

ORDINANCE NO. 455

AN ORDINANCE of the City Council of the City of Gig Harbor, Washington, providing for the issuance and sale of storm sewer revenue bonds of the City in the principal sum of \$60,000, for the purpose of providing funds to pay the cost of a study for a storm drainage master plan; providing the date, form, maturities and covenants of said bonds, providing for the disposition of the proceeds of sale of such bonds; and providing for the sale thereof.

WHEREAS, a storm drainage utility (the "System") for the City of Gig Harbor, Washington (the "City"), was created by the City Council on July 23, 1984 pursuant to Ordinance No. 448; and

WHEREAS, the City has established, pursuant to Ordinance No. 449, rates and charges for service of the System; and

WHEREAS, it is necessary and advisable for the City to issue and sell revenue bonds, payable from such rates and charges of the System in order to provide funds for paying the costs of a study leading to a master plan (the "Project"); and

WHEREAS, under the laws of the State of Washington, the City is permitted to borrow money and to evidence such borrowings through the issuance of revenue bonds; and

WHEREAS, H. Jackson Shirley & Co. Inc. of Bellevue, Washington, has offered to purchase said bonds on the terms hereinafter set forth and in the judgment of the City Council it is in the best interests of the City that said Bonds be sold pursuant to such offer;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GIG HARBOR, WASHINGTON DO ORDAIN, as follows:

Section 1. Definitions. As used in this ordinance, the following words shall have the following meanings, unless a different meaning clearly appears from the context.

"Annual Debt Service" means the amount of principal of and interest on any outstanding bonds payable from the Bond Fund in

any calendar year, except the principal of Term Bonds, and plus all mandatory sinking fund payments required to be made in such year for redemption of Term Bonds.

"Average Annual Debt Service" means the sum of the Annual Debt Service for all of the remaining maturities of any bonds payable from the Bond Fund divided by the number of those maturity years.

"Bond Fund" means the "City of Gig Harbor Storm Sewer Revenue Bond Redemption Fund" created by Section 5 of this ordinance.

"Bond Register" means the books or records maintained by the Bond Registrar containing the name and mailing address of the owner of each Bond or nominee of such owner and the principal amount and number of Bonds held by each owner or nominee.

"Bond Registrar" means the fiscal agencies of the State of Washington, currently Seattle-First National Bank, Seattle, Washington, and J. Henry Schroder Bank & Trust Company, New York, New York, or any fiscal agent of the State of Washington that may hereafter be designated as successor to such banks.

"Bonds" means the \$60,000 principal amount of the City of Gig Harbor, Washington, Storm Sewer Revenue Bonds, 1985, issued pursuant to this ordinance for the purpose of paying the costs of the Project.

"City" means the City of Gig Harbor, Washington, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of Washington.

"Council" means the general legislative authority of the City as the same shall be duly and regularly constituted from time to time.

"Debt Service" for any period and with respect to any series of Parity Bonds means an amount equal to the sum of (a) interest due during such period on the bonds of such series, except to the

extent that such interest is to be paid from deposits in the Bond Fund made from the proceeds of sale of said Bonds and (b) principal of the Parity Bonds of such series due during such period. Principal due during any period shall be the sum of (i) the principal amount of Parity Bonds of such series due on a certain future date for which no mandatory sinking fund installments have been established and (ii) the unsatisfied balance of any mandatory sinking fund installments due on a certain future date for Term Bonds of such series, plus the amount of redemption premium, if any, which would be applicable upon redemption of such Term Bonds on such future date in a principal amount equal to said unsatisfied balance. Interest shall be calculated on the assumption that Term Bonds for which sinking fund installments are required cease to be outstanding at the time such sinking fund installments are paid.

"Future Parity Bonds" means any and all revenue bonds of the City issued after the date of issuance of the Bonds and issued pursuant to Section 11 hereof, the payment of principal of and interest on which constitutes a lien and charge upon the Gross Revenue and/or the money in the Revenue Fund equal in rank with the lien and charge upon such Gross Revenue and/or money in the Revenue Fund to pay and secure the payment of the principal of and interest on the Bonds.

"Gross Revenue" means all payments, income, earnings and revenue received by the City from the ownership, operation and maintenance of the System including income from maturing principal or interest earnings on assets in the Bond Fund, except for earnings on any special account created for the payment of revenue bonds of the City which are deemed no longer outstanding pursuant to Section 13 hereof and except for ad valorem taxes and assessments.

"Net Revenue" means Gross Revenue less Operating and Maintenance Expenses.

"Operating and Maintenance Expenses" means all necessary expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition, but shall not include depreciation, costs of additions and betterments to, extensions of, or other capital improvements to the System, or costs of Debt Service.

"Parity Bonds" mean the Bonds and any Future Parity Bonds.

"Principal and Interest Account" means the special account within the Bond Fund created by Section 5 of this ordinance and maintained for the purposes set forth herein.

