Sale Terms of each Series of the Bonds, with such additional terms and covenants as the Designated Representative deems advisable, within the parameters for the Sale Terms set forth in Exhibit A, which is attached to this ordinance and incorporated by this reference.

Section 5. Deposit of Bond Proceeds. On the Issue Date, as required and determined by the Designated Representative, proceeds of the Bonds shall be deposited in the Reserve Account or used to purchase a Reserve Security to satisfy the Reserve Requirement. The remaining proceeds of the Bonds shall be deposited in the Construction Fund and be used to pay the costs of issuance and sale of the Bonds and the costs of carrying out the Project. Until needed to pay such costs, the City may invest those proceeds temporarily in any Permitted Investment, and the investment earnings shall be retained in the Construction Fund and used for the purposes of that fund, except that earnings subject to a federal tax or rebate requirement (if applicable) may be withdrawn from the Construction Fund and used for those tax or rebate purposes.

Section 6. Bond Registrar; Registration and Transfer of Bonds.

(a) *Registration of Bonds.* Each Bond shall be issued only in registered form as to both principal and interest and the ownership of each Bond shall be recorded on the Bond Register.

(b) *Bond Registrar; Duties.* The Fiscal Agent is appointed as initial Bond Registrar. The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be open to inspection by the City at all times. The Bond

Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and the System of Registration. The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on each Bond. The Bond Registrar may become an Owner with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Owners.

(c) *Bond Register; Transfer and Exchange.* The Bond Register shall contain the name and mailing address of each Registered Owner and the principal amount and number of each Bond held by each Registered Owner. A Bond surrendered to the Bond Registrar may be exchanged for a Bond or Bonds in any Authorized Denomination of an equal aggregate principal amount and of the same Series, interest rate and maturity. A Bond may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner or transferee. The Bond Registrar shall not be obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next upcoming interest payment or redemption date.

(d) *Securities Depository; Book-Entry Only Form.* DTC is appointed as initial Securities Depository. Each Bond initially shall be registered in the name of Cede & Co., as the nominee of DTC. Each Bond registered in the name of the Securities Depository shall be held fully immobilized in book-entry only form by the Securities Depository in accordance with the provisions of the Letter of Representations. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except: (i) to any successor Securities Depository; (ii) to any substitute Securities Depository appointed by the City; or (iii) to any person if the Bond is no longer to be held in book-entry only form. Upon the resignation of the Securities Depository, or upon a termination of the services of the Securities Depository by the City, the City may appoint a substitute Securities Depository. If (i) the Securities Depository resigns and the City does not appoint a substitute Securities Depository, or (ii) the City terminates the services of the Securities Depository, the Bonds no longer shall be held in book-entry only form and the registered ownership of each Bond may be transferred to any person as provided in this ordinance.

Neither the City nor the Bond Registrar shall have any obligation to participants of any Securities Depository or the persons for whom they act as nominees regarding accuracy of any records maintained by the Securities Depository or its participants. Neither the City nor the Bond Registrar shall be responsible for any notice that is permitted or required to be given to a Registered Owner except such notice as is required to be given by the Bond Registrar to the Securities Depository.

Section 7. Form and Execution of Bonds.

(a) *Form of Bonds; Signatures and Seal.* Each Bond shall be prepared in a form consistent with the provisions of this ordinance and State law. Each Bond shall be signed by the Mayor and the City Clerk, either or both of whose signatures may be manual or in facsimile, and

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

(b) *Authentication.* Only a Bond bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance: “Certificate Of Authentication. This Bond is one of the fully registered City of Oak Harbor, Washington, Waterworks Utility Revenue Bonds, 2016 [Series designation, if any].” The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

Section 8. Payment of Bonds. Principal of and interest on each Bond shall be payable in lawful money of the United States of America. Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. Interest on each Bond not registered in the name of the Securities Depository is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not registered in the name of the Securities Depository is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

Section 9. Redemption Provisions and Purchase of Bonds.

(a) *Optional Redemption.* The Bonds shall be subject to redemption at the option of the City on terms acceptable to the Designated Representative, as set forth in the Bond Purchase Agreement, consistent with the parameters set forth in Exhibit A.

(b) *Mandatory Redemption.* Each Bond that is designated as a Term Bond in the Bond Purchase Agreement, consistent with the parameters set forth in Exhibit A, if not previously redeemed under any optional redemption provisions or purchased and surrendered for cancellation under the provisions set forth below, shall be called for redemption at a price equal to the stated principal amount to be redeemed, plus accrued interest, on the dates and in the amounts as set forth in the Bond Purchase Agreement. If a Term Bond is redeemed under the optional redemption provisions, defeased or purchased by the City and surrendered for cancellation, the principal amount of the Term Bond so redeemed, defeased or purchased (irrespective of its actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption installments for that Term Bond. The City shall determine the

manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation prior to the earliest mandatory redemption date for that Term Bond for which notice of redemption has not already been given.

(c) *Selection of Bonds for Redemption; Partial Redemption.* If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the City shall select the Series and maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Bond Registrar shall select all other Bonds to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

(d) *Notice of Redemption.* Notice of redemption of each Bond registered in the name of the Securities Depository shall be given in accordance with the Letter of Representations. Notice of redemption of each other Bond, unless waived by the Registered Owner, shall be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner at the address appearing on the Bond Register on the Record Date. The requirements of the preceding sentence shall be satisfied when notice has been mailed as so provided, whether or not it is actually received by an Owner. In addition, the redemption notice shall be mailed or sent electronically within the same period to the MSRB (if required under the Undertaking), to each Rating Agency, and to such other persons and with such additional information as the Finance Director shall determine, but these additional mailings shall not be a condition precedent to the redemption of any Bond.

