

CITY OF SEATTLE
ORDINANCE _____
COUNCIL BILL _____

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to and extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the “City”) owns, maintains and operates a municipal water system as part of Seattle Public Utilities (the “Municipal Water System”), which Municipal Water System has from time to time required various additions, improvements and extensions; and

WHEREAS, the City needs to acquire and construct certain additions and betterments to and extensions of the Municipal Water System as set forth in this ordinance (the “Plan of Additions”); and

WHEREAS, pursuant to the bond legislation described in Exhibit A, the City has previously issued its water system revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a charge and lien on the net revenue of the Municipal Water System on a parity of lien with those bonds (“Parity Bonds”) upon compliance with certain conditions; and

WHEREAS, the City has determined that it is in the best interest of the City to authorize the issuance and sale, subject to the provisions of this ordinance, of water system revenue bonds as Parity Bonds, to pay part of the cost of carrying out the Plan of Additions, to provide for the reserve requirement and to pay the costs of issuance of those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

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

“**Accreted Value**” means with respect to any Capital Appreciation Bond (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Legislation authorizing

1 such Capital Appreciation Bond, and (b) as of any date other than a Valuation Date, the sum of
2 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the
3 numerator of which is the number of days having elapsed from the preceding Valuation Date and
4 the denominator of which is the number of days from such preceding Valuation Date to the next
5 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues
6 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day
7 months, multiplied by (B) the difference between the Accreted Values for such Valuation Dates.

8 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service minus
9 (a) an amount equal to ULID Assessments due in that year and not delinquent, (b) an amount
10 equal to earnings from investments in the Reserve Subaccount, and (c) Annual Debt Service
11 provided for by Parity Bond proceeds.

12 **“Adjusted Gross Revenue”** means, for any period, Gross Revenue plus withdrawals
13 from the Rate Stabilization Account made during that period, and minus (a) ULID Assessments,
14 (b) earnings from investments in the Reserve Subaccount and (c) deposits into the Rate
15 Stabilization Account made during that period.

16 **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Operating and
17 Maintenance Expense.

18 **“Annual Debt Service”** for any calendar year means the sum of the amounts required in
19 such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding,
20 excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the
21 principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund
22 Requirement, if any, for such calendar year.

23 (a) For purposes of this definition, the principal and interest portions of the Accreted
24 Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund
25 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or
26 principal in such manner and during such period of time as is specified in any Parity Bond
27 Legislation authorizing such Capital Appreciation Bonds.

1 (b) For purposes of calculating and determining compliance with the Coverage
2 Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity
3 Bonds and/or entering into Parity Payment Agreements, the following shall apply:

4 (i) **Generally.** Except as otherwise provided by subparagraph (ii) below with respect
5 to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to
6 Parity Bonds with respect to which a Payment Agreement is in force, interest on
7 any issue of Parity Bonds shall be calculated based on the actual amount of
8 accrued, accreted or otherwise accumulated interest that is payable in respect of
9 that issue taken as a whole, at the rate or rates set forth in the applicable Parity
10 Bond Legislation.

11 (ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to be
12 payable on any issue of Variable Interest Rate Bonds shall be calculated on the
13 assumption that the interest rate on those bonds would be equal to the rate that is
14 90% of the average RBI during the four calendar quarters preceding the quarter in
15 which the calculation is made.

16 (iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in
17 Force.** Debt service on Parity Bonds with respect to which a Payment Agreement
18 is in force shall be based on the net economic effect on the City expected to be
19 produced by the terms of the Parity Bonds and the terms of the Payment
20 Agreement, including but not limited to the effects produced by the following:
21 (A) Parity Bonds that would, but for a Payment Agreement, be treated as
22 obligations bearing interest at a Variable Interest Rate instead shall be treated as
23 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that
24 would, but for a Payment Agreement, be treated as obligations bearing interest at
25 a fixed interest rate instead shall be treated as obligations bearing interest at a
26 Variable Interest Rate. Accordingly, the amount of interest deemed to be payable
27 on any Parity Bonds with respect to which a Payment Agreement is in force shall
28 be an amount equal to the amount of interest that would be payable at the rate or
rates stated in those Parity Bonds plus Payment Agreement Payments minus
Payment Agreement Receipts. For the purposes of calculating as nearly as
practicable Payment Agreement Receipts and Payment Agreement Payments
under a Payment Agreement that includes a variable rate component determined
by reference to a pricing mechanism or index that is not the same as the pricing
mechanism or index used to determine the variable rate interest component on the
Parity Bonds to which the Payment Agreement is related, it shall be assumed that
the fixed rate used in calculating Payment Agreement Payments will be equal to
105% of the fixed rate specified by the Payment Agreement and that the pricing
mechanism or index specified by the Payment Agreement is the same as the
pricing mechanism or index specified by the Parity Bonds. Notwithstanding the
other provisions of this subparagraph, the City shall not be required to (but may in

1 its discretion) take into account in determining Annual Debt Service the effects of
2 any Payment Agreement that has a term of ten years or less.

3 **(iv) Parity Payment Agreements.** No additional debt service shall be taken into
4 account with respect to a Parity Payment Agreement for any period during which
5 Payment Agreement Payments on that Parity Payment Agreement are taken into
6 account in determining Annual Debt Service on related Parity Bonds under
7 subsection (iii) of this definition. However, for any period during which Payment
8 Agreement Payments are not taken into account in calculating Annual Debt
9 Service on any outstanding Parity Bonds because the Parity Payment Agreement
10 is not then related to any outstanding Parity Bonds, payments on that Parity
11 Payment Agreement shall be taken into account by assuming:

12 **(A) City Obligated to Make Payments Based on Fixed Rate.** If the City is
13 obligated to make Payment Agreement Payments based on a fixed rate and
14 the Qualified Counterparty is obligated to make payments based on a
15 variable rate index, that payments by the City will be based on the
16 assumed fixed payor rate, and that payments by the Qualified
17 Counterparty will be based on a rate equal to the average rate determined
18 by the variable rate index specified by the Parity Payment Agreement
19 during the four calendar quarters preceding the quarter in which the
20 calculation is made, and

21 **(B) City Obligated to Make Payments Based on Variable Rate Index.** If
22 the City is obligated to make Payment Agreement Payments based on a
23 variable rate index and the Qualified Counterparty is obligated to make
24 payment based on a fixed rate, that payments by the City will be based on
25 a rate equal to the average rate determined by the variable rate index
26 specified by the Parity Payment Agreement during the four calendar
27 quarters preceding the quarter in which the calculation is made, and that
28 the Qualified Counterparty will make payments based on the fixed rate
specified by the Parity Payment Agreement.

(v) Balloon Bonds. For purposes of calculating debt service on any Balloon Bonds,
it shall be assumed that the principal of those Balloon Bonds, together with
interest thereon at a rate equal to the assumed RBI-based rate, will be amortized
in equal annual installments over a term of 30 years.

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

“Average Annual Debt Service” means, at the time of calculation, the sum of the
Annual Debt Service remaining to be paid to the last scheduled maturity of the applicable series
of Parity Bonds divided by the number of years such bonds are scheduled to remain outstanding.

1 **“Balloon Bonds”** means any series of Parity Bonds designated as Balloon Bonds in the
2 applicable Parity Bond Legislation.

3 **“Beneficial Owner”** means, with regard to a Bond, the owner of any beneficial interest
4 in that Bond.

5 **“Bond Counsel”** means a lawyer or a firm of lawyers, selected by the City, of nationally
6 recognized standing in matters pertaining to bonds issued by states and their political
7 subdivisions.

8 **“Bond Insurance”** means any bond insurance, guaranty, surety bond or similar credit
9 enhancement device providing for or securing the payment of all or part of the principal of and
10 interest on any Parity Bonds.

11 **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds,
12 which offer has been accepted by the City in accordance with this ordinance. In the case of a
13 competitive sale, the official notice of sale, the Purchaser’s bid and the award by the City shall
14 comprise the offer and the award by the City in accordance with this ordinance shall be deemed
15 the acceptance of that offer for purposes of this ordinance.

16 **“Bond Register”** means the books or records maintained by the Bond Registrar for the
17 purpose of identifying ownership of each Bond.

18 **“Bond Registrar”** means the Fiscal Agent (unless the Bond Resolution provides for a
19 different Bond Registrar with respect to a particular Series), or any successor bond registrar
20 selected in accordance with the Registration Ordinance.

21 **“Bond Resolution”** means a resolution of the City Council adopted pursuant to this
22 ordinance approving the Bond Sale Terms and taking other actions consistent with this
23 ordinance.

24 **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds
25 including the amount, date or dates, denominations, interest rate or rates (or mechanism for
26 determining interest rate or rates), payment dates, final maturity, redemption rights, price, and
27 other terms or covenants set forth in Section 5 of this ordinance.

1 **“Bonds”** means the Water System revenue bonds issued pursuant to this ordinance.

2 **“Capital Appreciation Bond”** means any Parity Bond, all or a portion of the interest on
3 which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in
4 the applicable Parity Bond Legislation and is payable only upon redemption or on the maturity
5 date of such Parity Bond. A Parity Bond issued as a Capital Appreciation Bond, but which later
6 converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation
7 Bond until the conversion date and thereafter shall no longer be a Capital Appreciation Bond, but
8 shall be treated as having a principal amount equal to its Accreted Value on the conversion date.

9 **“CIP”** means those portions of the City’s “2013-2018 Capital Improvement Program”
10 relating to the Municipal Water System, adopted by the City in Ordinance 124058, together with
11 any previously adopted Capital Improvement Program of the City. For purposes of this
12 ordinance, the CIP includes all amendments, updates, supplements or replacements that may be
13 adopted from time to time by ordinance.

14 **“City”** means The City of Seattle, Washington, a municipal corporation duly organized
15 and existing under the laws of the State of Washington.

16 **“City Council”** means the City Council of the City, as duly and regularly constituted
17 from time to time.

18 **“Code”** means the Internal Revenue Code of 1986, or any successor thereto, as it has
19 been and may be amended from time to time, and regulations thereunder.

20 **“Construction Account”** means the Water System Construction Subaccount, 2014,
21 created by this ordinance in the Water System Construction Account, which account was
22 previously created in the Water Fund.

23 **“Contract Resource Obligation”** means an obligation of the City, designated as a
24 Contract Resource Obligation and entered into in accordance with Section 20.

25 **“Coverage Requirement”** means Adjusted Net Revenue equal to at least 1.25 times
26 Adjusted Annual Debt Service.

27 **“DTC”** means The Depository Trust Company, New York, New York.

1 **“Director of Finance”** means the Director of the Finance Division of the Department of
2 Finance and Administrative Services of the City, or any other officer who succeeds to
3 substantially all of the responsibilities of that office.

4 **“Event of Default”** shall have the meaning assigned to that term in Section 25(a).