"Project" means the study to be undertaken with the proceeds of the Bonds for the purpose of developing a Storm Drainage Master Plan, as such Project is authorized by Section 2 of this ordinance.

"Reserve Account" means the special account created within the Bond Fund by Section 5 of this ordinance and maintained for the purpose of securing the payment of the principal of and interest on any Future Parity Bonds as provided in Section 6 of this ordinance.

"Revenue Fund" means the fund of the City designated as the Storm Drainage Utility Fund created in the Office of the Treasurer into which all of the Gross Revenue will be paid.

"System" means the storm water drainage utility properties of the City, heretofore and hereafter purchased, constructed or otherwise acquired, including but not limited to the Project, and any additions, replacements, modifications, improvements or extensions to or of assets or properties acquired by the City for storm water drainage purposes, but shall not include any facility which the City may elect in the future to construct or otherwise

acquire and operate as a separate utility system if financed by bonds, notes or other evidences of indebtedness payable solely from the revenues or other income derived from the ownership or operation of such separate system.

"Term Bond Maturity Year" means any calendar year in which the amount of any issue or series of the Bonds or Parity Bonds are scheduled to mature (regardless of any reservation of prior redemption rights) is more than 1.25 times the average annual principal maturity of the bonds of such issue or series for the three years immediately preceding such Term Bond Maturity Year.

"Term Bonds" means those numbered outstanding bonds or the Bonds or any single issue or series of Parity Bonds scheduled to mature in any Term Bond Maturity Year.

"Treasurer" means the Treasurer of the City of Gig Harbor, Washington, or any successor to the functions of such Treasurer.

Section 2. Findings and Authorization of Project. It is hereby found and declared that the public interest and benefit of the inhabitants of the City require the City to undertake a study to develop a Master Plan for the System (the "Project"). The undertaking of the Project is hereby authorized. The estimated cost of the Project and of all costs incidental thereto and to the issuance of the Bonds is hereby declared to be as nearly as practicable the sum of \$60,000, which shall be provided from the proceeds of sale of the Bonds and other cash on hand and available therefor.

Section 3. Authorization of Bonds. The City hereby authorizes the issuance and sale of the Bonds in the aggregate principal amount of \$60,000 to provide the funds necessary to pay the cost of the Project and all costs incidental thereto and to the issuance of the Bonds. The Bonds shall be revenue obligations of the City; shall be designated "City of Gig Harbor, Washington,

Storm Sewer Revenue Bonds, 1985," shall be dated as of January 1, 1985; shall be issued in fully registered form in the denomination of \$5,000 or any integral multiple thereof provided that no Bond shall represent more than one maturity, shall be numbered separately and in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; shall bear interest from their date, until the Bonds have been paid or their payment duly provided for, at the rate of 9.25% per annum, payable on June 1, 1985, and semiannually thereafter on the first day of each June and December; and shall mature on December 1 of each year as follows:

<u>Maturity Year</u>	<u>Principal Amount</u>
1985	\$15,000
1986	15,000
1987	15,000
1988	15,000

The City hereby specifies and adopts the system of registration for the Bonds approved by the State Finance Committee, and the fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York, shall act as authenticating trustee, transfer agent, paying agent and registrar for the Bonds (collectively, the "Bond Registrar"). Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by check or draft of the Bond Registrar mailed (on the date such interest is due) to the registered owners or nominees at the addresses appearing on the Bond Register as of the fifteenth (15th) day of the month prior to the interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds to the Bond Registrar by the registered owners or nominees at the principal offices of either of the

fiscal agencies of the State of Washington in the cities of Seattle, Washington, or New York, New York.

The Bonds may be transferred only on the Bond Register maintained by the Bond Registrar for that purpose upon the surrender thereof by the registered owner or nominee or his duly authorized agent and only if endorsed in the manner provided thereon, and thereupon a new fully registered Bond of like principal amount, maturity and interest rate shall be issued to the transferee in exchange therefor. Such transfer shall be without cost to the registered owner or transferee. The City may deem the person in whose name each Bond is registered to be the absolute owner thereof for the purpose of receiving payment of the principal of and interest on such Bonds and for any and all other purposes whatsoever.

Upon surrender thereof to the Bond Registrar, the Bonds are interchangeable for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rates and maturities.

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

Section 4. No Prior Redemption. The Bonds shall not be subject to redemption prior to their scheduled maturity.

Section 5. Creation of Bond Fund. A special fund of the City known as the "City of Gig Harbor Storm Sewer Revenue Bond Redemption Fund," (the "Bond Fund"), is hereby authorized and directed to be created in the office of the City Treasurer. The

Bond Fund shall be drawn upon for the sole purpose of paying the principal of and interest on the Bonds and any Future Parity Bonds. The Bond Fund shall be divided into a Principal and Interest Account and a Reserve Account.