(e) *Rescission of Optional Redemption Notice.* In the case of an optional redemption, the notice of redemption may state that the City retains the right to rescind the redemption notice and the redemption by giving a notice of rescission to the affected Registered Owners at any time on or prior to the date fixed for redemption (or such earlier date as the notice may indicate). Any notice of optional redemption that is so rescinded shall be of no effect, and each Bond for which a notice of redemption has been rescinded shall remain outstanding.

(f) *Effect of Redemption.* Interest on each Bond called for redemption shall cease to accrue on the date fixed for redemption, unless either the notice of optional redemption is rescinded as set forth above, or money sufficient to effect such redemption is not on deposit in the Bond Fund or in a trust account established to refund or defease the Bond.

(g) *Purchase of Bonds.* The City reserves the right to purchase any or all of the Bonds offered to the City at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Section 10. Refunding or Defeasance of the Bonds. The City may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (a) paying when due the principal of and interest on any or all of the Bonds (the “defeased Bonds”); (b) redeeming the defeased Bonds prior to their maturity; and (c) paying the costs of the refunding or defeasance. If the City sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the “trust account”), money and/or Government Obligations maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. Thereafter, the Owners of defeased Bonds shall have the right to receive payment of the principal of and interest on the defeased Bonds solely from the trust account and the defeased Bonds shall be deemed no longer outstanding. In that event, the City may apply money remaining in any fund or account (other than the trust account) established for the payment or redemption of the defeased Bonds to any lawful purpose, subject only to the rights of the owners of any other Parity Bonds then outstanding. Unless otherwise specified by the City in a refunding or defeasance plan, notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner prescribed in this ordinance for the redemption of Bonds.

Section 11. Failure To Pay Bonds. If the principal of any Bond is not paid when the Bond is properly presented at its maturity date or date fixed for redemption, 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 date fixed for redemption 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, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Section 12. Pledge of Net Revenue and Lien Position. The Net Revenue and ULID Assessments are pledged irrevocably to the payment of the amounts required to be paid into the Bond Fund for the payment of the Parity Bonds. This pledge shall constitute a lien and charge upon such Net Revenue and ULID Assessments prior and superior to any other charges whatsoever and on a parity with any Future Parity Bonds.

Section 13. Bond Fund; Payments to Bond Fund. The Bond Fund is hereby created in the Waterworks Utility System Fund, and is divided into two accounts: the Principal and Interest Account and the Reserve Account. The Finance Director may create such accounts and subaccounts in the Bond Fund as may be convenient for the payment of the Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the Owners of Parity Bonds.

(a) *Payments into Bond Fund.* So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Bond Fund all ULID Assessments and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

- (1) Into the Principal and Interest Account, on or before each interest payment date, an amount that will be sufficient, together with other money then on deposit therein, to pay the interest on the Parity Bonds then coming due and payable; and
- (2) Into the Principal and Interest Account, on or before each principal payment date (including any date on which a mandatory redemption of Term Bonds is required), an amount that will be sufficient, together with other money then on deposit therein, to pay the principal of the Parity Bonds then coming due and payable, including mandatory redemption amounts with respect to Term Bonds; and
- (3) Into the Reserve Account, an amount necessary to provide for the Reserve Requirement in the time and manner required under subsection (c) of this section.

When the total amount in the Bond Fund equals the total amount of principal and interest with respect to all outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund.

(b) *The Principal and Interest Account.* For so long as any Parity Bonds are outstanding, the City shall maintain the Principal and Interest Account for the payment of the Parity Bonds and shall make deposits therein as set forth in subsection (a), above. If there is a deficiency in the Principal and Interest Account to make the next upcoming payment of either principal or interest, that deficiency shall be made up from the Reserve Account by the withdrawal of amounts necessary for that purpose.

(c) *The Reserve Account; Reserve Requirement.* For so long as the Bonds are outstanding, the City shall maintain a balance in the Reserve Account (including the value of all Reserve Securities) equal to the Reserve Requirement, except for withdrawals as authorized in this subsection. The Reserve Requirement must be satisfied on the Issue Date of the Bonds and on the issue date of any Future Parity Bonds, by any combination of: (i) a deposit of cash or Parity Bond proceeds; or (ii) the purchase of one or more Reserve Securities in lieu of full funding on the issue date of such Future Parity Bonds. In lieu of full funding on the issue date of such Future Parity Bonds, the City may elect to deposit Net Revenue, ULID Assessments or other legally available money in approximately equal annual installments so that the Reserve Requirement is funded no later than five years after the issue date of such Future Parity Bonds.

Notwithstanding the foregoing, the City may establish, for one or more series of Future Parity Bonds, a separate reserve requirement (which may be zero), to be held in a separate reserve account in the Bond Fund, for the purpose of securing those Future Parity Bonds, and those Future Parity Bonds shall not be secured by amounts in the Reserve Account or by any Reserve Security credited to the Reserve Account.

On any principal or interest payment date in which there is a deficiency in the Principal and Interest Account, amounts sufficient to make up that deficiency shall be withdrawn from the Reserve Account (or by drawing on a Reserve Security) and transferred to the Principal and Interest Account. If, by reason of such withdrawal, the Reserve Account balance remaining is insufficient to meet the Reserve Requirement, then such deficiency shall then be made up from

the next available payments of Net Revenue and ULID Assessments after making necessary provision for the required payments into the Principal and Interest Account.

Except for withdrawals described above, the money in the Reserve Account and its subaccounts otherwise shall be held intact and may be applied against the last outstanding Parity Bonds. However, if at any time the Reserve Account (or any subaccount) is fully funded, money in excess of the Reserve Requirement shall be withdrawn and deposited, first, in any other subaccount having a deficiency in its Reserve Requirement, and second, at the option of the Finance Director, either in the Principal and Interest Account and spent for the purpose of retiring Parity Bonds or in into the Waterworks Utility System Fund and spent for other lawful system purposes.