5 **“Fiscal Agent”** means the fiscal agent of the State, as the same may be designated by the
6 State from time to time.

7 **“Future Parity Bonds”** means , with reference to any Series of the Bonds, all revenue
8 bonds and obligations of the Water System (other than that Series and any other Parity Bonds the
9 outstanding), issued or entered into after the Issue Date of such Series, the payment of which
10 constitutes a charge and lien on the Net Revenue equal in rank with the charge and lien upon
11 such revenue required to be paid into the Parity Bond Account under Section 15. Future Parity
12 Bonds may include Parity Payment Agreements and any other obligations issued in compliance
13 with Section 17.

14 **“Future Parity Bond Legislation”** means any ordinance or resolution passed or adopted
15 by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and
16 any other ordinance or resolution amending or supplementing the provisions of any such
17 ordinance or resolution.

18 **“Government Obligations”** has the meaning given in RCW 39.53.010, as now in effect
19 or as may hereafter be amended.

20 **“Gross Revenue”** means (a) all income, revenues, receipts and profits derived by the
21 City through the ownership and operation of the Municipal Water System; (b) the proceeds
22 received by the City directly or indirectly from the sale, lease or other disposition of any of the
23 properties, rights or facilities of the Municipal Water System; (c) Payment Agreement Receipts,
24 to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the
25 investment income earned on money held in any fund or account of the City, including any bond
26 redemption funds and the accounts therein, in connection with the ownership and operation of
27 the Municipal Water System. Gross Revenue does not include: (a) insurance proceeds
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1 compensating the City for the loss of a capital asset; (b) income derived from investments
2 irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue;
3 (c) investment income set aside for or earned on money in any fund or account created or
4 maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code;
5 (d) any gifts, grants, donations or other funds received by the City from any State or federal
6 agency or other person if such gifts, grants, donations or other funds are the subject of any
7 limitation or reservation imposed by the donor or grantor or imposed by law or administrative
8 regulation to which the donor or grantor is subject, limiting the application of such funds in a
9 manner inconsistent with the application of Gross Revenue hereunder; (e) the proceeds of any
10 borrowing for capital improvements (or the refinancing thereof); (f) the proceeds of any liability
11 or other insurance (excluding business interruption insurance or other insurance of like nature
12 insuring against the loss of revenues); (g) general *ad valorem* taxes, excise taxes and special
13 assessments, including interest and penalties thereon; and (h) earnings of any separate utility
14 system that may be created, acquired, or constructed by the City pursuant to Section 19.

15 **“Independent Utility Consultant”** means an independent person or firm having a
16 favorable reputation for skill and experience with municipal water systems of comparable size
17 and character to the Municipal Water System in such areas as are relevant to the purpose for
18 which they were retained.

19 **“Issue Date”** means, with respect to a Bond, the date, as determined by the Director of
20 Finance, on which that Bond is issued and delivered to the Purchaser in exchange for its
21 purchase price.

22 **“Letter of Representations”** means the Blanket Issuer Letter of Representations
23 between the City and DTC dated October 4, 2006, as it may be amended from time to time, or an
24 agreement with a substitute successor Securities Depository.

25 **“Maximum Annual Debt Service”** means, at the time of calculation, the maximum
26 amount of Annual Debt Service which shall become due in the current calendar year or in any
27 future calendar year on the Parity Bonds then outstanding.

1 **“MSRB”** means the Municipal Securities Rulemaking Board.

2 **“Municipal Water System”** means the water system of the City as it now exists, and all
3 additions thereto and betterments and extensions thereof at any time made, together with any
4 utility systems of the City hereafter combined with the Municipal Water System. The Municipal
5 Water System shall not include any separate utility system that may be created, acquired or
6 constructed by the City as provided in Section 19.

7 **“Net Revenue”** means, for any period, the Gross Revenue less Operating and
8 Maintenance Expense.

9 **“Operating and Maintenance Expense”** means all expenses incurred by the City in
10 causing the Municipal Water System of the City to be operated and maintained in good repair,
11 working order and condition, including without limitation: deposits, premiums, assessments or
12 other payments for insurance, if any, on the Municipal Water System; payments into pension
13 funds; State-imposed taxes; amounts due under Contract Resource Obligations (but only at the
14 times described in Section 20 of this ordinance); payments made to any other person or entity for
15 the receipt of water supply or transmission or other commodity or service; and payments with
16 respect to any other expenses of the Municipal Water System that are properly treated as
17 Operating and Maintenance Expense under generally accepted accounting principles applicable
18 to municipal corporations. Operating and Maintenance Expense does not include any
19 depreciation or taxes levied or imposed by the City, or payments to the City in lieu of taxes, or
20 capital additions or capital replacements to the Municipal Water System.

21 **“Outstanding Parity Bonds”** means the outstanding Municipal Water System revenue
22 bonds described in Exhibit A and any other Parity Bonds outstanding as of the Issue Date of a
23 Series of the Bonds.

24 **“Owner”** means, without distinction, the Registered Owner and the Beneficial Owner of
25 a Bond.

1 **“Parity Bond Account”** means the Water Revenue Parity Bond Account created by
2 Ordinance 116705 in the Water Fund for the purpose of paying and securing the principal of and
3 interest on Parity Bonds.

4 **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the
5 City Council providing for the issuance and sale of a series of Parity Bonds, and any other
6 ordinance or resolution amending or supplementing the provisions of any Parity Bond
7 Legislation.

8 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds, and any outstanding
9 Future Parity Bonds or Parity Payment Agreements.

10 **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the
11 Parity Bond Legislation.

12 **“Parity Payment Agreement”** means a Payment Agreement under which the City’s
13 payment obligations are expressly stated to constitute a charge and lien on the Net Revenue
14 equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond
15 Account to pay interest on Parity Bonds.

16 **“Payment Agreement”** means a written agreement, for the purpose of managing or
17 reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate,
18 investment, asset or liability management purposes, entered into on either a current or forward
19 basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State
20 in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes,
21 bond anticipation notes, commercial paper or other obligations for borrowed money, or lease,
22 installment purchase or other similar financing agreements or certificates of participation therein,
23 that provides for an exchange of payments based on interest rates, ceilings or floors on such
24 payments, options on such payments, or any combination thereof or any similar device.

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

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

3 **“Permitted Investments”** means any investments or investment agreements permitted
4 for the investment of City funds under the laws of the State of Washington, as amended from
5 time to time.

6 **“Plan of Additions”** means, together, the CIP and the Water System Plan, as modified
7 from time to time. The Plan of Additions includes the purchase and installation of all materials,
8 supplies, appliances, equipment and facilities, the acquisition of all permits, franchises, property
9 and property rights, other capital assets and all engineering, consulting and other professional
10 services and studies (whether performed by the City or by other public or private entities)
11 necessary or convenient to carry out the Plan of Additions. The Plan of Additions shall include
12 any amendments, updates, supplements or replacements to the CIP or the Water System Plan, all
13 of which automatically shall constitute amendments to the Plan of Additions. The Plan of
14 Additions also may be modified to include other improvements, without amending the CIP or the
15 Water System Plan, if the City determines by ordinance that those amendments or other
16 improvements constitute a system or plan of additions to or betterments or extensions of the
17 Municipal Water System.

18 **“Principal and Interest Subaccount”** means the subaccount of that name created in the
19 Parity Bond Account for the payment of the principal of and interest on Parity Bonds.

20 **“Purchaser”** means the entity or entities who have been selected in accordance with this
21 ordinance to serve as underwriter, purchaser or successful bidder in a sale of any Series.

22 **“Qualified Counterparty”** means a party (other than the City or a party related to the
23 City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are
24 rated in one of the three highest rating categories of each Rating Agency (without regard to any
25 gradations within a rating category), or (ii) whose obligations under the Payment Agreement are
26 guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution
27 which has been assigned a credit rating in one of the two highest rating categories of each Rating
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1 Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement
2 under any applicable laws of the State.

3 **“Qualified Insurance”** means Bond Insurance provided by an insurance company that,
4 as of the time of issuance of such Bond Insurance, is rated in one of the two highest rating
5 categories (without regard to any gradations within a rating category) by at least two nationally
6 recognized rating agencies.

7 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution
8 for the account of the City on behalf of the Beneficial Owner of any Parity Bond, which
9 institution maintains an office, agency or branch in the United States and, as of the time of
10 issuance of such letter of credit, is rated in one of the two highest rating categories by at least two
11 nationally recognized rating agencies.

12 **“RBI”** means *The Bond Buyer* Revenue Bond Index or comparable index, or, if no
13 comparable index can be obtained, 80% of the interest rate for actively traded 30 year United
14 States Treasury obligations.

15 **“Rate Stabilization Account”** means the account of that name created in the Water Fund
16 pursuant to Ordinance 116705 and redesignated for accounting purposes as the Revenue
17 Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

18 **“Rating Agency”** means any nationally recognized rating agency then maintaining a
19 rating on a series of Parity Bonds at the request of the City.

20 **“Record Date”** means, unless otherwise defined in the Bond Resolution, in the case of
21 each interest or principal payment or redemption date, the Bond Registrar’s close of business on
22 the 15th day of the month preceding the interest or principal payment date. With regard to
23 redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s
24 close of business on the day prior to the date on which the Bond Registrar sends the notice of
25 redemption.

1 **“Registered Owner”** means, with regard to a Bond, the person in whose name that Bond
2 is registered on the Bond Register. For so long as the City uses a book-entry only system under
3 the Letter of Representations, the Registered Owner shall mean the Securities Depository.

4 **“Registration Ordinance”** means City Ordinance 111724 establishing a system of
5 registration for the City’s bonds and other obligations pursuant to Seattle Municipal Code
6 Chapter 5.10, as that chapter now exists or may hereafter be amended.

7 **“Reserve Requirement”** means as of any date the lesser of Maximum Annual Debt
8 Service or 125% of Average Annual Debt Service on the Parity Bonds.

9 **“Reserve Security”** means any Qualified Insurance or Qualified Letter of Credit
10 obtained by the City to satisfy part or all of the Reserve Requirement, and which is not
11 cancelable on less than three years’ notice.

12 **“Reserve Subaccount”** means the subaccount of that name created in the Parity Bond
13 Account for the purpose of securing the payment of the principal of and interest on Parity Bonds.

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

16 **“SEC”** means the United States Securities and Exchange Commission.

17 **“Securities Depository”** means DTC, any successor thereto, any substitute securities
18 depository selected by the City, or the nominee of any of the foregoing. Any successor or
19 substitute Securities Depository must be qualified under applicable laws and regulations to
20 provide the services proposed to be provided by it.

21 **“Serial Bonds”** means Parity Bonds maturing in specified years, for which no Sinking
22 Fund Requirements are mandated.

23 **“Series”** means a series of the Bonds issued pursuant to this ordinance.