The City hereby further obligates itself to set aside and pay into the Bond Fund out of the Gross Revenue and money in the Revenue Fund those amounts which, and other funds on hand and available in the Bond Fund, are necessary to pay the principal of and the interest on the Bonds as the same shall become due and payable.

Payments on account of the Bonds shall be made out of Gross Revenue and/or money in the Revenue Fund into the Bond Fund on or before the twentieth day of each month in the following amounts:

a. In the months of February, 1985, through May, 1985, one-fourth of the amount which, together with accrued interest and assessments, if any, paid into and on hand in the Principal and Interest Account, will equal interest to become due and payable on June 1, 1985.

b. Beginning with the month of June, 1985, and continuing for as long as any of the Bonds are outstanding and unpaid, one-sixth of the amount which, with assessments, if any, paid into and on hand in the Bond Fund, will equal the interest to become due and payable on the Bonds outstanding on the next interest payment date.

c. Beginning with the month of February, 1985 and continuing through November, 1985, an amount which, together with assessments, if any, paid into and on hand in the Bond Fund, and not otherwise required for the payments required by subsections (a) and (b) above, equals one-tenth of the principal amount of the Bonds coming due on December 1, 1985.

d. Beginning with the month of December, 1985, and continuing through November, 1988, an amount which, together with assessments, if any, paid into and on hand in the Bond Fund, and not otherwise required for the payments required by subsections (a) and (b) above, equals one-twelfth of the principal amount of the Bonds next coming due.

Section 6. Reserve Account. The City may provide for the deposit of money in the future in the Reserve Account to secure the repayment of Parity Bonds.

In the event there shall be a deficiency in the Bond Fund to meet maturing installments of either principal or interest on any Parity Bonds, such deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from the Gross Revenue of the City or the money in the Revenue Fund, or assessments, after making necessary provision for required payments into the Bond Fund to pay the principal and interest next coming due on any bonds payable from such Fund.

The moneys in the Reserve Account shall otherwise be held intact and may be used to pay the principal of and interest on the last outstanding Bonds. All money in the Reserve Account may, upon ordinance or resolution of the City Council, be invested in any investment permitted by law maturing not later than the final maturity date of any outstanding Bonds. Interest earned on any such deposits or investments shall be deposited in and become a part of the Principal and Interest Account.

Section 7. Security Position of Bondholders. The amounts pledged in Sections 5 and 6 hereof to be paid out of the Gross Revenue of the System and money in the Revenue Fund into the Principal and Interest Account and into the Reserve Account to

Bond Fund shall be drawn upon for the sole purpose of paying the principal of and interest on the Bonds and any Future Parity Bonds. The Bond Fund shall be divided into a Principal and Interest Account and a Reserve Account.

The City hereby further obligates itself to set aside and pay into the Bond Fund out of the Gross Revenue and money in the Revenue Fund those amounts which, and other funds on hand and available in the Bond Fund, are necessary to pay the principal of and the interest on the Bonds as the same shall become due and payable.

Payments on account of the Bonds shall be made out of Gross Revenue and/or money in the Revenue Fund into the Bond Fund on or before the twentieth day of each month in the following amounts:

a. In the months of February, 1985, through May, 1985, one-fourth of the amount which, together with accrued interest and assessments, if any, paid into and on hand in the Principal and Interest Account, will equal interest to become due and payable on June 1, 1985.

b. Beginning with the month of June, 1985, and continuing for as long as any of the Bonds are outstanding and unpaid, one-sixth of the amount which, with assessments, if any, paid into and on hand in the Bond Fund, will equal the interest to become due and payable on the Bonds outstanding on the next interest payment date.

c. Beginning with the month of February, 1985 and continuing through November, 1985, an amount which, together with assessments, if any, paid into and on hand in the Bond Fund, and not otherwise required for the payments required by subsections (a) and (b) above, equals one-tenth of the principal amount of the Bonds coming due on December 1, 1985.

replace withdrawals, if any, are hereby declared to be a lien and charge upon such Gross Revenue and money junior in rank to the charges necessary to pay Operating and Maintenance Expenses of the System, equal in rank to any charges which may be made hereafter upon said money and revenue for the payment of the principal of and interest on any Future Parity Bonds, and superior to all other liens or charges of any kind or nature.

Section 8. Sufficiency of Gross Revenue. The City Council hereby declares, in fixing the amounts to be paid into the Bond Fund and the accounts therein out of the Gross Revenue of the System and the money in the Revenue Fund, that it has exercised due regard for the Operating and Maintenance Expenses, and has not obligated the City to set aside and pay into said Fund a greater amount of such Gross Revenue or money than in its judgment will be available over and above such Operating and Maintenance Expenses and the charges necessary to pay such principal and interest and such Reserve Account deposits.