(d) *Investment of Money Deposited in Bond Fund.* All money in the Bond Fund may be kept in cash or shall be invested in Permitted Investments maturing not later than the date when needed (for investments in the Principal and Interest Account) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Account). Income from investments in the Principal and Interest Account shall be deposited in that account. Income from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirement, and thereafter shall be deposited in the Principal and Interest Account or used for other Waterworks Utility purposes.

Section 14. Flow of Funds. So long as any Parity Bonds are outstanding, the City covenants that all ULID Assessments (if any) shall be paid into the Bond Fund, and the Gross Revenue shall be deposited into the Waterworks Utility System Fund (and the respective utility subfunds therein) to be used for the following purposes only in the following order of priority:

- (a) To pay the Operating and Maintenance Expenses;
- (b) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds;
- (c) To make when due the required payments into the Principal and Interest Account in respect of principal of (and premium on, if any) the Parity Bonds, whether at maturity or pursuant to mandatory redemption prior to maturity.
- (d) To make all payments required to be made into the Reserve Account as well as any separate reserve accounts that may be established in the Bond Fund to secure a particular series of Future Parity Bonds;
- (e) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer;
- (f) To make when due the required payments to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay and secure the payment of any Subordinate Debt; and
- (g) For any of the following purposes without priority, to retire by redemption or to purchase in the open market any outstanding obligations of the Waterworks Utility; to make

necessary betterments and replacements of or repairs, additions or extensions to the Waterworks Utility; to make deposits into the Rate Stabilization Account; or for any other lawful purpose.

Section 15. Rate Stabilization Account. The Rate Stabilization Account is created within the Waterworks Utility System Fund and may be divided into such subaccounts as the Finance Director may deem appropriate. Deposits and withdrawals as described below 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 used to calculate Adjusted Net Revenue.

(a) *Deposits to the Rate Stabilization Account.* The City may at any time, as determined by the Finance Director and consistent with Section 14, deposit therein amounts from Net Revenue and any other money of the Waterworks Utility that is available to be used for that purpose, excluding ULID Assessments and excluding the principal proceeds of any Future Parity Bonds. No deposit of Net Revenue may 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.

(b) *Withdrawals from the Rate Stabilization Account.* The City may withdraw money from the Rate Stabilization Account at any time for inclusion in the Adjusted Net Revenue for any fiscal year of the Waterworks Utility. Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Adjusted Net Revenue unless and until withdrawn from that account.

(c) *Investment of Money in Rate Stabilization Account.* Earnings from investments in the Rate Stabilization Account shall be retained in that account and shall not be included as Net Revenue or Adjusted Net Revenue unless and until withdrawn from that account as provided herein. The City may at any time provide by resolution or ordinance that earnings are to be deposited periodically into the Waterworks Utility System Fund and are to be included as Net Revenue in the year of deposit.

Section 16. Additional Covenants. For so long as any of the Bonds are outstanding, the City covenants and agrees as follows:

(a) *Operation and Maintenance.* The City will at all times maintain, preserve and keep the properties of the Waterworks Utility in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be operated the properties of the Waterworks Utility and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) *Establishment and Collection of Rates and Charges.* The City will establish, maintain and collect rates and charges for all services and facilities provided by the Waterworks Utility which will be fair and nondiscriminatory, and will adjust those rates and charges from time to time so that:

- (1) The Gross Revenue of the Waterworks Utility will at all times be sufficient to (i) pay all Operating and Maintenance Expenses on a current basis, (ii) make all payments into the Bond Fund and the accounts therein when due, and (iii) pay all

taxes (or payments in lieu thereof), assessments or other governmental charges lawfully imposed on the Waterworks Utility and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

- (2) The Adjusted Net Revenue in each calendar year will be at least equal to the Coverage Requirement.

The calculation of the Coverage Requirement set forth above, and the City's compliance therewith, may be made solely with reference to this ordinance without regard to future changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then an event of default relating to this section shall not be considered an Event of Default (as described in Section 22) if the Coverage Requirement ratio would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this ordinance.

(c) *Collection of Delinquent Accounts.* On at least an annual basis, the City will determine all accounts that are delinquent and will take all necessary action to enforce payment of such accounts against those property owners whose accounts are delinquent.

(d) *No Free Service.* Except to aid the poor or infirm, to provide for resource conservation or to provide for the proper handling of hazardous materials, or otherwise permitted by State law, the City will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Waterworks Utility free of charge to any person, firm or corporation, public or private, other than the City.

(e) *Sale or Disposition of the Waterworks Utility.* The City will not sell or otherwise dispose of the Waterworks Utility in its entirety unless, simultaneously with such sale or other disposition, all then-outstanding Parity Bonds are redeemed or defeased in accordance with this ordinance. Furthermore, the City will not sell, lease, mortgage or in any manner encumber or otherwise dispose of any part of the Waterworks Utility that exceeds 5% of the net utility plant of the Waterworks Utility, unless provision is made for its replacement or for payment into the Bond Fund of the greatest of the following:

- (1) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (defined as the total amount of the Parity Bonds less the amount of cash and investments in the Bond Fund) as the Gross Revenue derived from the portion of the Waterworks Utility to be sold or disposed of bears to the total Gross Revenue for the preceding year;
- (2) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) as the Net Revenue from the portion of the Waterworks Utility to be sold or disposed of bears to the total Net Revenue for the preceding year; or

- (3) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) as the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire Waterworks Utility immediately prior to such sale or disposition.