24 **“Sinking Fund Requirement”** means, for any calendar year, the principal amount and
25 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid
26 into any Parity Bond Account for such calendar year as established by the Parity Bond
27 Legislation authorizing the issuance of such Term Bonds.

1 **“State”** means the State of Washington.

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

4 **“Tax Credit Subsidy Bond”** means any bond that is designated by the City as a tax
5 credit bond pursuant to the Code, and which is further designated as a “qualified bond” under
6 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to
7 claim a tax credit subsidy payment.

8 **“Tax Credit Subsidy Payment”** means a payment by the federal government with
9 respect to a Tax Credit Subsidy Bond.

10 **“Tax-Exempt Bond”** means any Bond, the interest on which is intended on the Issue
11 Date to be excluded from gross income for federal income tax purposes.

12 **“Term Bond”** means any Bond that is issued subject to mandatory redemption prior to
13 its maturity in periodic mandatory redemption payments.

14 **“ULID”** means a utility local improvement district of the City created for the acquisition
15 or construction of additions to and betterments and extensions of the Municipal Water System.

16 **“ULID Assessments”** means all assessments levied and collected in a ULID, if and only
17 if those assessments are pledged to be paid into the Parity Bond Account. ULID Assessments
18 shall include all installments of principal, payments of interest, and penalties and interest on
19 delinquencies, but shall not include any prepaid assessments paid into a construction fund or
20 account.

21 **“Undertaking”** means the undertaking to provide continuing disclosure entered into
22 pursuant to Section 23 of this ordinance, in substantially the form attached as Exhibit B.

23 **“Valuation Date”** means, with respect to any Capital Appreciation Bond, the date or
24 dates set forth in the relevant Parity Bond Legislation or Bond Purchase Contract on which
25 specific Accreted Values are assigned to that Capital Appreciation Bond.

26 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by any
27 Parity Bonds. The method of computing such a variable interest rate shall be set in accordance
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1 with the applicable Parity Bond Legislation, which shall specify either (a) the particular period or
2 periods of time or manner of determining such period or periods of time for which each value of
3 such variable interest rate shall remain in effect or (b) the time or times upon which any change
4 in such variable interest rate shall become effective.

5 **“Variable Interest Rate Bond”** means, for any period of time, any Parity Bond that
6 bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as
7 a Variable Interest Rate Bond if the net economic effect of interest rates on a particular Parity
8 Bond of a series and interest rates on other Parity Bonds of the same series, as set forth in the
9 applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with
10 respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a
11 fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force
12 shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment
13 Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

14 **“Water Fund”** means the fund of that name into which is paid the Gross Revenue of the
15 Municipal Water System.

16 **“Water System Plan”** means the long range water system plan known as the 2013 Water
17 System Plan adopted by the City in Ordinance 124071, as that plan may be amended, updated,
18 supplemented or replaced from time to time.

19 **Section 2. Adoption of Plan of Additions.** The City specifies, adopts and orders the
20 Plan of Additions to be carried out as generally provided for in the documents comprising the
21 Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is
22 declared to be \$373,972,000 of which \$49,000,000 is expected to be financed from the proceeds
23 of the Bonds and investment earnings thereon.

24 **Section 3. Authorization of Bonds.** The City is authorized to borrow money and
25 issue Municipal Water System revenue bonds, payable from the sources described in Section 13
26 of this ordinance, in the maximum principal amount stated in Section 5 of this ordinance to (a)
27 pay part of the cost of carrying out the Plan of Additions; (b) provide for the Reserve
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1 Requirement; (c) capitalize interest on, if necessary, and pay the costs of issuance of the Bonds;
2 and (d) for other Municipal Water System purposes approved by ordinance. The Bonds may be
3 issued in one or more Series and may be combined with other Municipal Water System revenue
4 bonds (including refunding bonds) authorized separately. The Bonds shall be designated
5 Municipal Water System revenue bonds and shall be numbered separately and shall have any
6 name, year and series or other label as deemed necessary or appropriate by the Director of
7 Finance.

8 **Section 4. Manner of Sale of Bonds.** The Director of Finance may provide for the
9 sale of each Series by public sale, negotiated sale, limited offering or private placement with a
10 Purchaser chosen through a selection process acceptable to the Director of Finance. The Director
11 of Finance is authorized to specify a date and time of sale of and a date and time for delivery of
12 each Series; to give notice of that sale; to determine any bid parameters or other bid requirements
13 and criteria for determining the award of the bid; to provide for the use of an electronic bidding
14 mechanism; and to specify other matters in his or her determination necessary, appropriate, or
15 desirable in order to carry out the sale of each Series. Each Series must be sold on Bond Sale
16 Terms in accordance with Section 5.

17 **Section 5. Bond Sale Terms; Bond Resolution.** The Director of Finance is
18 appointed to serve as the City's designated representative in connection with the issuance and
19 sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of
20 Finance is authorized to accept, on behalf of the City, an offer to purchase the Bonds on Bond
21 Sale Terms consistent with the parameters set forth in this section. No such acceptance shall be
22 effective until adoption of a Bond Resolution approving the Bond Sale Terms. Once adopted, the
23 Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

24 (a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series
25 and shall not exceed the aggregate principal amount of \$49,000,000.

26 (b) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the
27 Director of Finance, which Issue Date may not be later than December 31, 2016.

1 (c) **Denominations.** The Bonds shall be issued in Authorized Denominations.

2 (d) **Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue
3 Date or from the most recent date to which interest has been paid or duly provided for,
4 whichever is later, and shall be payable on dates determined by the Director of Finance. One or
5 more rates of interest shall be established for each maturity of each Series, which rate or rates
6 may be fixed interest rates or Variable Interest Rates. Fixed interest rates shall be computed on
7 the basis of a 360-day year of twelve 30-day months and the net interest cost shall not exceed a
8 weighted average rate of 10% per annum. Principal payments shall commence on a date and
9 shall be payable at maturity or have Sinking Fund Requirements on dates determined by the
10 Director of Finance.

11 (e) **Final Maturity.** The Bonds shall mature no later than 40 years after the Issue
12 Date.

13 (f) **Redemption Rights.** The Bond Sale Terms may include provisions for the
14 optional and mandatory redemption of Bonds determined by the Director of Finance, subject to
15 the following:

16 (i) **Optional Redemption.** Any Bond may be designated as being (A) subject to
17 redemption at the option of the City prior to its maturity date on the dates and at
18 the redemption prices set forth in the Bond Purchase Contract; or (B) not subject
19 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.

20 (ii) **Mandatory Redemption.** Any Bond may be designated as a Term Bond, subject
21 to mandatory redemption prior to its maturity on the dates and in the Sinking
Fund Requirements consistent with Section 8(b) of this ordinance.

22 (g) **Price.** The purchase price for each Series shall be acceptable to the Director of
23 Finance.

24 (h) **Other Terms and Conditions.**

25 (i) As of the Issue Date of each Series, the average expected life of the capital
26 facilities to be financed with the proceeds (or allocable share of proceeds) of that
27 Series must exceed the weighted average maturity of the Series (or share thereof)
allocated to financing those capital facilities.

- 1 (ii) As of the Issue Date of each Series, (A) the Finance Director must determine that
2 the Parity Conditions have been met or satisfied, so that such Series may be
3 issued as Parity Bonds, and (B) the City Council must find the Bond Resolution
4 that, in creating the Parity Bond Account and in fixing the amounts to be paid into
5 it in accordance with this ordinance, the City Council has had due regard for the
6 cost of maintenance and operation of the Municipal Water System, and is not
7 setting aside into the Parity Bond Account a greater amount than in the judgment
8 of the City Council, based on the rates to be established from time to time
9 consistent with Section 16(b), will be available over and above such cost of
10 maintenance and operation.
- 11 (iii) The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve
12 Security or other credit enhancement, or for a Parity Payment Agreement. To that
13 end, the Bond Sale Terms may include such additional terms, conditions and
14 covenants as may be necessary or desirable, including but not limited to:
15 restrictions on investment of Bond proceeds and pledged funds, and requirements
16 to give notice to or obtain the consent of a credit enhancement provider or a
17 Qualified Counterparty.
- 18 (iv) The Bond Sale Terms must establish the method of providing for the Reserve
19 Requirement, consistent with Section 15(a)(ii) of this ordinance.
- 20 (v) Any Series may be designated or qualified as Tax-Exempt Bonds, Tax Credit
21 Subsidy Bonds, or other taxable bonds, and may include such additional terms
22 and covenants relating to federal tax matters as the Director of Finance deems
23 necessary or appropriate, consistent with Section 22 of this ordinance.

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

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

27 **(b) Bond Registrar; Transfer and Exchange of Bonds.** The Bond Registrar shall
28 keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which
29 shall be open to inspection by the City at all times. The Bond Register shall contain the name
30 and mailing address of the Registered Owner of each Bond and the principal amount and number
31 of each of the Bonds held by each Registered Owner.

32 The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds
33 transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to

1 serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers
2 and duties under this ordinance and the Registration Ordinance.

3 The Bond Registrar shall be responsible for its representations contained in the Bond
4 Registrar's certificate of authentication on the Bonds. The Bond Registrar may become an
5 Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the
6 extent permitted by law, may act as depository for and permit any of its officers or directors to
7 act as members of, or in any other capacity with respect to, any committee formed to protect the
8 rights of Owners.

9 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized
10 Denomination of an equal aggregate principal amount and of the same Series, interest rate and
11 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
12 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner
13 or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during
14 the period between the Record Date and the corresponding interest payment or redemption date.

15 **(c) Securities Depository; Book-Entry Form.** The Bonds initially shall be
16 registered in the name of the Securities Depository. The Bonds so registered shall be held fully
17 immobilized in book-entry form by the Securities Depository in accordance with the provisions
18 of the Letter of Representations. Neither the City nor the Bond Registrar shall have any
19 responsibility or obligation to participants of the Securities Depository or the persons for whom
20 they act as nominees with respect to the Bonds regarding accuracy of any records maintained by
21 the Securities Depository or its participants of any amount in respect of principal of or interest on
22 the Bonds, or any notice which is permitted or required to be given to Owners hereunder (except
23 such notice as is required to be given by the Bond Registrar to the Securities Depository).
24 Registered ownership of a Bond initially held in book-entry form, or any portion thereof, may
25 not be transferred except: (i) to any successor Securities Depository; (ii) to any substitute
26 Securities Depository appointed by the City or such substitute Securities Depository's successor;
27 or (iii) to any person if the Bond is no longer held in book-entry form.

1 Upon the resignation of the Securities Depository from its functions as depository, or
2 upon a City determination to discontinue services of the Securities Depository, the City may
3 appoint a substitute Securities Depository. If (i) the Securities Depository resigns from its
4 functions as depository, and no substitute Securities Depository can be obtained, or (ii) the City
5 determines that the Bonds are to be in certificated form, then ownership of Bonds may be
6 transferred to any person as provided herein and the Bonds no longer shall be held in book-entry
7 form.