Section 9. Gross Revenue and Revenue Fund. All of the Gross Revenue shall be credited to the Revenue Fund as collected. All Operating and Maintenance Expenses of the System shall be paid out of said Revenue Fund.

The Gross Revenue of the System and/or the money in the Revenue Fund shall be applied in the following order of priority:

First: To pay Operating and Maintenance Expenses of the System.

Second: To make all payments required by this ordinance, and any other ordinance of the City Council authorizing the issuance of Future Parity Bonds to pay and secure the payment of the principal of and interest of the Bonds and any Future Parity Bonds;

Third: To make all payments required by any other ordinance or ordinances of the City authorizing the issuance of revenue bonds having a lien upon the Gross Revenue and/or the money in the Revenue Fund junior or inferior to the lien thereon for the payment of the principal of and interest on the Bonds and any Future Parity Bonds; and

Fourth: To redeem for retirement only any outstanding Bonds or to make necessary additions, betterments, improvements and repairs to and extensions and replacements of the System, or for any other lawful City purpose.

Section 10. Covenants of the City. The City hereby makes the following covenants with the owner and holder of each of the Bonds.

A. The City will promptly collect all assessments, if any, required by any future ordinance or resolution to be paid into the Bond Fund and will pay them into the Bond Fund. Such assessments may be used to pay the principal of and interest on any or all Parity Bonds without any of the same being particularly allocated to the payment of the principal of and interest on any particular series or issue of bonds payable out of such Fund.

B. The City shall fix, maintain and collect rates and charges for the use of the services and facilities furnished or supplied by the System, which shall be fair and (to the extent permitted by law) nondiscriminatory and shall adjust such rates and charges from time to time so that:

(1) During the period in which installments of assessments may be paid without default, the Gross Revenue of the System, together with assessments collected, will at all times be sufficient (a) to pay the Operating and Maintenance Expenses, (b) to pay Debt Service on all Parity Bonds, as and when the same shall become due and payable, (c) to make when

due all payments which the City is obligated to make into the Reserve Account and all other payments which the City is obligated to make pursuant to ordinances authorizing Parity Bonds, and (d) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the Gross Revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter obligated to pay from the Gross Revenue of the System by law or contract; and

(2) When there are no installments of assessments outstanding and unpaid (except those in default), the Net Revenue in each calendar year will equal at least 1.25 times the Average Annual Debt Service on all outstanding Parity Bonds.

C. The City will at all times keep and maintain the System in good repair, working order and condition, and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

D. The City will not sell or dispose of all of the properties of the System unless provision is made for payment into the Bond Fund of a sum sufficient to pay and retire all of the then outstanding bonds payable out of such Fund, nor will it sell or dispose of any part of the useful operating properties of the System unless provision is made for payment into the Bond Fund of the greatest of the following:

(1) An amount which will be in the same proportion to the net amount of outstanding bonds of the City payable out of the Bond Fund (defined as the total amount of such bonds less the amount of cash and investments in such Fund) that the revenue from the portion of the System sold or disposed

of for the twelve preceding months bears to the total revenue of the System for such period, or

(2) An amount which will be in the same proportion to the net amount of bonds payable out of the Bond Fund (as defined in (1) above) that the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire System immediately prior to such sale or disposition.

All such sums of moneys so paid into the Bond Fund shall be used to retire the outstanding bonds payable out of such Fund at the earliest possible date on which any of such bonds may be redeemed at par or at such earlier redemption date as the City determines.

E. The City will cause proper books, records, and accounts of the operation of the System to be kept and will cause to be prepared an annual financial and operating statement showing the revenues and expenditures of the System and a balance sheet of the System as of the end of each year, within 90 days of the end of each fiscal year. Each of said statements shall be filed with the City Council, shall be mailed to the main office of H. Jackson Shirley & Co. Inc., Washington, and shall be sent to the registered owner of any Parity Bond upon request being made in writing therefor.

F. The City will at all times carry fire and extended coverage and such other forms of insurance on the equipment, facilities and properties of the City, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles as is customary for the operation of like utilities and as the City shall deem necessary for the protection of the City and the owners of all outstanding Parity Bonds. The premiums on such insurance

policies are hereby declared to be an Operating and Maintenance Expense.

G. The City will at all times keep and arrange to keep in full force and effect policies of public liability and property damage insurance which will protect the City against anyone claiming damages of any kind or nature, if such insurance is obtainable at reasonable rates and upon reasonable conditions, in such amounts and with such deductibles as the City Council shall deem necessary for the protection of the City and the owners of all outstanding Parity Bonds.

H. The City will not furnish any service of the System to any customer or user of the System free of charge.

I. The City will, on or before March 1 of each calendar year determine all accounts that are delinquent and will take all necessary action to enforce payment of any such delinquencies, including real property foreclosure actions against those property owners whose accounts are more than six (6) months in default.