Nothing in the foregoing limits the City's discretion to enter into contracts for the sale of water and sewer capacity, to sell or otherwise dispose of the Seaplane Base Treatment Lagoon, to demolish the existing RBC plant, or sell or otherwise dispose of any of the works, plant, properties or facilities of the Waterworks Utility (or any real or personal property comprising a part of the same) that is unserviceable, inadequate, obsolete or unfit to be used, or no longer necessary, material to or useful to the operation of the Waterworks Utility without the requirement that the City retire a portion of the Parity Bonds. In no event shall proceeds of any such sale or disposal be treated as Gross Revenue for purposes of this ordinance.

(f) *Books and Accounts.* The City will maintain complete books and records relating to the operation of the Waterworks Utility and its financial affairs, and will cause such books and records to be audited annually, and cause to be prepared an annual financial and operating statement, which shall be provided to any owner of Parity Bonds upon request.

(g) *Insurance.* The City will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the Waterworks Utility as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry adequate public liability insurance at all times. The City may self-insure or participate in a joint intergovernmental insurance pool or similar plan, and the cost of that insurance or self-insurance shall be considered a part of Operating and Maintenance Expense.

(h) *ULID Assessments.* The City will promptly collect all ULID Assessments and deposit such collections into the Bond Fund to pay or secure the principal of and interest on any Parity Bonds without those ULID Assessments being particularly allocated to any particular series of Parity Bonds.

Section 17. Provisions for Future Parity Bonds. The City may issue Future Parity Bonds secured by a lien and charge on the Net Revenues and ULID Assessments on a parity with the Bonds if and only if the following conditions are met and complied with at the time of issuance of those proposed Future Parity Bonds. Nothing contained herein shall prevent the City from issuing revenue bonds that are a charge upon the Gross Revenue of the City subordinate to the lien and charge for the payment of Parity Bonds or from pledging the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on Subordinate Debt, as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of that Subordinate Debt. Neither shall anything contained in this ordinance prevent the City from issuing revenue obligations to refund maturing Parity Bonds for the payment of which money is not otherwise available.

(a) *Secured by Bond Fund.* The Future Parity Bond Authorizing Ordinance must provide for the payment of the principal thereof and interest thereon out of the Bond Fund and

must require that all ULID Assessments imposed in connection with those Future Parity Bonds (if any) will be paid directly into the Bond Fund.

(b) *No Bond Fund Deficiencies; Reserve Requirement Met.* At the time of issuance of such Future Parity Bonds, there may not be any deficiency in the Principal and Interest Account in the Bond Fund, and unless a separate reserve is provided for in accordance Section 13(c) of this ordinance, the applicable Future Parity Bond Authorizing Ordinance must provide for the deposit into the Reserve Account of amounts necessary to fully fund the Reserve Requirement in accordance with Section 13 of this ordinance.

(c) *Coverage Requirement Met.* At the time of the issuance of such Future Parity Bonds, the City must have on file, either:

- (1) A certificate of the Finance Director showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Finance Director shall use the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 consecutive months and shall assume that (i) the proposed Future Parity Bonds will remain outstanding to their scheduled maturities, (ii) no deposits will be made to or withdrawals from the Rate Stabilization Account, and (iii) any Parity Bonds to be refunded by the proposed Future Parity Bonds are no longer outstanding. The following adjustments may be made to the historical net operating revenue:
 - (i) Any rate change that has taken place or been approved may be reflected;
 - (ii) Revenue may be added from customers actually added to the Waterworks Utility subsequent to the 12-month base period; and
 - (iii) A full year's revenue may be included from any customer being served, but who has not been receiving service for the full period of operation used as a basis for the certificate.
- (2) A certificate from an Independent Utility Consultant showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 consecutive months shall be used, and the following adjustments may be made to the historical net operating revenue:
 - (i) Any rate change that has taken place or been approved may be reflected;
 - (ii) Revenue may be added from customers actually added to the Waterworks Utility subsequent to the 12-month base period;

- (iii) Revenue may be added from customers to be served by the improvements being constructed out of the proceeds of the Future Parity Bonds to be issued;
- (iv) A full year's revenue may be included from any customer being served, but who has not been receiving service for the full period of operation used as a basis for the certificate;
- (v) Actual or reasonably anticipated changes to the Operating and Maintenance Expenses subsequent to such 12-month period shall be added or deducted, as is applicable; and
- (vi) Deposits to and withdrawals from the Rate Stabilization Account will be made only in accordance with the City's adopted financial policies.

(d) *No Certificate Required for Certain Issues.* If the sole purpose of the proposed Future Parity Bonds is to refund then-outstanding Parity Bonds (and to pay costs of issuance and to provide for the Reserve Requirement), no coverage certificate is required under paragraph (c) if, as result of the issuance of those Future Parity Bonds (1) the Annual Debt Service on the Future Parity Bonds to be issued is not increased by more than \$5,000 over the Annual Debt Service for that year of the bonds being refunded, and (2) the various annual maturities of the proposed Future Parity Bonds will not extend more than one year longer than the Parity Bonds being refunded. Furthermore, no coverage certificate is required in connection with the issuance of Future Parity Bonds if the amount of such bonds proposed to be issued does not exceed the ULID Assessments levied in support of such Future Parity Bond issue by more than \$5,000 plus any amount of the proceeds of such Future Parity Bonds deposited in the Reserve Account.

Section 18. Separate Utility Systems. The City may at any time create, acquire, construct, finance, own and operate one or more systems for water supply, sewer service, water, sewage or stormwater transmission, treatment or other commodity or utility service, which systems are separate from and in addition to the Waterworks Utility. The revenue of that Separate Utility System, and any utility local improvement district assessments payable solely with respect to improvements to a Separate Utility System, shall not be included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the Separate Utility System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a Separate Utility System except that the Net Revenue may be pledged on a basis subordinate to the lien of the Parity Bonds.