8 **Section 7. Payment of Bonds.** Principal of and interest on each Bond shall be
9 payable solely out of the Parity Bond Account, in lawful money of the United States. Principal of
10 and interest on each Bond registered in the name of the Securities Depository is payable in the
11 manner set forth in the Letter of Representations. Interest on each Bond not registered in the
12 name of the Securities Depository is payable by electronic transfer on the interest payment date,
13 or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered
14 Owner at the address appearing on the Bond Register on the Record Date. However, the City is
15 not required to make electronic transfers except pursuant to a request by a Registered Owner in
16 writing received at least ten days prior to the Record Date and at the sole expense of the
17 Registered Owner. Principal of each Bond not registered in the name of the Securities
18 Depository is payable upon presentation and surrender of the Bond by the Registered Owner to
19 the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

20 **Section 8. Redemption and Purchase of Bonds.**

21 **(a) Optional Redemption.** All or some of the Bonds may be subject to redemption
22 prior to their stated maturity dates at the option of the City at the times and on the terms
23 approved in accordance with Section 5 of this ordinance.

24 **(b) Mandatory Redemption.** If not redeemed or purchased at the City's option prior
25 to maturity, Term Bonds (if any) shall be redeemed, at a price equal to the principal amount
26 thereof to be redeemed plus accrued interest, on the dates and in the Sinking Fund Requirements
27 as set forth in the Bond Resolution. If the City redeems or purchases Term Bonds at the City's
28

1 option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of their
2 redemption or purchase prices) shall be credited at the par amount thereof against the remaining
3 Sinking Fund Requirements as determined by the Director of Finance. In the absence of a
4 determination by the Director of Finance or other direction in the Bond Resolution, credit shall
5 be allocated on a pro rata basis.

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

18 **(d) Purchase.** The City reserves the right and option to purchase any or all of the
19 Bonds offered to the City at any time at any price acceptable to the City plus accrued interest to
20 the date of purchase.

21 **Section 9. Notice of Redemption.** The City shall cause notice of any intended
22 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed
23 for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be
24 redeemed at the address appearing on the Bond Register on the Record Date, and the
25 requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed
26 as so provided, whether or not it is actually received by the Owner of any Bond. Interest on
27

1 Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the
2 Bond or Bonds called are not redeemed when presented pursuant to the call.

3 In the case of an optional redemption, the notice may state that the City retains the right
4 to rescind the redemption notice and the related optional redemption of Bonds by giving a notice
5 of rescission to the affected Registered Owners at any time prior to the scheduled optional
6 redemption date. Any notice of optional redemption that is rescinded by the Director of Finance
7 shall be of no effect, and the Bonds for which the notice of optional redemption has been
8 rescinded shall remain outstanding.

9 **Section 10. Failure to Pay Bonds.** If any Bond is not paid when properly presented
10 at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond
11 Account and the other sources pledged in this ordinance, interest on that Bond at the same rate
12 provided in that Bond from and after its maturity or redemption date until that Bond, principal,
13 premium, if any and interest, is paid in full or until sufficient money for its payment in full is on
14 deposit in the Parity Bond Account and that Bond has been called for payment by giving notice
15 of that call to the Registered Owner of that Bond.

16 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, printed or
17 reproduced in a form consistent with the provisions of this ordinance, the Bond Resolution and
18 State law, shall be signed by the Mayor and Director of Finance, either or both of whose
19 signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction
20 thereof shall be impressed or printed thereon.

21 Only Bonds bearing a certificate of authentication in substantially the following form
22 (with the designation, year and Series adjusted consistent with this ordinance), manually signed
23 by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of
24 this ordinance: “This Bond is one of the fully registered The City of Seattle, Washington, [Water
25 System Revenue Bonds], [Year], [Series], described in [this ordinance].” The authorized signing
26 of a certificate of authentication shall be conclusive evidence that the Bond so authenticated has
27 been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

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

10 **Section 12. Construction Account; Deposit of Proceeds.** An account to be known as
11 the Water System Construction Subaccount, 2014 is created in the Water System Construction
12 Account, which account was previously created in the Water Fund. The principal proceeds of the
13 sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if any, into the
14 Principal and Interest Subaccount and the deposit of any proceeds as determined by the Bond
15 Resolution into the Reserve Subaccount, shall be deposited into the Construction Account, unless
16 otherwise specified in the Bond Resolution or directed by the Director of Finance, to be used for
17 the purpose of paying part of the costs of carrying out the Plan of Additions and to pay
18 capitalized interest on, if necessary, and the costs of issuance of the Bonds. Until needed to pay
19 such costs, the City may invest principal proceeds and interest thereon temporarily in any
20 Permitted Investment, and the investment earnings may, as determined by the Director of
21 Finance, be retained in the Construction Account and be spent for the purposes of that account or
22 deposited in the Parity Bond Account.

23 **Section 13. Security for the Bonds; Parity with other Bonds.** The Bonds shall be
24 special limited obligations of the City payable from and secured solely by the Net Revenue and
25 ULID Assessments, and by money in the Parity Bond Account and subaccounts therein. The Net
26 Revenue and all ULID Assessments, and all money and investments held in the Parity Bond
27 Account, the Rate Stabilization Account and the Construction Account (except money and
28

1 investments held in a separate fund or account created for the purpose of compliance with rebate
2 requirements under the Code), are pledged to the payment of the Parity Bonds and to make
3 payments into the Reserve Subaccount required by this ordinance and the Parity Bond
4 Legislation. This pledge shall constitute a charge and lien upon the Net Revenue prior and
5 superior to any other charges whatsoever.

6 The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity
7 Bonds, without regard to date of issuance or authorization and without preference or priority of
8 right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other
9 obligations which are a charge or lien upon the Net Revenues subordinate to the payments
10 required to be made from Net Revenue into the Parity Bond Account and the subaccounts
11 therein.

12 The Bonds shall not constitute general obligations of the City, the State or any political
13 subdivision of the State or a charge upon any general fund or upon any money or other property
14 of the City, the State or any political subdivision of the State not specifically pledged by this
15 ordinance.

16 **Section 14. Priority Expenditure of Gross Revenue; Flow of Funds.** The Gross
17 Revenue shall be used for the following purposes only and shall be applied in the following order
18 of priority:

19 (a) To pay the Operating and Maintenance Expense;

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

22 (c) To pay the principal of Parity Bonds as it comes due at maturity or to meet
23 Sinking Fund Requirements, and to make payments due under any agreement with a provider of
24 a Reserve Security which agreement requires those payments to be treated on a parity of lien
25 with the Parity Bonds;

26 (d) To make all payments required to be made into the Reserve Subaccount, to make
27 all payments required to be made under any agreement with a provider of a Reserve Security,
28

1 which agreement requires those payments to be treated on a parity of lien with the payments
2 required to be made into the Reserve Subaccount, and to make the deposits required to be made
3 into a special account in the Water Fund upon the expiration of a Reserve Security, in
4 accordance with Section 15(a)(ii) of this ordinance.

5 (e) To make all payments required to be made into any revenue bond, note, warrant
6 or other revenue obligation redemption fund, debt service account or reserve account created to
7 pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants
8 or other obligations of the City having a lien upon the revenue of the Municipal Water System
9 subordinate to the lien thereon for the payment of the principal of and interest on the Parity
10 Bonds; and

11 (f) To retire by redemption or purchase any outstanding revenue bonds or other
12 revenue obligations of the Municipal Water System; to make necessary additional betterments,
13 improvements and repairs to or extensions and replacements of the Municipal Water System; to
14 pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits
15 into the Rate Stabilization Account; or for any other lawful Municipal Water System purposes.

16 **Section 15. Parity Bond Account.** The Parity Bond Account is divided into two
17 subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. The Director of
18 Finance may create sinking fund subaccounts or other subaccounts in the Parity Bond Account
19 for the payment or securing the payment of Parity Bonds, as long as the maintenance of such
20 accounts does not conflict with the rights of the owners of Parity Bonds.

21 (a) **Required Payments Into Parity Bond Account.** So long as any Parity Bonds are
22 outstanding, the City shall set aside and pay into the Parity Bond Account all ULID Assessments
23 on their collection and, out of the Net Revenue, certain fixed amounts without regard to any
24 fixed proportion, namely:

25 (i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued
26 interest, if any, received by the City from the Purchaser, and (B) on or before each
27 interest or principal and interest payment date of any Parity Bonds an amount
28 which, together with other money on deposit therein, will be sufficient to pay the
interest, or principal and interest and Sinking Fund Requirements, to become due

1 and payable on the Parity Bonds on that payment date, and net payments due on
2 Parity Payment Agreements; and

- 3 (ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve
4 Requirement for the Parity Bonds within the time and in the manner required by
5 this ordinance and the Parity Bond Legislation. The amount necessary to satisfy
6 the Reserve Requirement upon the issuance of a Series may be funded (i) on the
7 Issue Date, by a deposit from the bond sale proceeds or a Reserve Security, or
8 (ii) in annual installments from Net Revenue so that the Reserve Requirement is
9 fully funded by the fifth anniversary of the Issue Date. The manner of funding the
10 Reserve Requirement for the Bonds shall be set forth in the Bond Resolution.

11 For the purpose of determining the amount credited to the Reserve Subaccount,
12 obligations in which money in the Reserve Subaccount has been invested shall be
13 valued at the greater of cost or accreted value.

14 The City may provide all or any part of the Reserve Requirement through a
15 Reserve Security, subject to the following: (A) the amount available to be drawn
16 upon under a Reserve Security shall be credited against the Reserve Requirement;
17 and (B) on receipt of a notice of cancellation of any Reserve Security, the City
18 shall either (1) substitute a Reserve Security in the amount required to make up
19 the deficiency created in the Reserve Subaccount, or (2) create a special account
20 in the Water Fund and deposit therein, on or before the 25th day of each of the
21 36 succeeding calendar months (commencing with the 25th day of the calendar
22 month next following the date of the notice) 1/36th of the amount sufficient,
23 together with other money and investments on deposit in the Reserve Subaccount,
24 to equal the Reserve Requirement in effect as of the date the cancellation becomes
25 effective. Amounts on deposit in that special account shall not be available to pay
26 debt service on Parity Bonds or for any other purpose of the City, and shall be
27 transferred to the Reserve Subaccount on the effective date of any cancellation of
28 a Reserve Security to make up all or part of the deficiency caused thereby.
Amounts in that special account or in the Reserve Subaccount may be transferred
back to the Water Fund and used for any purpose if and when a substitute Reserve
Security is obtained.