J. The City will, on or before March 1 of each calendar year determine all assessments or installments thereof, if any, in any utility local improvement district of the City in which assessments therein are required to be paid into the Bond Fund that have become delinquent during the preceding calendar year, and will bring the necessary actions of foreclosure upon the property against which assessments were levied by September 1 of each calendar year.

K. The City will issue no bonds hereafter having a lien on the Gross Revenue superior to that of the Bonds.

Section 11. Parity Conditions. The City hereby further covenants with the owner of each of the Bonds for as long as any of the same are outstanding that it will not issue any Parity Bonds or create any special fund or funds for the payment of the

principal of and interest on any other revenue bonds which will have any priority over or which will rank on a parity with the payments required by this ordinance to be made out of the Gross Revenue and/or money in the Revenue Fund into the Bond Fund or the Reserve Account therein, except that it reserves the right for:

The purpose of acquiring, constructing and installing additions, betterments and improvements to and/or extensions of, acquiring necessary equipment for, or making necessary replacements of or repairs or capital improvements to, the System; or

The purpose of refunding any part or all of any then outstanding revenue bonds of the City;

to issue additional and/or refunding bonds therefor (herein called "Parity Bonds" as hereinabove defined) and to pledge that payment shall be made out of such Gross Revenue and/or the money in the Revenue Fund into the Bond Fund to pay and secure the payment of the principal of and interest on such Parity Bonds on a parity with the payments required by this ordinance to be paid out of such Gross Revenue and/or money in the Revenue Fund, to pay and secure the payment of the principal of and interest on the Bonds, only upon compliance with the following conditions:

A. That at the time of the issuance of such Parity Bonds there is no deficiency in any account in the Bond Fund.

B. (1) That monthly payments will be required to be made out of the Gross Revenue and/or the money in the Revenue Fund, into the Bond Fund to pay the principal of and interest on such Parity Bonds.

(2) Each ordinance providing for the issuance of such Future Parity Bonds shall require that any and all assessments, if any, levied in any utility local improvement district or districts to pay part or all of the cost of the improvements being

constructed in such district or districts that are financed by part or all of such additional Parity Bonds will be paid directly into the Bond Fund; that each ordinance providing for the issuance of refunding Parity Bonds shall require that all uncollected assessments which may have been levied in any utility local improvement district or districts to pay the principal of and interest on the bonds being refunded will be paid directly into the Bond Fund, and shall further provide that all moneys held in any fund or account of the City for the purpose of paying or securing the payment of the principal of and interest on the bonds being refunded shall be either applied in payment of the bonds being refunded or shall be transferred and paid into the Bond Fund.

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

C. Each such ordinance shall further provide that within five (5) years from the date of issue of such Future Parity Bonds the City will pay into the Reserve Account out of the first assessments collected which are pledged to be paid into the Bond Fund, or, if such assessments are insufficient, out of Net Revenue, an amount which, together with the balance then on hand in the Reserve Account, will equal at least the maximum amount required in any calendar year thereafter to pay Debt Service on all Parity Bonds then outstanding, in approximately equal annual amounts.

The City shall covenant and agrees that when said required amounts have been deposited in the Reserve Account it will at all times maintain those amounts therein until there is a sufficient amount in the Bond Fund to pay the principal of, premium if any, and interest on all outstanding bonds payable out of the Bond

Fund, at which time the money in the Reserve Account may be used to pay such principal, premium, if any, and interest; provided, however, that moneys in the Reserve Account may be withdrawn to pay the principal, premium, if any, and interest on part or all of the outstanding bonds of any single issue or series of bonds payable out of the Bond Fund so long as the moneys left remaining on deposit in the Reserve Account meet the requirements of this subsection (C).

D. Each such ordinance shall further contain a covenant by the City that it will establish, maintain and collect rates and charges for service of the System sufficient, with reference to the Parity Bonds to be issued, to meet the coverage requirement set forth in Section 10 hereof applicable to the Bonds.

E. At the time of the issuance of such Parity Bonds, the City shall have on file a certificate from an independent licensed professional engineer experienced in the design, construction and operation of municipal utilities and licensed to practice in the State of Washington (which certificate may not be dated more than ninety (90) days prior to the month of delivery of such additional or refunding Parity Bonds) stating that, in his or her professional opinion the Net Revenue determined and adjusted as hereafter provided for each calendar or fiscal year after the issuance of such Parity Bonds (the "Adjusted Net Revenue") together with assessment receipts will for each year in which assessments may be paid without default equal at least the Debt Service on all outstanding Parity Bonds including those Parity Bonds to be issued and thereafter will equal at least 1.25 times the Average Annual Debt Service on all Parity Bonds then outstanding, including the Parity Bonds proposed to be issued.