Section 19. Contract Resource Obligations. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed or improved by the use of payments under such Contract Resource Obligations, of water supply; sewer service; water or sewer treatment, transmission; or any other commodity or service relating to the Waterworks Utility, as follows:

- (a) The City may agree under a contract containing a Contract Resource Obligation that all payments in respect of that Contract Resource Obligation (including payments prior to

the time that water or wastewater service is being provided, or during a suspension or after termination of supply or service) shall be deemed an Operating and Maintenance Expense, so long as the payments required to be made under the Contract Resource Obligation are not subject to acceleration and the following additional requirements are met at the time such obligation is designated as a Contract Resource Obligation:

- (1) No event of default has occurred and is continuing under the terms of any debt obligation of the City in respect of the Waterworks Utility; and
- (2) The City has obtained a certificate of an Independent Utility Consultant stating that in its professional opinion: (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the service rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a supply or planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide service no later than a date set forth in the certification; and (iii) the Net Revenue will be sufficient to meet the Coverage Requirement for each of the five calendar years following the calendar year in which the Contract Resource Obligation is incurred, where the calculation of Net Revenue (A) takes into account the adjustments permitted in connection with a coverage certification given under the conditions for Future Parity Bonds, and (B) adjusts the Operating and Maintenance Expenses by the consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation.

(b) Nothing in this section shall prevent the City from entering into agreements for the acquisition of water supply, transmission or other commodity or service relating to the Waterworks Utility from then-existing facilities and from treating those payments as an Operating and Maintenance Expense. Nothing in this section shall prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting Subordinate Obligations until such time as the facilities are placed in service.

Section 20. Covenants With Respect to Tax Exemption.

(a) *Preservation of Tax Exemption for Interest on Bonds.* The City covenants that if it determines to sell the Bonds (or any Series of the Bonds) as Tax Exempt Bonds, it will take all actions necessary to prevent interest on those Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of those Bonds or other funds of the City treated as proceeds of those Bonds that will cause interest on those Bonds to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent the arbitrage rebate requirements of Section 148 of the Code are applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with those requirements in connection with the Bonds.

(b) *Post-Issuance Tax Compliance.* The Finance Director is authorized and directed to review and update the City's written procedures to facilitate compliance by the City with the

covenants in this ordinance and the applicable requirements of the Code that must be satisfied after the Issue Date to prevent interest on the Bonds from being included in gross income for federal tax purposes.

Section 21. Amendatory and Supplemental Ordinances. This ordinance shall not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this section. For purposes of this provision, the passage of an ordinance authorizing the issuance of Future Parity Bonds shall not be considered an amendatory or supplemental ordinance.

(a) *Certain Amendatory or Supplemental Ordinances Permitted Without Bond Owner Consent.* The City, from time to time, and at any time, without the consent of or notice to the registered owners of the Parity Bonds, may pass amendatory or supplemental ordinances as set forth in this subsection (a). Before passing any such amendatory or supplemental ordinance, the City must have delivered to it an opinion of Bond Counsel, stating that such ordinance is authorized or permitted by this ordinance and, upon its effective date, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any tax-exempt Parity Bonds then outstanding. The permitted purposes under this subsection (a) are:

- (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 (or a bond trustee, if any), with its consent, 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 this ordinance (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 amend or supplement this ordinance in any other respect which is not materially adverse to the registered owners of the Parity Bonds and which does not involve a change described in subsections (b) or (c) of this section; and

- (7) To maintain the exclusion from gross income of the interest on the Bonds from federal income taxation in light of a change in federal law, regulations or rulings.

(b) *Amendatory or Supplemental Ordinances Requiring Consent of Registered Owners of 60% of Parity Bonds Outstanding.* In addition to any ordinance permitted pursuant to paragraph (a) and subject to the terms and conditions contained in subsection (c) and not otherwise, the City, upon the consent of registered owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, shall have the right from time to time to consent to and approve any amendatory or supplemental ordinance deemed necessary or desirable by the City. Such an ordinance may amend or supplement, in any particular, any of the terms or provisions contained in this ordinance. If at any time the City passes an amendatory or supplemental ordinance under this subsection (b), the effective date shall be conditioned on the following:

- (1) The City must cause notice of the amendatory or supplemental ordinance to be given by first-class United States mail to all registered owners of any then outstanding Parity Bonds and to each Rating Agency. Such notice shall briefly summarize the ordinance and shall state that a copy is available for review by request or on the City's website.
- (2) The ordinance may go into effect upon receipt by the City of (i) the consents, in writing, of the required percentage of registered owners of the Parity Bonds, and (ii) an opinion of Bond Counsel to the effect that (A) such ordinance is permitted by this ordinance, (B) upon its effective date it will be valid and binding upon the City in accordance with its terms, and (C) it will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any tax-exempt Parity Bonds then outstanding.

(c) *Amendatory or Supplemental Ordinances Requiring Consent of All Registered Owners.* Unless approved in writing by the registered owners of all Parity Bonds then outstanding, nothing contained in this section shall permit, or be construed as permitting:

- (1) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Parity Bond or a reduction in the principal amount or redemption price of any outstanding Parity Bond or a change in the redemption price of any outstanding Parity Bond or a change in the method of determining the rate of interest thereon;
- (2) a preference of priority of any Parity Bonds or any other bond or bonds, or
- (3) a reduction in the aggregate principal amount of any Parity Bond.

(d) *Effect of Passage of Amendatory or Supplemental Ordinance.* Upon the adoption of the amendatory or supplemental ordinance pursuant to the provisions of this section, this ordinance shall be, and shall be deemed to be, amended and supplemented accordingly. No owner of outstanding Parity Bonds shall have any right (1) to object to the passage of such ordinance, (2) to object to any of the terms and provisions contained therein or the operation thereof, (3) in any manner to question the propriety of the passage thereof, or (4) to enjoin or

restrain the City from passing the same or taking any action pursuant thereto. The respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all registered owners of Parity Bonds, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such supplements and amendments.