21 The Director of Finance may transfer any money from any funds or accounts of the City
22 legally available therefor, except bond redemption funds, refunding escrow funds or defeasance
23 funds, to meet the required payments to be made into the Parity Bond Account. The Director of
24 Finance may provide for the purchase, redemption or defeasance of any Parity Bonds by the use
25 of money on deposit in any subaccount in the Parity Bond Account as long as the money
26

1 remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts
2 for the remaining Parity Bonds.

3 **(b) Reserve Subaccount.** The City covenants that it will at all times so long as any
4 Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement
5 (taking into account scheduled payments to fund the Reserve Requirement over time), as it is
6 adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director
7 of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a
8 deficiency in the Principal and Interest Subaccount to meet maturing installments of either
9 principal (or Sinking Fund Requirements) or interest. Any deficiency created in the Reserve
10 Subaccount by reason of any such withdrawal shall, within 12 months, be made up from ULID
11 Assessments and Net Revenue available after making necessary provisions for the required
12 payments into the Principal and Interest Subaccount. The money in the Reserve Subaccount may
13 be applied to the payment of the last outstanding Parity Bonds, and when the total amount in the
14 Parity Bond Account (including investment earnings) equals the total amount of principal and
15 interest for all then-outstanding Parity Bonds to the last maturity thereof, no further payment
16 need be made into the Parity Bond Account. Money in the Reserve Subaccount (including
17 investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in
18 the Principal and Interest Subaccount and spent for the purpose of retiring Parity Bonds or may
19 be deposited in any other fund or account and spent for any other lawful Municipal Water
20 System purpose.

21 **(c) Investment of Money in Parity Bond Account.** All money in the Parity Bond
22 Account may be kept in cash or invested in Permitted Investments maturing not later than the
23 date when needed (for investments in the Principal and Interest Subaccount) or the last maturity
24 of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall
25 any money in the Parity Bond Account or any other money reasonably expected to be used to
26 pay principal and/or interest on the Parity Bonds be invested at a yield which would cause any
27 Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within
28

1 the meaning of Section 148 of the Code. Income from investments in the Principal and Interest
2 Subaccount shall be deposited in that subaccount. Income from investments in the Reserve
3 Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve
4 Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest
5 Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity
6 Bond Account, any earnings which are subject to a federal tax or rebate requirement may be
7 withdrawn from the Parity Bond Account for deposit in a separate fund or account for that
8 purpose. If no longer required for such rebate, money in that separate fund or account shall be
9 returned to the Parity Bond Account.

10 **(d) Failure to Deposit Money in Parity Bond Account.** If the City fails to set aside
11 and pay into the Parity Bond Account, or the subaccounts therein, the amounts set forth above,
12 the registered owner of any of the outstanding Parity Bonds may bring action against the City for
13 failure to make the required deposits to the Parity Bond Account only in accordance with Section
14 25 regarding Events of Default.

15 **Section 16. Parity Bond Covenants.** The City covenants with the Owner of each
16 Bond at any time outstanding, as follows:

17 **(a) Operation and Maintenance.** It will pay all Operating and Maintenance Expense
18 and otherwise meet the obligations of the City under this ordinance. It will at all times maintain,
19 preserve and keep the Municipal Water System in good repair, working order and condition, will
20 make all necessary and proper additions, betterments, renewals and repairs thereto, and
21 improvements, replacements and extensions thereof so that at all times the business carried on in
22 connection therewith will be properly and advantageously conducted, and will at all times
23 operate or cause to be operated the properties of the Municipal Water System and the business in
24 connection therewith in an efficient manner and at a reasonable cost.

25 **(b) Establishment and Collection of Rates and Charges.** It will establish,
26 maintain, revise as necessary, and collect rates and charges for services and facilities provided by
27

1 the Municipal Water System which will be fair and equitable, and will adjust those rates and
2 charges from time to time so that:

- 3 (i) The Gross Revenue will be sufficient to (A) pay all Operating and Maintenance
4 Expense, (B) pay when due all amounts that the City is obligated to pay into the
5 Parity Bond Account and the subaccounts therein, and (C) pay all taxes,
6 assessments or other governmental charges lawfully imposed on the Municipal
7 Water System or the revenue therefrom or payments in lieu thereof and any and
8 all other amounts which the City may now or hereafter become obligated to pay
9 from the Gross Revenue by law or contract; and
- 10 (ii) The Adjusted Net Revenue in each fiscal year will be at least equal to the
11 Coverage Requirement; and
- 12 (iii) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish
13 or supply or permit the furnishing or supplying of any service or facility in
14 connection with the operation of the Municipal Water System free of charge to
15 any person, firm or corporation, public or private.

16 The failure of the City to comply with subparagraphs (i) and (ii) above shall not be an Event of
17 Default if the City promptly retains an Independent Utility Consultant to recommend to the City
18 Council adjustments in the rates of the Municipal Water System necessary to meet the
19 requirements of those subparagraphs and if the City Council adopts the recommended
20 modifications within 180 days of the date the failure became known to the City Council.

21 (c) **Sale or Disposition of the Municipal Water System.** It will sell, transfer or
22 otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal
23 Water System or any real or personal property comprising a part of the Municipal Water System
24 only upon approval by ordinance and only consistent with one or more of the following:

- 25 (i) The City in its discretion may carry out such a sale, transfer or disposition (each,
26 as used in this section, a “transfer”) if the facilities or property transferred are not
27 material to the operation of the Municipal Water System, have become
28 unserviceable, inadequate, obsolete or unfit to be used in the operation of the
Municipal Water System, or are no longer necessary, material or useful to the
operation of the Municipal Water System; or
- (ii) The City in its discretion may carry out such a transfer if the aggregate
depreciated cost value of the facilities or property being transferred under this
subsection in any fiscal year comprises no more than 3% of the total assets of the
Municipal Water System; or

1 (iii) The City in its discretion may carry out such a transfer if the City receives from
2 the transferee an amount equal to the fair market value of the portion of the
3 Municipal Water System transferred. As used in this subparagraph, “fair market
4 value” means the most probable price that a property should bring in a
5 competitive and open market under all conditions requisite to a fair sale, the
6 willing buyer and willing seller each acting prudently and knowledgeably and
7 assuming that the price is not affected by coercion or undue stimulus. The
8 proceeds of the transfer shall be used (i) to promptly redeem, or irrevocably set
9 aside for the redemption of, Parity Bonds, and/or (ii) to provide for part of the
10 cost of additions to and betterments and extensions of the Municipal Water
11 System. Before any such transfer under this subsection, the City must obtain a
12 certificate of an Independent Utility Consultant to the effect that in his or her
13 professional opinion, upon such transfer and the use of proceeds of the transfer as
14 proposed by the City, the remaining Municipal Water System will retain its
15 operational integrity and the Adjusted Net Revenue of the Municipal Water
16 System will be at least equal to the Coverage Requirement during the five fiscal
17 years following the fiscal year in which the transfer is to occur, taking into
18 account, (A) the reduction in revenue resulting from the transfer; (B) the use of
19 any proceeds of the transfer for the redemption of Parity Bonds, (C) the
20 Independent Utility Consultant’s estimate of revenue from customers anticipated
21 to be served by any additions to and betterments and extensions of the Municipal
22 Water System financed in part by the proposed portion of the proceeds of the
23 transfer, and (D) any other adjustment permitted in the preparation of a certificate
24 under Section 17(a)(vi)(B) of this ordinance. Before such a transfer, the City also
25 must obtain confirmation from each Rating Agency to the effect that the rating
26 then in effect will not be reduced or withdrawn upon such transfer. The amount
27 required to be paid to the City may be reduced by any “equity credits” or similar
28 amounts based on prior capital contributions or other payments to the City which,
under any contract between the City and the transferee, are allowed as a setoff
against the transfer price that would otherwise be payable to the City.

*Upon the redemption or defeasance of all outstanding 2003 Bonds and 2004 Bonds: the City
may sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other
part of the Municipal Water System or any real or personal property comprising a part of the
Municipal Water System only consistent with one or more of the following:*

(i) *The City in its discretion may carry out such a sale, transfer or disposition (each,
a “transfer”) if the facilities or property transferred are not material to the
operation of the Municipal Water System, or shall have become unserviceable,
inadequate, obsolete or unfit to be used in the operation of the Municipal Water
System or are no longer necessary, material or useful to the operation of the
Municipal Water System; or*

1 (ii) *The City in its discretion may carry out such a transfer if the aggregate*
2 *depreciated cost value of the facilities or property being transferred under this*
3 *subsection in any fiscal year comprises no more than 5% of the total assets of the*
4 *Municipal Water System; or*

5 (iii) *The City in its discretion may carry out such a transfer if the proceeds from such*
6 *transfer are used to acquire new useful operating facilities or properties of the*
7 *Municipal Water System, or are used to retire outstanding Parity Bonds or other*
8 *revenue obligations of the Municipal Water System, if, at the time of such*
9 *transfer, the City has on file a certificate of both the Director of Finance and the*
10 *Director of Seattle Public Utilities (or any officer who succeeds to substantially*
11 *all of the responsibilities of either office) demonstrating that in their opinion,*
12 *upon such transfer and the use of proceeds of the transfer as proposed by the*
13 *City, the remaining facilities of the Municipal Water System will retain their*
14 *operational integrity and, based on the financial statements for the most recent*
15 *fiscal year available, the proposed transfer would not prevent the Municipal*
16 *Water System from complying with the Coverage Requirement during the five*
17 *fiscal years following the fiscal year in which the transfer is to occur. The*
18 *certificate shall take into account, (A) the reduction in revenue and expenses, if*
19 *any, resulting from the transfer; (B) the use of any proceeds of the transfer for the*
20 *redemption of Parity Bonds, (C) the estimate of revenue from customers*
21 *anticipated to be served by any additions to and betterments and extensions of the*
22 *Municipal Water System financed in part by the proposed portion of the proceeds*
23 *of the transfer, and (D) any other adjustment permitted in the preparation of a*
24 *certificate under Section 17(a)(vi) of this ordinance. Before such a transfer, the*
25 *City also must obtain confirmation from each of the Rating Agencies to the effect*
26 *that the rating then in effect will not be reduced or withdrawn upon such transfer.*

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

(e) Books and Records. It will keep proper books, records and accounts with
respect to the operations, income and expenditures of the Municipal Water System in accordance

1 with generally accepted accounting practices relating to the municipal utilities and any applicable
2 rules and regulations prescribed by the State, and will cause those books, records and accounts to
3 be audited on an annual basis by the State Auditor (or, if such audit is not made by the State
4 Auditor within 270 days after the close of any fiscal year of the City, by a certified public
5 accountant selected by the City). It will prepare annual financial and operating statements as
6 soon as practicable after the close of each fiscal year showing in reasonable detail the financial
7 condition of the Municipal Water System as of the close of the previous year, and the income
8 and expenses for such year, including the amounts paid into the Parity Bond Account and into
9 any and all special funds or accounts created pursuant to the provisions of this ordinance, the
10 status of all funds and accounts as of the end of such year, and the amounts expended for
11 maintenance, renewals, replacements and capital additions to the Municipal Water System. Such
12 statements shall be sent to the owner of any Parity Bond upon written request received by the
13 City. The City may charge a reasonable cost for providing such financial statements.