The words "Adjusted Net Revenue" as used in the paragraph immediately above shall mean the Net Revenue for a period of any

twelve (12) consecutive months out of the twenty-four (24) months immediately preceding the month of delivery of such Parity Bonds, adjusted to reflect:

(1) Changes in the Net Revenue as a result of increases or decreases in customers of the System during such twelve consecutive month period or thereafter and prior to the date of such certificate, adjusted to reflect a year's change in Net Revenue resulting from such increase or decrease in customers, and

(2) The annual Net Revenue to be derived from the potential customers, wherever located on the System, who have paid the required connection charge, and

(3) The annual Net Revenue to be derived by the City from any person, firm, association, corporation, public, private or municipal, under any executed service contract which income is not included in any of the sources of Net Revenue heretofore described in this subsection (C), and

(4) The annual Net Revenue to be received by the District as a result of any facilities of the System to be constructed or installed out of the proceeds of the sale of the additional Parity Bonds being issued or otherwise under construction, and

(5) The change in annual Net Revenue resulting from any rate change approved by the Council, but not in effect for all of such twelve-month (12-month) period.

In the event the City will not derive any direct income as a result of the construction of the facilities being added or to be added to the System, the normal cost of maintenance and operation of such facilities shall be deducted from such "Net Revenue."

The amount of the Adjusted Net Revenue determined as provided in this subparagraph (E) shall be computed as being available for each succeeding calendar year to and including the last calendar

year that any outstanding bonds payable out of the Bond Fund and such Parity Bonds being issued mature. In computing assessment income the engineer or accountant may allocate and interest thereon to the years in which it would be received if the unpaid principal balance of each assessment roll were paid in equal principal amounts over the remaining number of installments with interest on the declining balance at the times and at the rate provided in the resolution confirming the assessment roll. Prepayments of assessments within sixty (60) days of the date of such engineer's certificate may be treated as having been applied to the redemption of outstanding Parity Bonds.

F. Notwithstanding anything hereinbefore provided to the contrary, the City may issue Parity Bonds for the purpose of refunding by exchange, or purchase, or calling and retiring at or prior to their maturity, any part or all of the Bonds or any Future Parity Bonds outstanding, upon compliance with the conditions required in subsections (A) and (B) of this section.

Section 12. Junior Lien Bonds. Nothing herein contained shall prevent the City from issuing revenue bonds which are a charge upon the Gross Revenue of the City and moneys in the Revenue Fund junior or inferior to the payments required to be made therefrom into the Bond Fund, or from pledging the payment of assessments into the bond redemption fund created for the payment of the principal of and interest on such junior lien bonds as long as such assessments are levied for improvements constructed from the proceeds of such junior lien bonds, nor shall anything herein contained prevent the City from issuing revenue bonds to refund maturing revenue bonds of the City for the payment of which money is not otherwise available.

Section 13. Defeasance. In the event that money and/or "Government Obligations," as such Obligations are now or may

hereafter be defined in Ch. 39.53 RCW, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Bonds in accordance with their terms, are set aside in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the funds so set aside and pledged, and such Bonds shall be deemed not to be outstanding hereunder.

Section 14. Arbitrage Covenant. The City hereby covenants and agrees with the owners and holders of the Bonds for as long as any of the same remain outstanding that it will not make use of the proceeds of sale of the Bonds or any other funds of the City which may be deemed to be proceeds of the Bonds pursuant to Section 103 of the Internal Revenue Code and the applicable regulations thereunder which, if such use had been reasonably expected on the date of delivery of the Bonds to the initial purchaser thereof, would have caused the Bonds to be "arbitrage bonds" within the meaning of said section and said regulations. The City will comply with the requirements of subsection (c) of Section 103 of the Internal Revenue Code and the applicable regulations thereunder throughout the term of the Bonds.

Section 15. Lost or Destroyed Bonds. In case the Bonds or any of them shall be lost, stolen or destroyed, the Bond Registrar may execute and deliver a new Bond or Bonds of like amount, date, and tenor to the registered owner thereof upon the owner's paying the expenses and charges of the City and the Bond Registrar in connection therewith and upon his filing with the Treasurer and

the Bond Registrar evidence satisfactory to said Treasurer and Bond Registrar that such Bond or Bonds were actually lost, stolen or destroyed and of his/her ownership thereof, and upon furnishing the City and Bond Registrar with indemnity satisfactory to the Treasurer and Bond Registrar.