Section 22. Defaults and Remedies.

(a) *Events of Default.* The following shall constitute “Events of Default” with respect to the Bonds:

- (1) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable; or
- (2) If the City defaults in the observance and performance of any other of its covenants, conditions and agreements set forth in this ordinance and such default or defaults have continued for a period of six months after they have received from the Bondowners’ Trustee (as defined below) or from the registered owners of not less than 25% in outstanding principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six month period, it shall not be an Event of Default with respect to the Bonds as long as the City has taken active steps within 90 days to remedy the default and is diligently pursuing such remedy; or
- (3) If the City files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

(b) *Bondowners’ Trustee.* So long as such Event of Default has not been remedied, a bondowners’ trustee (the “Bondowners’ Trustee”) may be appointed by the registered owners of 25% in principal amount of the Parity Bonds then outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact, duly authorized and delivered to such Bondowners’ Trustee, and after notice of such appointment has been delivered to the City. That appointment shall become effective immediately upon acceptance thereof by the Bondowners’ Trustee. Any Bondowners’ Trustee must be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bondowners’ Trustee may be removed at any time, and a successor Bondowners’ Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Bonds or by their attorneys-in-fact duly authorized. The Bondowners’ Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties. If any Event of Default is, in the sole judgment of the Bondowners’ Trustee, cured and the Bondowners’ Trustee furnishes to the City a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the City, the Bondowners’ Trustee and the registered owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had

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

(c) *Suits at Law or in Equity.* Upon the happening of an Event of Default and during the continuation thereof, the Bondowners' Trustee may (and, upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding, must) take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or in any of the Parity Bonds.

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

(d) *No Acceleration.* Nothing contained in this Section 22 shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal of the Parity Bonds. The remedy of acceleration is expressly denied to the owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

(e) *Application of Money Collected by Bondowners' Trustee.* Any money collected by the Bondowners' Trustee at any time pursuant to this section shall be applied in the following order of priority:

- (1) First, to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys.

- (2) Second, to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference.
- (3) Third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

(f) *Duties and Obligations of Bondowners' Trustee.* The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bondowners' Trustee shall be read into this ordinance. The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct. The Bondowners' Trustee shall not be bound to recognize any person as a registered owner of any Bond until his or her title thereto, if disputed, has been established to its reasonable satisfaction. The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

(g) *Suits by Individual Bondowners Restricted.* Neither the registered owner nor the beneficial owner of any one or more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

- (1) an Event of Default has happened and is continuing; and
- (2) a Bondowners' Trustee has been appointed; and

- (3) such owner previously shall have given to the Bondowners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and
- (4) the registered owners of 25% in principal amount of the then outstanding Parity Bonds have made, after the occurrence of such Event of Default, written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and
- (5) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and
- (6) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No Owner of any Parity Bond shall have any right in any manner whatever by his or her action to affect or impair the obligation of the City to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective Owners thereof when due.

Section 23. Sale and Delivery of the Bonds.

(a) *Manner of Sale of Bonds; Delivery of Bonds.* The Designated Representative is authorized to sell each Series of the Bonds by negotiated sale or by competitive sale in accordance with a notice of sale consistent with this ordinance, based on the assessment of the Designated Representative of market conditions, in consultation with appropriate City officials and staff, Bond Counsel, the Financial Advisor and other advisors. In determining the method of sale of a Series and accepting the Sale Terms, the Designated Representative shall take into account those factors that, in the judgment of the Designated Representative, may be expected to result in the lowest true interest cost to the City.

(b) *Procedure for Negotiated Sale or Private Placement.* If the Designated Representative determines that a Series of the Bonds is to be sold by negotiated sale or private placement, the Designated Representative shall select one or more Purchasers with whom to negotiate such sale. The Bond Purchase Agreement for each Series of the Bonds shall set forth the Sale Terms. The Designated Representative is authorized to execute the Bond Purchase Agreement on behalf of the City, so long as the terms provided therein are consistent with the terms of this ordinance.

(c) *Procedure for Competitive Sale.* If the Designated Representative determines that a Series of the Bonds is to be sold by competitive sale, the Designated Representative shall cause the preparation of an official notice of bond sale setting forth parameters for the Sale Terms and any other bid parameters that the Designated Representative deems appropriate consistent with this ordinance. Bids for the purchase of each Series of the Bonds shall be received at such time or place and by such means as the Designated Representative directs. On the date and time established for the receipt of bids, the Designated Representative (or the designee of the Designated Representative) shall open bids and shall cause the bids to be mathematically verified. The Designated Representative is authorized to award, on behalf of the City, the

winning bid and accept the winning bidder's offer to purchase that Series of the Bonds, with such adjustments to the aggregate principal amount and principal amount per maturity as the Designated Representative deems appropriate, consistent with the terms of this ordinance, and such award shall constitute the Bond Purchase Agreement. The Designated Representative may reject any or all bids submitted and may waive any formality or irregularity in any bid or in the bidding process if the Designated Representative deems it to be in the City's best interest to do so. If all bids are rejected, that Series of the Bonds may be sold pursuant to negotiated sale or in any manner provided by law as the Designated Representative determines is in the best interest of the City, within the parameters set forth in this ordinance.

(d) *Preparation, Execution and Delivery of the Bonds.* The Bonds will be prepared at City expense and will be delivered to the Purchaser in accordance with the Bond Purchase Agreement, together with the approving legal opinion of Bond Counsel regarding the Bonds.

Section 24. Official Statement; Continuing Disclosure.