14 **(f) Collection of Delinquent Accounts.** On at least an annual basis, it will
15 determine all accounts that are delinquent and will take such actions as the City determines are
16 reasonably necessary to enforce payment of those delinquent accounts.

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

26 **(h) Condemnation Awards and Insurance Proceeds.** If the City receives any
27 condemnation awards or proceeds of an insurance policy in connection with any loss of or
28

1 damage to any property of the Municipal Water System, it shall apply the condemnation award
2 or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing
3 the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or
4 (iii) to the cost of improvements to the Municipal Water System.

5 **Section 17. Future Parity Bonds.**

6 (a) The City reserves the right to issue Future Parity Bonds and to enter into Parity
7 Payment Agreements for purposes of the Municipal Water System or to refund a portion of the
8 Parity Bonds if the following conditions are met and complied with at the time of the issuance of
9 those Future Parity Bonds or entering into the Parity Payment Agreement:

10 (i) There must be no deficiency in the Parity Bond Account and no Event of Default
with respect to any Parity Bonds shall have occurred and be continuing.

11 (ii) The Future Parity Bond Legislation must provide that all ULID Assessments shall
12 be paid directly into the Parity Bond Account.

13 (iii) The Future Parity Bond Legislation must provide for the payment of the principal
14 thereof and interest thereon out of the Parity Bond Account.

15 (iv) The Future Parity Bond Legislation must provide for the payment of any Sinking
16 Fund Requirements from money in the Principal and Interest Subaccount.

17 (v) The Future Parity Bond Legislation must provide for the deposit into the Reserve
18 Subaccount of (A) an amount, if any, necessary to fund the Reserve Requirement
19 upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds
20 or other money legally available; (B) one or more Reserve Securities or an
21 amount plus Reserve Securities necessary to fund the Reserve Requirement upon
22 the issuance of those Future Parity Bonds, or (C) amounts necessary to fund the
23 Reserve Requirement from ULID Assessments and Net Revenue within five years
24 from the date of issuance of those Future Parity Bonds, in five approximately
25 equal annual payments.

26 (vi) There shall be on file with the City either:

27 (A) A certificate of the Director of Finance demonstrating that during any 12
28 consecutive calendar months out of the immediately preceding 24 calendar
months Adjusted Net Revenue was at least equal to the Coverage
Requirement for all Parity Bonds plus the Future Parity Bonds proposed to
be issued (and assuming that the debt service of the proposed Future Parity
Bonds for that 12 month period was the Average Annual Debt Service for
those proposed bonds); or

1 (B) A certificate of the Director of Finance and the Director of Seattle Public
2 Utilities (or any officer who succeeds to substantially all of the
3 responsibilities of that office), that in their opinion, Adjusted Net Revenue
4 for the five fiscal years next following the earlier of (1) the end of the
5 period during which interest on those Future Parity Bonds is to be
6 capitalized or, if no interest is capitalized, the fiscal year in which the
7 Future Parity Bonds are issued, or (2) the date on which substantially all
8 new facilities financed with those Future Parity Bonds are expected to
9 commence operations, such Adjusted Net Revenue further adjusted as
10 provided in paragraphs (1) through (4) below, will be at least equal to the
11 Coverage Requirement. That certificate may take into account the
12 following adjustments:

- 13 (1) Any changes in rates in effect and being charged, or rates expected
14 to be charged in accordance with a program of specific rates, rate
15 levels or increases in overall rate revenue approved by ordinance
16 or resolution;
- 17 (2) Net revenue from customers of the Municipal Water System who
18 have become customers during the 12 consecutive month period or
19 thereafter, and their estimate of net revenue from any customers to
20 be connected to the Municipal Water System who have paid the
21 required connection charges, adjusted to reflect one year's net
22 revenue from those customers;
- 23 (3) Their estimate of net revenue from customers anticipated to be
24 served by facilities or improvements financed in substantial part by
25 those Future Parity Bonds (or additional Parity Bonds expected to
26 be issued during the five-year period); and
- 27 (4) Net revenue from any person, firm, corporation or municipal
28 corporation under any executed contract for water or other utility
service, which revenue was not included in the historical Net
Revenue of the Municipal Water System.

21 If the Future Parity Bonds proposed to be issued are for the sole purpose of
22 refunding Parity Bonds, no such coverage certification shall be required if the
23 Adjusted Annual Debt Service on the Parity Bonds after the issuance of the
24 Future Parity Bonds is not, for any year in which the Parity Bonds being refunded
25 were outstanding, more than \$5,000 over the Adjusted Annual Debt Service on
26 the Parity Bonds prior to the issuance of those Future Parity Bonds.

26 (b) Nothing contained herein shall prevent the City from issuing Future Parity Bonds
27 to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or
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1 revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien
2 of the Parity Bonds, or from pledging the payment of ULID assessments into a bond redemption
3 fund created for the payment of the principal of and interest on those subordinate lien bonds as
4 long as such ULID assessments are levied for improvements constructed from the proceeds of
5 those subordinate lien bonds.

6 **Section 18. Rate Stabilization Account.** The Rate Stabilization Account has been
7 created as a separate account in the Water Fund. The City may at any time, as determined by the
8 Director of Finance, deposit in the Rate Stabilization Account, Gross Revenue and any other
9 money received by the Municipal Water System and available for this purpose, consistent with
10 Section 14. The Director of Finance may, upon authorization by resolution of the City Council,
11 withdraw any or all of the money from the Rate Stabilization Account for inclusion in the
12 Adjusted Gross Revenue for any fiscal year. Such deposits or withdrawals may be made up to
13 and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal
14 will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the
15 Rate Stabilization Account to the extent that such deposit would prevent the City from meeting
16 the Coverage Requirement in the relevant fiscal year.

17 **Section 19. Separate Utility Systems.** The City may create, acquire, construct,
18 finance, own and operate one or more additional systems for water supply, transmission or other
19 commodity or service relating to the Municipal Water System. The revenue of that separate
20 utility system shall not be included in the Gross Revenue of the Municipal Water System and
21 may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or
22 otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net
23 Revenue shall be pledged by the City to the payment of any obligations of a separate utility
24 system except (a) as a Contract Resource Obligation, or (b) with respect to the Net Revenue, on a
25 basis subordinate to the lien of the Parity Bonds on that Net Revenue.

26 **Section 20. Contract Resource Obligations.** The City may at any time enter into one
27 or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of
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1 water supply, transmission or other commodity or service relating to the Municipal Water
2 System, as follows:

3 (a) The City may determine that, and may agree under a Contract Resource
4 Obligation to provide that, all payments under that Contract Resource Obligation (including
5 payments prior to the time that water supply or transmission or other commodity or service is
6 being provided, or during a suspension or after termination of supply or service) shall be an
7 Operating and Maintenance Expense if the following requirements are met at the time such a
8 Contract Resource Obligation is entered into:

9 (i) No Event of Default has occurred and is continuing; and

10 (ii) There shall be on file a certificate of an Independent Utility Consultant stating
11 that (A) the payments to be made by the City in connection with the Contract
12 Resource Obligation are reasonable for the supply or transmission rendered;
13 (B) the source of any new supply, and any facilities to be constructed to provide
14 the supply or transmission, are sound from a water or other commodity supply or
15 transmission planning standpoint, are technically and economically feasible in
16 accordance with prudent utility practice, and are likely to provide supply or
17 transmission no later than a date set forth in the Independent Utility Consultant's
18 certification; and (C) the Adjusted Net Revenue (further adjusted by the
19 Independent Utility Consultant's estimate of the payments to be made in
20 accordance with the Contract Resource Obligation) for the five fiscal years
21 following the year in which the Contract Resource Obligation is incurred, as such
22 Adjusted Net Revenue is estimated by the Independent Utility Consultant in
23 accordance with the provisions of and adjustments permitted in Section
24 17(a)(vi)(B) of this ordinance, will be at least equal to the Coverage Requirement.

25 (b) Payments required to be made under Contract Resource Obligations shall not be
26 subject to acceleration.

27 (c) Nothing in this Section shall be deemed to prevent the City from entering into
28 other agreements for the acquisition of water supply, transmission or other commodity or service
from existing facilities and from treating those payments as Operating and Maintenance
Expense. Nothing in this Section shall be deemed to prevent the City from entering into other
agreements for the acquisition of water supply, transmission or other commodity or service from

1 facilities to be constructed and from agreeing to make payments with respect thereto, such
2 payments constituting a charge and lien on Net Revenue subordinate to that of Parity Bonds.

3 **Section 21. Refunding and Defeasance of the Bonds.** The Bonds are hereby
4 designated “Refundable Bonds” for purposes of Ordinance 121939, as it may be amended from
5 time to time. The City may issue refunding bonds pursuant to the laws of the State or use money
6 available from any other lawful source to pay when due the principal of, premium, if any, and
7 interest on any Bond, or portion thereof, included in a refunding or defeasance plan, and to
8 redeem and retire, release, refund or defease those Bonds (the “defeased Bonds”) and to pay the
9 costs of such refunding or defeasance. If money and/or Government Obligations maturing at a
10 time or times and in an amount sufficient, together with known earned income from the
11 investment thereof, to redeem and retire, release, refund or defease the defeased Bonds in
12 accordance with their terms, are set aside in a special trust fund or escrow account irrevocably
13 pledged to such redemption, retirement or defeasance (the “trust account”), then all right and
14 interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the Net
15 Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than
16 the right to receive the funds so set aside and pledged, thereafter shall cease and become void.
17 Such Owners thereafter shall have the right to receive payment of the principal of and interest or
18 redemption price on the defeased Bonds from the trust account. After establishing and fully
19 funding such a trust account, the defeased Bonds shall be deemed as no longer outstanding, and
20 the Director of Finance then may apply any money in any other fund or account established for
21 the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or
22 defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be
23 conducted, in the manner set forth in this ordinance for the redemption of Bonds.