Section 16. Form of the Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. _____

\$ _____

STATE OF WASHINGTON

CITY OF GIG HARBOR

STORM SEWER REVENUE BOND, 1985

INTEREST RATE:

MATURITY DATE:

SEE REVERSE SIDE FOR CERTAIN DEFINITIONS

REGISTERED OWNER:

PRINCIPAL AMOUNT: _____ DOLLARS

The City of Gig Harbor, Washington, a municipal corporation organized and existing under and by virtue of the laws and Constitution of the State of Washington (the "City"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount specified above, unless redeemed prior thereto as provided herein, together with interest on such Principal Amount from the date hereof or the most recent date to which interest has been paid or duly provided for at the Interest Rate set forth above payable June 1, 1985, and semiannually thereafter on each June 1 and December 1 until payment of the principal sum has been made or duly provided for but solely from the Bond Fund (hereinafter defined). Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest on this bond is payable by check or draft of the Bond Registrar mailed (on the date such interest is due) to the Registered Owner hereof at the address appearing on the records maintained by the Bond Registrar as of the 15th day of the month prior to the interest payment date. Principal shall be paid to the registered owner hereof upon presentation and surrender of this bond at the principal offices of either of the fiscal agencies of the State of Washington in Seattle, Washington or New York, New York (collectively, the "Bond Registrar").

Reference is hereby made to additional provisions of this bond set forth on the reverse side hereof and such additional

provisions shall for all purposes have the same effect as if set forth in this space. Reference also is made to the Bond Ordinance (hereinafter defined) as more fully describing the covenants with and the rights of registered owners of the bonds or registered assigns and the meanings of capitalized terms appearing on the bonds which are defined in such Bond Ordinance.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance (as hereinafter defined) until the Certificate of Authentication hereon shall have been manually signed by the Bond Registrar.

The City pledges and binds itself to set aside out of the earnings and revenue of the storm drainage utility system of the City, and to pay into the City of Gig Harbor Storm Sewer Revenue Bond Redemption Fund (the "Bond Fund") and the Principal and Interest Account and the Reserve Account therein, the various amounts required by Ordinance No. 455 of the City (herein called the "Bond Ordinance") to be paid into said Fund and Accounts, all within the times provided by said Bond Ordinance. Reference is made to the Bond Ordinance for additional covenants of the City regarding this bond.

Said amounts so pledged to be paid out of such earnings and revenue into the Bond Fund are hereby declared to be a prior lien and charge thereon junior in rank to Operating and Maintenance Expenses of its System (as such terms are defined in the Bond Ordinance), and equal in rank to any charges that may be made thereon to pay the principal of and interest on any revenue bonds which the City may issue later on a parity with the bonds of this issue, and superior to all other liens and charges of any kind or nature.

It is hereby certified and declared that this bond is issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and ordinances of the City, that all acts, conditions and things required to be done precedent to and in the issuance of this bond and the bonds of this issue have happened, been done and performed and that this bond and the bonds of this issue do not exceed any Constitutional or statutory limitations.

IN WITNESS WHEREOF, the City of Gig Harbor, Washington, has caused this bond to be signed on behalf of the City with the facsimile signature of the Mayor, to be attested by the facsimile signature of the Clerk of the City, and a facsimile of the seal of the City to be reproduced or impressed hereon, as of this 1st day of January, 1985.

CITY OF GIG HARBOR, WASHINGTON

By /s/facsimile

Mayor

ATTEST:

/s/facsimile

Clerk of the City

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within-referenced Ordinance No. 455 of the City of Gig Harbor, Washington, and is one of the Storm Drainage Revenue Bonds, 1985, dated January 1, 1985, of such City.

WASHINGTON STATE FISCAL AGENCY
As Bond Registrar

By _____
Authorized Officer

ADDITIONAL BOND PROVISIONS

This bond is one of an issue of storm drainage revenue bonds of the City of like date, tenor and interest rates, except as to number and date of maturity, in the aggregate principal amount of \$60,000 issued pursuant to Ordinance No. 455 of the City, passed January 28, 1985 (the "Bond Ordinance"), to provide funds for the undertaking a study leading to a Master Plan for the storm drainage utility of the City (the "System").

The bonds of this issue are not redeemable in advance of their scheduled maturity.

The pledge of revenue for payment of principal of and interest on the bonds may be discharged prior to maturity of the bonds by making provision for the payment thereof on the terms and conditions set forth in the Bond Ordinance.

The bonds of this issue are issued in fully registered form in the denomination of \$5,000 each or any integral multiple thereof provided that no bond shall represent more than one maturity. Upon surrender to the Bond Registrar, bonds are interchangeable for bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. This bond is transferable only on the records maintained by the Bond Registrar for that purpose upon the surrender of this bond by the registered owner hereof or his/her duly authorized agent and only if endorsed in the manner provided hereon, and thereupon a new fully registered bond of like principal amount, maturity and interest rate shall be issued to the transferee in exchange therefor. Such exchange or transfer shall be without cost to the registered owner or transferee. The City may deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of and interest on the bond and for any and all other purposes whatsoever.

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

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with
right of survivorship and not as tenants in common

UNIF GIFT MIN ACT - _____ Custodian _____
(Cust) (Minor)
under Uniform Gifts to Minors
Act _____
(State)

Additional abbreviations may also be used although not listed above.

ASSIGNMENT

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

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF
TRANSFeree
/ _____/

(Please print or typewrite name and address, including zip code of Transferee)

the within bond and all rights thereunder and does hereby irrevocably constitute and appoint _____ of _____, or its successor, as Agent to transfer said bond on the books kept by the Bond Register for registration thereof, with full power of substitution in the premises.

DATED: _____, 19 ____.

SIGNATURE GUARANTEED:

NOTE: The signature of this Assignment must correspond with the name of the registered owner as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

Section 17. Execution of the Bonds. The Bonds shall be signed on behalf of the City by the facsimile signature of the Mayor, shall be attested by the facsimile signature of the City Clerk, and shall have the official corporate seal of the City impressed or imprinted thereon.

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

In case either of the officers of the City who shall have executed the Bonds shall cease to be such officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the City as though those who signed the same had continued to be such officers of the City. Any Bond may also be signed and attested on behalf of the City by such persons as at the actual date of execution of such Bond shall be the proper officers of the City although at the original date of such Bond any such person shall not have been such officer.

Section 18. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Bonds which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with

the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance.

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

Section 19. Application of Proceeds of Bonds. There is has heretofore been created in the office of the City Treasurer a special fund of the City known as the "Storm Drainage Utility Fund" (the "Revenue Fund"). At the time of delivery of the Bonds, the proceeds of the Bonds, with the exception of accrued interest to the date of delivery which shall be deposited in the Bond Fund, shall be paid into the Revenue Fund to be used for the purpose of paying the costs of the Project authorized in Section 2 hereof, including costs necessary and incidental thereto and the costs of issuance of the Bonds, or for the purpose of reimbursing any fund or funds of the City for advances, if any, made to pay such costs. The City Council will amend its current annual budget, if necessary, to include an appropriation for expenditure of funds for the Project. Money on hand in the Revenue Fund may be invested in any legal investment for City funds maturing at times and in such amounts as shall provide funds available to pay the costs of the Project. Investment earnings and receipts shall be deposited in the Revenue Fund.

Section 20. Sale of the Bonds. The Bonds shall be sold to H. Jackson Shirley & Co. Inc., Bellevue, Washington, upon the

terms and under the conditions set forth herein. Said offer is hereby approved, confirmed and accepted.

The appropriate City officials, agents and representatives are hereby authorized and directed to do everything necessary for the execution and delivery of the Bonds, and for the proper use and application of the proceeds of the sale thereof.

Section 21. Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bonds.

Section 22. Additional or Supplemental Ordinances.

A. The City from time to time and at any time may pass an ordinance or ordinances additional hereto, which ordinance or ordinances thereafter shall become a part of this ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City in this ordinance contained other covenants and agreements thereafter to be observed, which shall not adversely affect the interests of the holders of any Bonds, or to surrender any right or power herein reserved to or conferred upon the City.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting, or supplementing any defective provision contained in this ordinance or any supplemental ordinance in regard to matters or questions arising under such ordinance as the City may deem necessary or desirable and not inconsistent with such resolutions and

which shall not adversely affect the interest of the holders of any Bonds.

Any such additional resolutions of the City may be passed without the consent of the holders of any of the Bonds at any time outstanding, notwithstanding any of the provisions of subsection B of this section.

B. With the consent of the holders of not less than sixty-five percent (65%) in aggregate principal amount of the Bonds at the time outstanding, the City may pass an amendatory ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance; provided, however, that no such amendatory ordinance shall:

(1) Extend the fixed maturity of any of the Bonds, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected; or

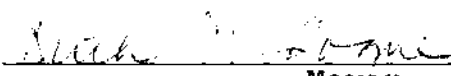
(2) Reduce the aforesaid percentage of bondholders required to approve any such supplemental ordinance, without the consent of the holders of all of the Bonds then outstanding.

It shall not be necessary for the consent of bondholders under this subsection B to approve the particular form of any such proposed amendatory ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

Section 23. Effective Date. This ordinance shall take effect and be in force five days from and after its passage, approval and publication as required by law.

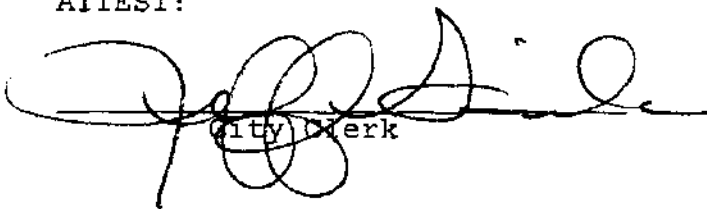
INTRODUCED on January 14, 1985 and FINALLY PASSED by the City Council and APPROVED by the Mayor of the City of Gig Harbor, Washington, at a regular open public meeting thereof, this 28th day of January, 1985.

CITY OF GIG HARBOR, WASHINGTON



Mayor

ATTEST:



City Clerk