(a) *Preliminary Official Statement Deemed Final.* The Designated Representative shall review and, if acceptable to him or her, approve the preliminary Official Statement prepared in connection with each sale of a Series of the Bonds to the public or through a Purchaser as a placement agent. For the sole purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, if applicable, the Designated Representative is authorized to deem that preliminary Official Statement final as of its date, except for the omission of information permitted to be omitted by Rule 15c2-12. The City approves the distribution to potential purchasers of the Bonds of a preliminary Official Statement that has been approved by the Designated Representative and been deemed final, if applicable, in accordance with this subsection.

(b) *Approval of Final Official Statement.* The City approves the preparation of a final Official Statement for each Series of the Bonds to be sold to the public in the form of the preliminary Official Statement that has been approved and deemed final in accordance with subsection (a), with such modifications and amendments as the Designated Representative deems necessary or desirable, and further authorizes the Designated Representative to execute and deliver such final Official Statement to the Purchaser if required under Rule 15c2-12. The City authorizes and approves the distribution by the Purchaser of the final Official Statement so executed and delivered to purchasers and potential purchasers of a Series of the Bonds.

(c) *Undertaking to Provide Continuing Disclosure.* If necessary to meet the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to the Purchaser acting as a participating underwriter for a Series of the Bonds, the Designated Representative is authorized to execute a written undertaking to provide continuing disclosure for the benefit of holders of a Series of the Bonds in substantially the form attached as Exhibit B.

Section 25. General Authorization and Ratification. The Designated Representative and other appropriate officers of the City are severally authorized to take such actions and to execute such documents as in their judgment may be necessary or desirable to carry out the transactions contemplated in connection with this ordinance, and to do everything necessary for the prompt delivery of each Series of the Bonds to the Purchaser thereof and for the proper

application, use and investment of the proceeds of the Bonds. All actions taken prior to the effective date of this ordinance in furtherance of the purposes described in this ordinance and not inconsistent with the terms of this ordinance are ratified and confirmed in all respects.

Section 26. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 27. Effective Date of Ordinance. This ordinance shall take effect and be in force from and after its passage and five days following its publication as required by law.

PASSED by the City Council and APPROVED by the Mayor of the City of Oak Harbor, Washington, at an open public meeting thereof, this 1st day of March, 2016.

Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:

Bond Counsel

FILED WITH THE CITY CLERK: _____

PASSED BY THE CITY COUNCIL: _____

PUBLISHED: _____

EFFECTIVE DATE: _____

ORDINANCE NO.: _____

PARAMETERS FOR SALE TERMS

- (a) Principal Amount. The Bonds may be issued in one or more Series and shall not exceed the aggregate principal amount of \$50,000,000.
- (b) Date or Dates. Each Bond shall be dated its Issue Date, which date may not be later than June 30, 2018.
- (c) Denominations, Name, etc. The Bonds shall be issued in Authorized Denominations and shall be numbered separately in the manner and shall bear any name and additional designation as deemed necessary or appropriate by the Designated Representative.
- (d) Interest Rate(s). Each Bond shall bear interest at a fixed rate per annum (computed on the basis of a 360-day year of twelve 30-day months) from the Issue Date or from the most recent date for which interest has been paid or duly provided for, whichever is later. One or more rates of interest may be fixed for the Bonds. No rate of interest for any Bond may exceed 5.0%, and the true interest cost to the City for each Series of the Bonds may not exceed 4.5%.
- (e) Payment Dates. Interest shall be payable at fixed rates semiannually on dates acceptable to the Designated Representative, commencing no later than one year following the Issue Date. Principal payments shall commence on a date acceptable to the Designated Representative and shall be payable at maturity or in mandatory redemption installments, on dates acceptable to the Designated Representative.
- (f) Final Maturity. No Bond shall mature no later than thirty-one years after its Issue Date.
- (g) Redemption Rights. The Designated Representative may approve in the Bond Purchase Agreement provisions for the optional and mandatory redemption of Bonds, subject to the following:
 - (1) *Optional Redemption.* Any Bond may be designated as being (A) subject to redemption at the option of the City prior to its maturity date on the dates and at the prices set forth in the Bond Purchase Agreement; or (B) not subject to redemption prior to its maturity date. If a Bond is subject to optional redemption prior to its maturity, it must be subject to such redemption on one or more dates occurring not more than 10½ years after the Issue Date.

(2) *Mandatory Redemption.* Any Bond may be designated as a Term Bond, subject to mandatory redemption prior to its maturity on the dates and in the amounts set forth in the Bond Purchase Agreement.

(h) Price.

The purchase price for each Series of the Bonds may not be less than 98% or more than 125% of the stated principal amount of that Series.

(i) Other Terms and Conditions.

The Designated Representative may determine whether it is in the City's best interest to provide for bond insurance or other credit enhancement; and may accept such additional terms, conditions and covenants as he or she may determine are in the best interests of the City, consistent with this ordinance.

[Form of]
UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

City of Oak Harbor, Washington
Waterworks Utility Revenue Bonds, 2016 [Series]

The City of Oak Harbor, Washington (the “City”) makes the following written Undertaking for the benefit of the Owners of the City’s Waterworks Utility Revenue Bonds, 2016 [Series] (the “Bonds”), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance No. _____ (the “Bond Ordinance”).

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data of the type included in the final Official Statement for the Bonds and described in paragraph (b) (“annual financial information”);

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 - TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified in paragraph (b).