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

6 **Section 22. Provisions Relating to Certain Federal Tax Consequences of the**
7 **Bonds.**

8 (a) **Tax-Exempt Bonds.** The City covenants that it will take all actions, consistent
9 with the terms of any Series issued as Tax-Exempt Bonds, this ordinance, and the Bond
10 Resolution, reasonably within its power and necessary to prevent interest on that Series from
11 being included in gross income for federal income tax purposes, and the City will neither take
12 any action nor make or permit any use of proceeds of that Series or other funds of the City
13 treated as gross proceeds of that Series at any time during the term of such Series which will
14 cause interest on such Series to be included in gross income for federal income tax purposes. The
15 City also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of
16 the Code is applicable to any Series issued as Tax-Exempt Bonds, take all actions necessary to
17 comply (or to be treated as having complied) with that requirement in connection with that
18 Series, including the calculation and payment of any penalties that the City has elected to pay as
19 an alternative to calculating rebatable arbitrage, and the payment of any other penalties if
20 required under Section 148 of the Code to prevent interest on such Series from being included in
21 gross income for federal income tax purposes.

22 (b) **Tax-Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance
23 may, without further action by the City Council, make provision in the Bonds or other written
24 document for such additional covenants of the City as may be necessary or appropriate in order
25 for the City to receive from the United States Treasury the applicable federal credit payments in
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1 respect of any Series issued as Tax Credit Subsidy Bonds or otherwise become and remain
2 eligible for tax benefits under the Code.

3 **Section 23. Official Statement; Continuing Disclosure.**

4 (a) **Preliminary Official Statement.** The Director of Finance and other appropriate
5 City officials are directed to cause the preparation of and review the form of a preliminary
6 official statement in connection with each sale of one or more Series to the public. For the sole
7 purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director of
8 Finance is authorized to deem that preliminary official statement final as of its date, except for
9 the omission of information permitted to be omitted by Rule 15c2-12. The City approves the
10 distribution to potential purchasers of the Bonds of a preliminary official statement that has been
11 deemed final in accordance with this subsection.

12 (b) **Final Official Statement.** The City approves the preparation of a final official
13 statement for each sale of one or more Series to be sold to the public in the form of the
14 preliminary official statement with such modifications and amendments as the Director of
15 Finance deems necessary or desirable, and further authorizes the Director of Finance to execute
16 and deliver such final official statement to the Purchaser. The City authorizes and approves the
17 distribution by the Purchaser of that final official statement to purchasers and potential
18 purchasers of the Bonds.

19 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of
20 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series, the
21 Director of Finance is authorized to execute the Undertaking in substantially the form attached as
22 Exhibit B.

23 **Section 24. Supplemental or Amendatory Ordinances.**

24 (a) This ordinance shall not be supplemented or amended in any respect subsequent
25 to the Issue Date, except as provided in and in accordance with and subject to the provisions of
26 this section.

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

- 4 (i) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance
5 in a manner not adverse to the owners of any Parity Bonds;
- 6 (ii) To impose upon the Bond Registrar (with its consent) for the benefit of the
7 owners of any Parity Bonds any additional rights, remedies, powers, authority,
8 security, liabilities or duties which may lawfully be granted, conferred or imposed
9 and which are not contrary to or inconsistent with this ordinance as therefore in
10 effect;
- 11 (iii) To add to the covenants and agreements of, and limitations and restrictions upon,
12 the City in this ordinance other covenants, agreements, limitations and restrictions
13 to be observed by the City which are not contrary or inconsistent with this
14 ordinance as therefore in effect;
- 15 (iv) To confirm, as further assurance, any pledge under, and the subjection to any
16 claim, lien or pledge created or to be created by this ordinance of any other
17 money, securities or funds;
- 18 (v) To authorize different denominations of the Bonds and to make correlative
19 amendments and modifications to this ordinance regarding exchangeability of
20 Bonds of different authorized denominations, redemptions of portions of Bonds of
21 particular authorized denominations and similar amendments and modifications of
22 a technical nature;
- 23 (vi) To comply with any future federal law or interpretation to preserve the exclusion
24 of the interest on the Tax-Exempt Bonds from gross income for federal income
25 tax purposes and the entitlement of the City to receive from the United States
26 Treasury the applicable Tax Credit Subsidy Payments in respect of any Series
27 sold and issued as Tax Credit Subsidy Bonds;
- 28 (vii) To modify, alter, amend or supplement this ordinance in any other respect which
is not materially adverse to the owners of the Parity Bonds and which does not
involve a change described in subsection (c) of this section; and
- (viii) 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 requested by a provider of Bond
Insurance or provider of a Reserve Security and which are not materially adverse
to the owners of the Parity Bonds.

1 Before the City may pass any such supplemental or amendatory ordinance pursuant to
2 this subsection, there must be delivered to the City an opinion of Bond Counsel, stating that such
3 supplemental or amendatory ordinance is authorized or permitted by this ordinance and, upon the
4 effective date thereof, will be valid and binding upon the City in accordance with its terms, will
5 not adversely affect the exclusion from gross income for federal income tax purposes of interest
6 on any Tax-Exempt Bonds.

7 (c) Except for any supplemental or amendatory ordinance passed pursuant to
8 subsection (b) of this section, subject to the terms and provisions contained in this subsection (c)
9 and not otherwise:

10 (i) With the consent of registered owners of not less than 60% in aggregate principal
11 amount of the Parity Bonds then outstanding, the City Council may pass any
12 supplemental or amendatory ordinance deemed necessary or desirable by the City
13 for the purpose of modifying, altering, amending, supplementing or rescinding, in
14 any particular, any of the terms or provisions contained in this ordinance.
15 However, unless approved in writing by the registered owner of each Parity Bond
16 then outstanding, nothing contained in this section shall permit, or be construed as
17 permitting (A) 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 method of determining the rate of interest thereon, (B) a preference or
priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the
aggregate principal amount of Parity Bonds.

18 (ii) If at any time the City Council passes a supplemental or amendatory ordinance for
19 any of the purposes of this subsection (c), the Bond Registrar shall cause notice of
20 the proposed supplemental or amendatory ordinance to be given by first-class
21 United States mail to all registered owners of the then outstanding Parity Bonds,
22 to each provider of Bond Insurance or a Reserve Security, and to each Rating
23 Agency. Such notice shall briefly set forth the nature of the proposed
supplemental or amendatory ordinance and shall state that a copy is on file at the
office of the City Clerk for inspection by all owners of the outstanding Parity
Bonds.

24 (iii) Within two years after the date of the mailing of such notice, such supplemental
25 or amendatory ordinance, substantially as described in such notice, may go into
26 effect, but only if there shall have first been delivered to the Bond Registrar
27 (A) the required consents, in writing, of registered owners of the Parity Bonds,
and (B) an opinion of Bond Counsel stating that such supplemental or amendatory
ordinance is authorized or permitted by this ordinance and, upon the effective date

1 thereof, will be valid and binding upon the City in accordance with its terms, will
2 not adversely affect the exclusion from gross income for federal income tax
 purposes of interest on any Tax-Exempt Bonds.

3 (iv) If registered owners of not less than the percentage of Parity Bonds required by
4 this subsection (c) shall have consented to and approved the passage of such a
5 supplemental or amendatory ordinance, no owner of a Parity Bond shall have any
6 right to object to the passage of such supplemental ordinance, or to object to any
7 of the terms and provisions contained therein or the operation thereof, or in any
8 manner to question the propriety of the passage thereof, or to enjoin or restrain the
9 City from passing the same or the City, any authorized official thereof, or the
10 Bond Registrar from taking any action pursuant to the provisions thereof.

11 (d) The Registered Owners from time to time of the outstanding Bonds, by taking and
12 holding the same, shall be deemed to have consented to the adoption by the City of any
13 supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this
14 section for any one or more of the following purposes:

15 (i) When calculating “Annual Debt Service,” to permit or require Tax Credit Subsidy
16 Payments expected to be received by the City in any period to be credited against
17 amounts required to be paid in respect of interest on the Parity Bonds in that
18 period; and

19 (ii) To permit or require Tax Credit Subsidy Payments to be deposited into the
20 Principal and Interest Subaccount and credited against the Net Revenue otherwise
21 required to be deposited into the Principal and Interest Subaccount.

22 (e) Upon the effective date of any supplemental or amendatory ordinance pursuant to
23 the provisions of this section, this ordinance shall be, and be deemed to be, modified and
24 amended in accordance therewith, and the respective rights, duties and obligations under this
25 ordinance of the City, the Bond Registrar and all owners of Parity Bonds, shall thereafter be
26 determined, exercised and enforced under this ordinance subject in all respects to such
27 modifications and amendments.

28 **Section 25. Defaults and Remedies.**

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

 (i) 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

- 1 (ii) If the City defaults in the observance and performance of any other of the
2 covenants, conditions and agreements on the part of the City set forth in this
3 ordinance or in any Parity Bond Legislation (except as otherwise provided herein
4 or in such Parity Bond Legislation) and such default or defaults have continued
5 for a period of six months after the City has received from the Bond Owners’
6 Trustee (as defined below) or from the registered owners of not less than 25% in
7 principal amount of the Parity Bonds, a written notice specifying and demanding
8 the cure of such default. However, if the default in the observance and
9 performance of any other of the covenants, conditions and agreements is one
10 which cannot be completely remedied within the six months after written notice
11 has been given, it shall not be an Event of Default with respect to the Bonds as
12 long as the City has taken active steps within the six months after written notice
13 has been given to remedy the default and is diligently pursuing such remedy; or
- 14 (iii) If the City files a petition in bankruptcy or is placed in receivership under any
15 state or federal bankruptcy or insolvency law.

16 Notwithstanding anything in this section to the contrary, the failure of the City or any obligated
17 person to comply with the Undertaking shall not constitute an Event of Default under this
18 ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall
19 be to seek an order of specific performance from an appropriate court to compel the City to
20 comply with the Undertaking.

21 **(b) Bond Owners’ Trustee.** So long as such Event of Default has not been
22 remedied, a trustee (the “Bond Owners’ Trustee”) may be appointed by the registered owners of
23 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in
24 writing signed and acknowledged by such registered owners of the Parity Bonds or by their
25 attorneys-in-fact duly authorized and delivered to such Bond Owners’ Trustee, notification
26 thereof being given to the City. That appointment shall become effective immediately upon
27 acceptance thereof by the Bond Owners’ Trustee. Any Bond Owners’ Trustee appointed under
28 the provisions of this subsection (b) shall 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 Bond Owners’ Trustee may be removed at any time, and a successor
 Bond Owners’ 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

1 acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly
2 authorized. The Bond Owners' Trustee may require such security and indemnity as may be
3 reasonable against the costs, expenses and liabilities that may be incurred in the performance of
4 its duties.

5 In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee
6 is cured and the Bond Owners' Trustee furnishes to the City a certificate so stating, that Event of
7 Default shall be conclusively deemed to be cured and the City, the Bond Owners' Trustee and
8 the registered owners of the Parity Bonds shall be restored to the same rights and position which
9 they would have held if no Event of Default had occurred.

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

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

21 Nothing contained in this section shall, in any event or under any circumstance, be
22 deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the
23 remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under
24 any circumstances including, without limitation, upon the occurrence and continuance of an
25 Event of Default.

26 Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder
27 shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or
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1 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond
2 Owners' Trustee without the possession of any of those Parity Bonds and without the production
3 of the same at any trial or proceedings relative thereto except where otherwise required by law.
4 Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for
5 the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions
6 of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding
7 the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true
8 and lawful trustee of the respective registered owners of those Parity Bonds, with authority to
9 institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums
10 becoming distributable on account of those Parity Bonds; to execute any paper or documents for
11 the receipt of money; and to do all acts with respect thereto that the registered owner himself or
12 herself might have done in person. Nothing herein shall be deemed to authorize or empower the
13 Bond Owners' Trustee to consent to accept or adopt, on behalf of any owner of the Parity Bonds,
14 any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered
15 owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the
16 registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization
17 or other proceeding to which the City is a party.

18 **(d) Application of Money Collected by Bond Owners' Trustee.** Any money
19 collected by the Bond Owners' Trustee at any time pursuant to this section shall be applied in the
20 following order of priority:

- 21 (i) to the payment of the charges, expenses, advances and compensation of the Bond
22 Owners' Trustee and the charges, expenses, counsel fees, disbursements and
23 compensation of its agents and attorneys; and
- 24 (ii) to the payment to the persons entitled thereto of all installments of interest then
25 due on the Parity Bonds in the order of maturity of such installments and, if the
26 amount available shall not be sufficient to pay in full any installment or
27 installments maturing on the same date, then to the payment thereof ratably,
28 according to the amounts due thereon to the persons entitled thereto, without any
discrimination or preference; and

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

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

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

23 The Bond Owners' Trustee shall not be bound to recognize any person as a registered
24 owner of any Parity Bond until his or her title thereto, if disputed, has been established to its
25 reasonable satisfaction.

26 The Bond Owners' Trustee may consult with counsel and the opinion of such counsel
27 shall be full and complete authorization and protection in respect of any action taken or suffered
28 by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond

1 Owners' Trustee shall not be answerable for any neglect or default of any person, firm or
2 corporation employed and selected by it with reasonable care.

3 (f) **Suits by Individual Parity Bond Owners Restricted.** No owner of any one or
4 more Parity Bonds shall have any right to institute any action, suit or proceeding at law or in
5 equity for the enforcement of same unless:

- 6 (i) an Event of Default has happened and is continuing; and
- 7 (ii) a Bond Owners' Trustee has been appointed; and
- 8 (iii) such owner previously shall have given to the Bond Owners' Trustee written
9 notice of the Event of Default on account of which such suit, action or proceeding
is to be instituted; and
- 10 (iv) the registered owners of 25% in principal amount of the Parity Bonds, after the
11 occurrence of such Event of Default, have made written request of the Bond
12 Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable
opportunity to institute such suit, action or proceeding; and
- 13 (v) there have been offered to the Bond Owners' Trustee security and indemnity
14 satisfactory to it against the costs, expenses and liabilities to be incurred therein or
thereby; and
- 15 (vi) the Bond Owners' Trustee has refused or neglected to comply with such request
16 within a reasonable time.

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

20 **Section 26. General Authorization.** In addition to the specific authorizations in this
21 ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of
22 the City are each authorized and directed to do everything as in his or her judgment may be
23 necessary, appropriate, or desirable in order to carry out the terms and provisions of, and
24 complete the transactions contemplated by, this ordinance. In particular and without limiting the
25 foregoing:
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1 (a) The Director of Finance may, in his or her discretion and without further action
2 by the City Council: (i) issue requests for proposals for underwriting or financing facilities and
3 execute engagement letters with underwriters, bond insurers or other financial institutions based
4 on responses to such requests, (ii) change the Bond Registrar or Securities Depository for the
5 Bonds; and (iii) take such actions on behalf of the City as are necessary or appropriate for the
6 City to designate, qualify or maintain the tax-exempt treatment with respect to any Series issued
7 as Tax-Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit
8 Subsidy Payments in respect of any Series issued as Tax-Credit Subsidy Bonds and to otherwise
9 receive any other federal tax benefits relating to the Bonds that available to the City; and

10 (b) Each of the Mayor and the Director of Finance is separately authorized to execute
11 and deliver (i) any and all contracts or other documents as are consistent with this ordinance and
12 for which the City's approval is necessary or to which the City is a party (including but not
13 limited to agreements with escrow agents, refunding trustees, providers of Bond Insurance or
14 Reserve Securities, remarketing agents, underwriters, lenders, fiscal agents, Qualified
15 Counterparties, custodians, and the Bond Registrar); and (ii) such other contracts or documents
16 incidental to the issuance and sale of a Series; the establishment of the initial interest rate or rates
17 on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as may in his or her
18 judgment be necessary or appropriate.

19 **Section 27. Severability.** The provisions of this ordinance are declared to be separate
20 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all
21 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as
22 to any person or circumstance, such offending provision shall, if feasible, be deemed to be
23 modified to be within the limits of enforceability or validity. However, if the offending
24 provision cannot be so modified, it shall be null and void with respect to the particular person or
25 circumstance, and all other provisions of this ordinance in all other respects, and the offending
26 provision with respect to all other persons and all other circumstances, shall remain valid and
27 enforceable.

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Section 28. Ratification of Prior Acts. Any action taken consistent with the authority of this ordinance, after its passage but prior to the effective date, is ratified, approved and confirmed.

Section 29. Section Headings. Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

EXHIBIT A
OUTSTANDING WATER PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation
Water System and Refunding Revenue Bonds, 2003	4/29/2003	\$271,320,000	Ord 121094 Res 30598
Water System Revenue Bonds, 2004	10/25/2004	\$84,750,000	Ord 121587 Res 30710
Water System Revenue Refunding Bonds, 2005	12/28/2005	\$138,040,000	Ord 121939 Res 30832
Water System Revenue and Refunding Bonds, 2006	10/23/2006	\$189,970,000	Ord 122210 Res 30919
Water System Improvement and Refunding Revenue Bonds, 2008	12/15/2008	\$205,080,000	Ord 121939 Ord 122797 Ord 122837 Res 31099
Water System Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	1/21/2010	\$109,080,000	Ord 123168 Res 31182
Water System Improvement and Refunding Revenue Bonds, 2010B	1/21/2010	\$81,760,000	Ord 121939 Ord 122837 Ord 123168 Res 31182
Water System Refunding Revenue Bonds, 2012	5/30/2012	\$238,770,000	Ord 121939 Ord 122837 Res 31382

EXHIBIT B

FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The City of Seattle, Washington (the “City”) makes the following written Undertaking for the benefit of the owners of the City’s Water Improvement Revenue Bonds, 2014 (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 _____ and Resolution _____ (together, the “Bond Legislation”).

(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 regarding the Water System of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“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 subsection (b) of this section.

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

2 (i) Shall consist of annual financial information and operating data
3 regarding the Water System of the type included in the final official statement for the Bonds as
4 follows: (1) annual financial statements of the Water System prepared in accordance with
5 generally accepted accounting principles applicable to governmental units (except as otherwise
6 noted therein), as such principles may be changed from time to time and as permitted by State
7 law, which financial statements will not be audited, except, that if and when audited financial
8 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 revenues of the Water
System; (3) debt service coverage ratios; (4) general customer statistics, such as number and
type of customers and revenues by customer class; and (5) current water rates;

9 (ii) Shall be provided not later than the last day of the ninth month after the
10 end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal
11 year may be changed as required or permitted by State law, commencing with the City's fiscal
year ending December 31, 20__; and

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

14 (c) Amendment of Undertaking. The Undertaking is subject to amendment after the
15 primary offering of the Bonds without the consent of any holder of any Bond, or of any broker,
16 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
17 notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking
18 and a brief statement of the reasons for the amendment. If the amendment changes the type of
19 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.

20 (d) Beneficiaries. The Undertaking evidenced by this section shall inure to the
21 benefit of the City and any Beneficial Owner of Bonds, and shall not inure to the benefit of or
create any rights in any other person.

22 (e) Termination of Undertaking. The City's obligations under this Undertaking
23 shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the
24 outstanding Bonds. In addition, the City's obligations under this Undertaking shall terminate if
25 those provisions of Rule 15c2-12 which require the City to comply with this Undertaking
26 become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion
of nationally recognized bond counsel or other counsel familiar with federal securities laws
delivered to the City, and the City provides timely notice of such termination to the MSRB.

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

9 (g) Designation of Official Responsible to Administer Undertaking. The Director
10 of Finance of the City (or such other officer of the City who may in the future perform the
11 duties of that office) or his or her designee is the person designated, in accordance with the
12 Bond Legislation, to carry out the Undertaking of the City in respect of the Bonds set forth in
13 this section and in accordance with Rule 15c2-12, including, without limitation, the following
14 actions:

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

17 (ii) Determining whether any event specified in subsection (a) has occurred,
18 assessing its materiality, where necessary, with respect to the Bonds, and preparing and
19 disseminating any required notice of its occurrence;

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

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

27 (v) Effecting any necessary amendment of the Undertaking.
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2014 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Finance and Administrative Services (FAS)	Michael Van Dyck/4-8347	Jennifer Devore/5-1328

Legislation Title:

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to and extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

Summary and background of the Legislation:

Although the Budget, CIP, and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required.

The Water bond sale is anticipated to occur in the second half of 2014. The bond proceeds, combined with internally generated funds, will support the Water System capital program for about 12 months.

The bond sizing is based on the adopted budget and rates, planned cash flow, and cash contribution targets. The bond proceeds will be used to make a deposit to the construction fund and to pay costs of issuance.

The proposed issue is for \$49 million of 30-year, fixed-rate bonds. Total annual debt service is expected to be about \$3 million starting in 2015. SPU's adopted rates incorporate the debt service costs resulting from this bond issue.

These bonds will finance improvements to the City's water system, including the Morse Lake Pump Plant. For further information about SPU's capital projects, please see the Proposed 2014-2019 CIP.

X This legislation has financial implications.

Other Implications:

- a) Does the legislation have indirect financial implications, or long-term implications?

The Water Fund will be obligated to pay annual debt service on these bonds through their term.

b) What is the financial cost of not implementing the legislation?

Financing the utility's CIP completely from cash would require massive cuts in capital and/or operating programs or massive rate increases. Since the capital improvements financed with this debt have a long useful life and interest rates are currently low, it is more practical to spread the costs of these improvements over current and future beneficiaries by issuing bonds.

c) Does this legislation affect any departments besides the originating department?

This legislation affects FAS, which will coordinate the issuance of bonds.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

There are no viable alternatives aside from financing the Water CIP completely from cash. As noted above, this would require massive cuts in capital and/or operating programs or massive rate increases or some combination of both.

e) Is a public hearing required for this legislation?

No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

g) Does this legislation affect a piece of property?

No.

h) Other Issues:

None.

List attachments to the fiscal note below:

None.