(b) Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide in paragraph (a):

(i) Shall consist of (1) annual financial statements prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles applicable to local governmental units such as the City, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (2) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Waterworks Utility and ULID Assessments; (3) debt service coverage ratio for the year; and (4) Waterworks Utility number of customers;

(ii) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2015; and

(iii) May be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

(c) Amendment of Undertaking. This Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, Rating Agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. This Undertaking shall inure to the benefit of the City and the holder of each Bond, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if the provisions of Rule 15c2-12 that require the City to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of Bond Counsel delivered to the City, and the City provides timely notice of such termination to the MSRB.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with this Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with this Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take action to compel the City or other obligated

person to comply with this Undertaking, including seeking an order of specific performance from an appropriate court.

(g) Designation of Official Responsible to Administer Undertaking. The Finance Director or his or her designee is authorized to take such further actions as may be necessary, appropriate or convenient to carry out this Undertaking in accordance with Rule 15c2-12, including the following actions:

- (i) Preparing and filing the annual financial information undertaken to be provided;
- (ii) Determining whether any event specified in paragraph (a) has occurred, assessing its materiality, where necessary, with respect to the Bonds, and preparing and disseminating any required notice of its occurrence;
- (iii) Determining whether any person other than the City is an “obligated person” within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person required under Rule 15c2-12;
- (iv) Selecting, engaging and compensating designated agents and consultants, including financial advisors and legal counsel, to assist and advise the City in carrying out this Undertaking; and
- (v) Effecting any necessary amendment of this Undertaking.

CITY OF OAK HARBOR, WASHINGTON

By: _____

CERTIFICATION

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

1. The attached copy of Ordinance No. ____ (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a regular meeting of the City Council of the City held at the regular meeting place thereof on March 1, 2016, as that ordinance appears on the minute book of the City.
2. The Ordinance will be in full force and effect five days after publication in the City's official newspaper, which publication date is March __, 2016.
3. A quorum of the members of the City Council was present throughout the meeting and a majority of the members voted in the proper manner for the passage of the Ordinance.

Dated: _____, 2016.

CITY OF OAK HARBOR, WASHINGTON

Anna Thompson, City Clerk

City of Oak Harbor
City Council Agenda Bill

Bill No. 7.b
Date: March 1, 2016
Subject: Resolution 16-11: Support for
OHSD Economic Impact Study

FROM: Dr. Doug Merriman, City Administrator

INITIALED AS APPROVED FOR SUBMITTAL TO THE COUNCIL BY:

- ⊙ Bob Severns, Mayor
- ⊙ Doug Merriman, City Administrator/Finance Director
- ⊙ Nikki Esparza, City Attorney, as to form

RECOMMENDED ACTION

Adopt Resolution 16-11.

BACKGROUND / SUMMARY INFORMATION

A resolution to support the Oak Harbor School District in its request for the Office of Economic Adjustment (OEA) to conduct an economic impact study of the effects of the incoming military personnel on the community. Please see the elements of the attached resolution for the description of purpose.

LEGAL AUTHORITY

FISCAL IMPACT

There is not budgetary fiscal impact from this action.

PREVIOUS COUNCIL / BOARD / CITIZEN INPUT

ATTACHMENTS

1. [Resolution 16-11 OHSD Economic Impact Support](#)

RESOLUTION 16-11

REQUESTING A REVIEW FROM THE OFFICE OF ECONOMIC ADJUSTMENT (OEA) REGARDING THE EFFECTS OF PERSONNEL INCREASES AT NAVAL AIR STATION WHIDBEY ISLAND (NASWI), IMPACTS ON THE GREATER OAK HARBOR COMMUNITY, AND IMPACTS ON OAK HARBOR SCHOOLS

WHEREAS, Naval Air Station Whidbey Island (NASWI) currently employs 7,500 military forces personnel, 1,200 civilian employees and 1,200 contractors, in a city of approximately 22,000 people;

WHEREAS, NASWI is currently receiving additional EA-18G “Growlers”, which will be fully installed by 2020 and three P-8 squadrons from Hawaii;

WHEREAS, NASWI projects up to a 30 percent increase in personnel due to the incoming squadrons;

WHEREAS, the Oak Harbor community, without adequate resources, may have difficulty sufficiently maintaining quality of life standards of the greater community due to a surge from incoming personnel;

WHEREAS, a 30 percent increase in personnel, or approximately 2,500 people, may exceed current capabilities of healthcare professionals in the short and/or medium term;

WHEREAS, pediatric services may also experience an increase in demand resulting from as many as 800 new navy-connected children living in Oak Harbor by 2020, not accounting for local population growth;

WHEREAS, current supply of affordable housing stocks within the Oak Harbor community may not meet demand of the sizeable personnel increases after on-base housing stocks are at capacity;

WHEREAS, Oak Harbor Public Schools (OHPS) is a federally-impacted school district, because it resides in close proximity to, and partially on NASWI, reducing the available property tax base;

WHEREAS, currently, over 50 percent of students in attendance at OHPS are already connected to the Navy;

WHEREAS, the personnel from the additional “Growlers” are projected to bring with them up to 400 students by 2020, and the incoming P-8 squadrons are expected to bring at least 300 new students, some of which have already arrived;

WHEREAS, OHPS does not have adequate space to accommodate these students: all elementary classrooms are full, by the end of this school year, over 24 portable classrooms will be filled to serve elementary school students, and very few classrooms at the middle and high school level are available;

WHEREAS, OHPS requires at least 22 new classrooms to accommodate all incoming students;

THE CITY COUNCIL OF THE CITY OF OAK HARBOR does hereby resolve as follows:

Section 1: The City supports the request by the Oak Harbor School District for a comprehensive review by the Office of Economic Adjustment (OEA) of the economic impacts of incoming military personnel on the community.

PASSED by the City Council of the City of Oak Harbor and approved by its Mayor this 1st day of March 2016.

CITY OF OAK HARBOR

BOB SEVERNS, MAYOR

Attest:

Approved as to Form:

Anna Thompson, City Clerk

Nikki Esparza, City Attorney

Introduction:

Adopted:

Published: