CITY OF EDMONDS, WASHINGTON

ORDINANCE NO. 3933

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of one or more series of water and sewer revenue bonds in an aggregate amount not to exceed $16,200,000 for the purpose of providing the funds necessary: (a) to pay all or a portion of the costs of carrying out that plan of additions, (b) to make a deposit to the debt service reserve account, and (c) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; appointing the City's designated representative to approve the final terms of the sale of the bonds; and providing for other related matters.

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

CITY OF EDMONDS, WASHINGTON

ORDINANCE NO. 3933

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of one or more series of water and sewer revenue bonds in an aggregate amount not to exceed $16,200,000 for the purpose of providing the funds necessary: (a) to pay all or a portion of the costs of carrying out that plan of additions, (b) to make a deposit to the debt service reserve account, and (c) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; appointing the City's designated representative to approve the final terms of the sale of the bonds; and providing for other related matters.

THE CITY COUNCIL OF THE CITY OF EDMONDS, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Findings and Determinations. The City Council of the City of Edmonds, Washington (the "City") makes the findings and determinations set forth below. Capitalized terms have the meanings given in Section 2.

(a) *Previously Issued Bonds and Loans.* The City previously issued the 2011 Bonds and by the 2011 Bond Ordinance provided for the issuance of Future Parity Bonds on a parity of lien with the 2011 Bonds if certain Parity Conditions are met at the time those Future Parity Bonds are issued. The City also has several outstanding Loans, which are secured by a pledge of net revenues that is junior and inferior to the pledge securing the 2011 Bonds and the Bonds authorized to be issued in this ordinance.

(b) *Plan of Additions.* The City is in need of funds with which to finance the Plan of Additions, the estimated cost of which is more than $16,200,000, and the City does not have available sufficient funds to pay the costs. The life of the improvements comprising the Plan of Additions is declared to be at least 25 years.

(b) *Authority to Issue Future Parity Bonds.* The City Council finds and declares that the amounts required to have been paid into the Bond Fund for the 2011 Bonds have been paid and maintained as required therein, and that all other Parity Conditions for the issuance of the Bonds as Future Parity Bonds will have been met and satisfied before the Bonds are delivered to the Purchaser.

(c) *Sufficiency of Gross Revenue.* The City Council finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the Water and Sewer Utility at the rates to be charged for services from the Water and Sewer Utility will be more than sufficient to meet all Operating and Maintenance Expense and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the principal of and interest on the 2011 Bonds and the Bonds when due. The City Council declares that in fixing the amounts to be paid into the Bond Fund under this ordinance it has exercised due regard for Operating and Maintenance Expense and has not obligated the City to set aside and pay into the Bond Fund a greater amount of Gross Revenue of the Water and Sewer Utility than in its judgment will be available over and above such Operating and Maintenance Expense.

(d) *Issuance of Bonds.* Based on the foregoing, the City Council finds that it is in the best interest of the City to issue and sell the Bonds to the Purchaser, pursuant to the terms set forth in the Bond Purchase Contract as approved by the City's Designated Representative consistent with this ordinance.

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

(a) "*2011 Bonds*" means the City's outstanding Water and Sewer Improvement and Refunding Revenue Bonds, 2011, authorized by the 2011 Bond Ordinance.

(b) *"2011 Bond Ordinance"* means Ordinance No. 3863, passed on December 6, 2011, authorizing the issuance of the 2011 Bonds.

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

(d) "*Annual Debt Service*" means, for any calendar year, with respect to all Parity Bonds outstanding or maturing in that year, all amounts required to be paid in that year in respect of principal of and interest on those Parity Bonds, less all bond interest payable from the proceeds of any Parity Bonds, and less all Tax Credit Subsidy Payments scheduled to be received in that year. Parity Bonds issued as Variable Interest Rate Bonds shall be assumed to bear interest at a fixed rate equal to the higher of (i) the highest variable rate borne during the preceding 24 months by any then-outstanding Variable Interest Rate Bonds or, (ii) if no Variable Interest Rate Bonds are then outstanding, a rate determined by reference to the index to be used to determine the interest rate on the Future Parity Bonds proposed to be issued or a comparable index.

(e) *"Authorized Denominations"* means $5,000 or any integral multiple thereof within a maturity of a Series.

(f) "*Average Annual Debt Service*" means, as of its date of calculation, the sum of the Annual Debt Service for the current calendar year and the calendar years remaining to the last scheduled maturity of the applicable issue or issues of bonds divided by the number of those years.

(g) "*Beneficial Owner*" means, with respect to a Bond, the owner of any beneficial interest in that Bond.

(h) "*Bond Counsel*" means Foster Pepper PLLC or any other nationally recognized bond counsel firm then representing the City.

(i) "*Bond Fund*" means the City's Water and Sewer Utility Revenue Bond Fund, 2011, created by the 2011 Bond Ordinance for the payment of the principal of and interest on all Parity Bonds.

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

(k) "*Bond Insurer*" or "*Insurer*" means a bond insurance company providing a Bond Insurance Policy or Reserve Securities for any outstanding Parity Bonds.

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

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

(n) "*Bond Registrar*" means the Fiscal Agent.

(o) "*Bonds*" means the bonds authorized to be issued by this ordinance.

(p) "*City*" means the City of Edmonds, Washington.

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

(r) "*Construction Fund*" means the City's 412 Construction Fund.

(s) "*Coverage Requirement*" means for any calendar year, an amount of Adjusted Net Revenue at least equal to 1.25 times the Annual Debt Service in that year on all then-outstanding Parity Bonds. For purposes of calculating the Coverage Requirement, ULID Assessments due in that year and not delinquent shall be subtracted from Annual Debt Service.

(t) "*Designated Representative*" means the officer of the City appointed in Section 5 of this ordinance to serve as the City's designated representative in accordance with RCW 39.46.040(2).

(u) "*DTC*" means The Depository Trust Company, New York, New York.

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

(w) "*Finance Director*" means the Finance Director of the City or any other City official who succeeds to the duties now delegated to that office, or the designee of such officer.

(x) "*Financial Advisor*" means A. Dashen and Associates of Bellevue, Washington, or any other Financial Advisor then appointed and acting as financial advisor to the City.

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

(z) "*Future Parity Bond Authorizing Ordinance*" means an ordinance of the City authorizing the issuance and sale and establishing the terms of Future Parity Bonds.

(aa) "*Future Parity Bonds*" means all revenue obligations and other obligations of the City for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of the principal of and interest on which constitutes a charge or lien on the Net Revenue and ULID Assessments equal in rank with the charge and lien upon such revenue and assessments required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Parity Bonds.

(bb) "*Government Obligations*" means those obligations described under the definition of government obligations in RCW 39.53.010(4), as it now reads or hereafter may be amended, and which are otherwise lawful investments for the City.

(cc) "*Gross Revenue*" means all of the earnings and revenues received by the City from the maintenance and operation of the Water and Sewer Utility, including but not limited to: revenues from the sale, lease or furnishing of commodities, services, properties or facilities; all earnings from the investment of money in the Bond Fund that are deposited into the Principal and Interest Account; earnings from the investment of money in any maintenance fund or similar fund; all connection and capital improvement charges collected for the purpose of defraying the cost of capital facilities of the Water and Sewer Utility; and withdrawals from the Rate Stabilization Account. However, the Gross Revenue shall not include: (a) revenues from City taxes; (b) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the Water and Sewer Utility (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (c) income and revenue which may not legally be pledged for revenue bond debt service; (d) improvement district assessments including ULID Assessments; (e) federal or state grants, and gifts from any source allocated to capital projects; (f) payments under bond insurance or other credit enhancement policy or device; (g) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (h) proceeds from the sale of Water and Sewer Utility property; (i) earnings on bond

proceeds in any construction fund or bond redemption fund; (j) deposits to the Rate Stabilization Account; (k) Tax Credit Subsidy Payments; or (l) revenue from any Separate Utility System.

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

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

(ff) "*Letter of Representations*" means the Blanket Issuer Letter of Representations dated August 6, 1996, between the City and DTC, as it may be amended from time to time, and any successor or substitute letter relating to the operational procedures of the Securities Depository.

(gg) "*Loans*" means any State of Washington Public Works Trust Fund loans, State Drinking Water Revolving Fund loans, or similar loans entered into by the City to fund improvements to the Water and Sewer Utility, the payment of which is a claim on the Net Revenue that is junior and inferior to the lien and charge of the Parity Bonds.

(hh) "*Maximum Annual Debt Service*" means, as of the date of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current fiscal year or any future fiscal year with respect to all outstanding Parity Bonds.

(ii) "*Maximum Interest Rate*" means, with respect to any Variable Interest Rate Bond, a numerical rate of interest that is the maximum rate of interest those Future Parity Bonds may bear at any time.

(jj) "*MSRB*" means the Municipal Securities Rulemaking Board.

(kk) "*Net Revenue*" means the Gross Revenue, less Operating and Maintenance Expenses.

(ll) "*Operating and Maintenance Expenses*" means all reasonable expenses incurred by the City in causing the Water and Sewer Utility to be operated and maintained in good repair, working order and condition, including payments made pursuant to contract for such service to any other municipal corporation or private entity for sewage treatment and disposal, water supply and distribution or stormwater, or other utility service (if the City combines such service into the Water and Sewer Utility), and including budget charges for the City's administration expenses allocated to the Water and Sewer Utility, but shall not include depreciation or any taxes (or charges in lieu of taxes) levied or imposed by the City.

(mm) "*Outstanding Parity Bonds*" means any Parity Bonds outstanding at the time of issuance of any Future Parity Bonds. As of the date of issuance of the Bonds, the Outstanding Parity Bonds includes the 2011 Bonds.

(nn) "*Owner*" means, without distinction, the Registered Owner and the Beneficial Owner.

(oo) *"Parity Bond Authorizing Ordinance(s)"* means, as applicable to each series of Parity Bonds, the 2011 Bond Ordinance, this ordinance and any Future Parity Bond Authorizing Ordinance.

(pp) "*Parity Bonds*" means any Outstanding Parity Bonds, the Bonds and Future Parity Bonds.

(qq) "*Parity Conditions*" means the conditions precedent to the issuance of Future Parity Bonds, originally set forth in Exhibit A of the 2011 Bond Ordinance, and set forth in Exhibit B to this ordinance, which is incorporated by this reference.

(rr) "*Permitted Investments*" means investments that are legal investments for the City at the time of such investment.

(ss) "*Plan of Additions*" means the system or plan of additions and improvements to and betterments and extensions of the Water and Sewer Utility specified, adopted and ordered to be carried out by Section 3 of this ordinance.

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

(uu) "*Purchaser*" means the corporation, firm, association, partnership, trust, or other legal entity or group of entities selected by the Designated Representative to serve as underwriter for a negotiated sale or awarded as the successful bidder in a competitive sale of any Series of the Bonds.

(vv) "*Rate Stabilization Account*" means the account of that name created for the purposes described in Section 16.

(ww) "*Rating Agency*" means a nationally recognized rating agency or agencies, if any, providing a rating on the Bonds at the request of the City.

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

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

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

(aaa) "*Reserve Securities*" means, in lieu of cash and investments, any bond insurance, collateral, security, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on Parity Bonds, issued by an institution which has been assigned a credit rating by a Rating Agency at the time that such Reserve Securities is provided, in the two highest rating categories without regard to gradations within those categories (i.e., Aaa or Aa).

(bbb) "*Reserve Requirement*" means for all Parity Bonds, an amount equal to the lesser of (i) Maximum Annual Debt Service, (ii) 125% of Average Annual Debt Service, or (iii) 10% of the original proceeds of the then-outstanding Parity Bonds. The Reserve Requirement may be met by a deposit of cash, Reserve Securities, or any combination of the foregoing, and the amount payable under any Reserve Securities shall be credited against the amount otherwise required to be deposited into the Reserve Account.

(ccc) *"Rule 15c2-12"* means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

(ddd) "*SEC*" means the United States Securities and Exchange Commission.

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

(fff) "*Separate Utility System*" means any water supply, sewage collection or treatment, stormwater management or other utility service or facilities that may be created, acquired or constructed by the City as provided in Section 17 of this ordinance.

(ggg) "*Series of the Bonds*" or "*Series*" means a series of the Bonds issued pursuant to this ordinance.

(hhh) "*Sewer System*" means the sanitary sewage collection and disposal system of the City, also referred to as the sewer utility.

(iii) "*State*" means the State of Washington.

(jjj) "*Stormwater System*" means the stormwater management utility combined into the Water and Sewer Utility pursuant to chapter 7.60 of the Edmonds City Code.

(kkk) "*System of Registration*" means the system of registration for the City's bonds and other obligations set forth in Ordinance No. 2451 of the City.

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

(mmm)"*Tax Credit Subsidy Payment*" means the amounts which the City expects to receive as a tax credit payable by the United States Treasury to the City under Section 6431 of the Code (or under similar provisions of the Code providing for "direct-pay" tax credit bonds), in respect of any bonds issued as Tax Credit Subsidy Bonds.

(nnn) *"Tax-Exempt Bonds"* means any Series issued on a tax-exempt basis.

(ooo) "*Term Bond*" means those Bonds that are designated as term bonds in the Parity Bond Authorizing Ordinance(s).

(ppp) "*ULID*" means any utility local improvement district now existing or hereafter created for the acquisition or construction of additions, extensions or betterments of any portion of the Water and Sewer Utility, which additions, extensions or betterments are financed through the issuance of Parity Bonds. As used in this ordinance, the term ULID does not include any utility local improvement district created for the financing of additions, extensions or betterments by methods other than the issuance of Parity Bonds.

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

(rrr) "*Undertaking*" means the undertaking to provide continuing disclosure entered into pursuant to Section 21 of this ordinance.

(sss) "*Variable Interest Rate*" means a variable interest rate or rates to be borne by a series of Future Parity Bonds or any one or more maturities within a series of Future Parity Bonds. The method of computing such a variable interest rate (or parameters with respect thereto) shall be specified in the ordinance authorizing such Future Parity Bonds, which ordinance also shall specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

(ttt) "*Variable Interest Rate Bonds*" means, for any period of time, Future Parity Bonds which bear a Variable Interest Rate during that period, except that Future Parity Bonds the interest rate or rates on which shall have been fixed for the remainder of the term thereof no longer shall be deemed to be Variable Interest Rate Bonds.

(uuu) "*Water and Sewer Utility*" means the combined utility, as described in chapter 7.60 of the Edmonds City Code, including the component Water System, Sewer System and Stormwater System, together with all additions thereto and betterments and extensions thereof at any time made, and any other utility systems hereafter combined with the Water and Sewer Utility.

(vvv) "*Water and Sewer Utility Fund*" means, together, the Water Fund, the Sewer Fund and the Stormwater Fund, each of which has previously been established by the City.

(www) "*Water System*" means the system of water supply and transmission of the City, also referred to as the water utility.

Section 3. Adoption of Plan of Additions. The City specifies, adopts and orders the carrying out of the projects described in Exhibit C as a system or plan of additions to and betterments and extensions of the Water and Sewer Utility. The Plan of Additions shall be carried out in accordance with the plans and specifications therefor prepared by the City's engineers and consulting engineers. The City Council may modify the details of the Plan of Additions where, in its judgment, it appears advisable if such modifications do not substantially alter the purposes of that system or plan. The cost of the Plan of Additions, including the cost of issuance and sale of the Bonds, shall be paid from the proceeds of the Bonds and from other money available to the Water and Sewer Utility.

Section 4. Purpose and Authorization of the Bonds. The City is authorized to borrow money on the credit of the City and issue water and sewer revenue bonds evidencing indebtedness in the amount of not to exceed $16,200,000 to provide the funds necessary (1) to carry out the Plan of Additions, (2) make a deposit to the Reserve Account, and (3) to pay the costs of issuance of the Bonds. The Bonds shall be allocated to paying the respective costs of the Plan of Additions in such order of time as the City determines is advisable and practicable.

Section 5. Description of the Bonds; Appointment of Designated Representative. The Finance Director is appointed as the Designated Representative and is authorized and directed to conduct the sale of the Bonds in the manner and upon the terms deemed most advantageous to the City, and to approve the Final Terms of the Bonds, with such additional terms and covenants as the Designated Representative deems advisable, within the parameters set forth in Exhibit A, which is attached to this ordinance and incorporated by this reference.

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

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

(b) *Bond Registrar; Duties*. The Fiscal Agent is appointed as initial Bond Registrar. The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and the System of Registration. The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on each Bond. The Bond Registrar may become an Owner with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Owners.

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

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

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

Section 7. Form and Execution of Bonds.

(a) *Form of Bonds; Signatures and Seal.* Each Bond shall be prepared in a form consistent with the provisions of this ordinance and State law. Each Bond shall be signed by the Mayor and the City Clerk, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon. If any officer whose manual or facsimile signature appears on a Bond ceases to be an officer of the City authorized to sign bonds before the Bond bearing his or her manual or facsimile signature is authenticated by the Bond Registrar, or issued or delivered by the City, that Bond nevertheless may be authenticated, issued and delivered and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on its Issue Date.

(b) *Authentication*. Only a Bond bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance: "Certificate Of Authentication. This Bond is one of the fully registered City of Edmonds, Washington, Water and Sewer Revenue Bonds, 2013." The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

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

Section 9. Redemption Provisions and Open Market Purchase of Bonds.

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

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

(c) *Selection of Bonds for Redemption; Partial Redemption*. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the City shall select the Series and maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and

the Bond Registrar shall select all other Bonds to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

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

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

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

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

Section 10. Refunding or Defeasance of the Bonds. The City may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (a) paying when due the principal of and interest on any or all of the Bonds (the "defeased Bonds"); (b) redeeming the defeased Bonds prior to their maturity; and (c) paying the costs of the refunding or defeasance. If the City sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the "trust account"), money and/or Government Obligations maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. Thereafter, the Owners of defeased Bonds shall

have the right to receive payment of the principal of and interest on the defeased Bonds solely from the trust account and the defeased Bonds shall be deemed no longer outstanding. In that event, the City may apply money remaining in any fund or account (other than the trust account) established for the payment or redemption of the defeased Bonds to any lawful purpose, subject only to the rights of the Owners of any other Parity Bonds then outstanding.

Unless otherwise specified by the City in a refunding or defeasance plan, notice of refunding or defeasance shall be given, and selection of Bonds for inclusion in a refunding or defeasance shall be conducted, in the manner prescribed in this ordinance for the redemption of Bonds.

Section 11. Failure To Redeem Bonds. If the principal of any Bond is not paid when the Bond is properly presented at its maturity date or date fixed for redemption, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Section 12. Security for the Bonds; Bond Fund.

(a) *Pledge of Net Revenues.* The Net Revenue and ULID Assessments are pledged irrevocably to the payment of the amounts required to be paid into the Bond Fund for the payment of the Bonds and all Future Parity Bonds. This pledge shall constitute a lien and charge upon the Net Revenue and ULID Assessments prior and superior to any other charges whatsoever.

(b) *Bond Fund; Deposits to Bond Fund.* The Bond Fund has been established within the Water and Sewer Utility Fund as a special fund of the City and divided into two accounts: the Principal and Interest Account, and the Reserve Account.

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

(1) Into the Principal and Interest Account, before each interest payment date of the Parity Bonds, an amount that will be sufficient, together with other money on deposit therein, to pay the interest on the Parity Bonds on the next succeeding interest payment date; and

(2) Into the Principal and Interest Account, before each principal payment date of the Parity Bonds (including any mandatory redemption requirement), an amount that will be sufficient, together with other money on deposit therein, to pay the principal of the Parity Bonds on the next succeeding Principal Payment Date, including mandatory redemption amounts due on that date with respect to any Term Bonds; and

(3) Into the Reserve Account, an amount sufficient that the amount on deposit in the Reserve Account satisfies the Reserve Requirement for the Parity Bonds in the time and manner required by this ordinance.

When the total amount on deposit in the Bond Fund equals the total outstanding amount of principal and interest for all Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund. The Finance Director may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of Parity Bonds.

(c) *The Reserve Account; Reserve Requirement.* The City covenants and agrees that it will at all times maintain in the Reserve Account an amount (including the value of all Reserve Securities deposited therein) equal to the Reserve Requirement, except for withdrawals as authorized in this subsection, until there is a sufficient amount in the Principal and Interest Account and Reserve Account to pay the principal of and interest on all outstanding Parity Bonds, at which time the money in the Reserve Account may be used to pay any such principal and interest so long as the money remaining on deposit in the Reserve Account is not less than the Reserve Requirement calculated based on the remaining outstanding Parity Bonds. The Reserve Requirement shall be deemed satisfied by any combination of Parity Bond proceeds, Reserve Securities or other legally available money equal to the Reserve Requirement, or by the deposit of available funds of the City in approximately equal annual installments so that the Reserve Requirement is funded no later than three years after the issuance of any Future Parity Bonds.

If there is a deficiency in the Principal and Interest Account in the Bond Fund to make the next upcoming payment of either principal or interest, that deficiency shall be made up from the Reserve Account by the withdrawal of amounts necessary for that purpose. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from the next available payments of Net Revenue and ULID Assessments after making necessary provision for the required payments into the Principal and Interest Account.

(d) *Investment of Money Deposited in Bond Fund.* All money in the Bond Fund may be kept in cash; deposited with an institution (as permitted by law) in an amount in each institution not greater than the amount insured by any department or agency of the United States Government; or invested in Permitted Investments or other legal investments permitted to the City maturing not later than the date when needed (for investments in the Principal and Interest Account) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Account). Income from investments in the Principal and Interest Account shall be deposited in that account. Income from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirement, and thereafter shall be deposited in the Principal and Interest Account or used for other Water and Sewer Utility purposes.

(e) *Action to Compel Payments.* If the City fails to set aside and pay into the Bond Fund the amounts set forth above, the owner of any of the outstanding Parity Bonds may bring action against the City and compel the setting aside and payment.

Section 13. Deposit of Bond Proceeds. On the Issue Date, proceeds of the Bonds in an amount sufficient to satisfy the Reserve Requirement shall be deposited into the Reserve Account. The remaining proceeds of the Bonds shall be deposited in the Construction Fund and be used to pay the costs of issuance and sale of the Bonds and the costs of carrying out the Plan of Additions. Until needed to pay such costs, the City may invest those proceeds temporarily in any legal investment, and the investment earnings shall be retained in the Construction Fund and used for the purposes of that fund, except that earnings subject to a federal tax or rebate requirement (if applicable) may be withdrawn from the Construction Fund and used for those tax or rebate purposes.

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

(1) To pay Operating and Maintenance Expenses.

(2) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds.

(3) To make when due the required payments into the Principal and Interest Account in respect of principal of (and premium on, if any) the Parity Bonds, whether at maturity or pursuant to redemption prior to maturity.

(4) To make when due all payments required to be made into the Reserve Account.

(5) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer in any priority not inconsistent with this ordinance, which the City may hereafter establish by ordinance.

(6) To make when due the required payments to be made into any revenue bond, note warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay and secure the payment of any revenue obligations of the Water and Sewer Utility having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the Parity Bonds.

(7) Without priority, to retire by redemption or to purchase in the open market any outstanding Parity Bonds or junior lien obligations, to make necessary betterments and replacements of or repairs, additions or extensions to the Water and Sewer Utility, to make deposits into the Rate Stabilization Account, or for any other lawful purpose.

Section 15. Additional Covenants. So long as any Parity Bonds are outstanding, the City covenants and agrees with the owner of each Bond at any time outstanding as follows:

(a) *Maintenance and Operation.* The City will at all times maintain, preserve and keep the properties of the Water and Sewer Utility in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be

operated the properties of the Water and Sewer Utility and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) *Establishment and Collection of Rates and Charges*. The City will establish, maintain and collect rates and charges for all services and facilities provided by the Water and Sewer Utility which will be fair and nondiscriminatory. The City will adjust those rates and charges from time to time so that: (i) the Gross Revenue will at all times be sufficient to (A) pay all Maintenance and Operation Expenses on a current basis, (B) pay when due all amounts that the City is obligated to pay into the Bond Fund and the accounts therein, (C) pay all taxes (or payments in lieu thereof), assessments or other governmental charges lawfully imposed on the Water and Sewer Utility and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and (ii) the Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement.

(c) *Sale or Disposition of Utility Property.* The City will not sell, lease, mortgage or in any manner encumber or dispose of all the property of the Water and Sewer Utility unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of and interest on all Parity Bonds then outstanding. Further, the City will not sell, lease, mortgage, or in any manner encumber or dispose of (each, a "disposition") any part of the property of the Water and Sewer Utility that is used, useful and material to the operation thereof (the "affected portion") unless provision is made for replacement thereof or for payment into the Bond Fund of an amount which shall bear the same ratio to the amount of Parity Bonds then outstanding (less the amount of cash and investments in the Bond Fund and the accounts therein) as (i) the Net Revenue from affected portion of the Water and Sewer Utility for the twelve months preceding such disposition bears to (ii) the Net Revenue from the entire Water and Sewer Utility for the same period. Any money paid into the Bond Fund as a result of such a disposition shall be used to retire that proportion of then-outstanding Parity Bonds at the earliest possible date.

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

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

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

(g) *Insurance*. The City will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the Water and Sewer Utility as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry

adequate public liability insurance at all times. The City may self insure or participate in a joint intergovernmental insurance pool or similar plan, and the cost of that insurance or self insurance shall be considered a part of Operating and Maintenance Expenses.

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

Section 16. Rate Stabilization Account. The Rate Stabilization Account has been previously established within the Water and Sewer Utility Fund. Deposits and withdrawals shall be made in accordance with this section at any time up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Net Revenue for that fiscal year, as follows:

(a) *Deposits to the Rate Stabilization Account.* The City may at any time, as determined by the Finance Director and as consistent with the covenants contained in this ordinance, deposit into the Rate Stabilization Account amounts of Gross Revenue and any other money received by the Water and Sewer Utility and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. However, no deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

(b) *Withdrawals from the Rate Stabilization Account.* The City may withdraw money from the Rate Stabilization Account at any time upon authorization of the City Council (which may be by motion, resolution or ordinance) for inclusion in the Adjusted Net Revenue for any fiscal year of the Water and Sewer Utility, except that the total amount withdrawn from the Rate Stabilization Account in any fiscal year may not exceed the Annual Debt Service in that year. Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Adjusted Net Revenue unless and until withdrawn from that account.

Section 17. Separate Utility Systems. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, sewer service, water, sewage or stormwater transmission, treatment or other commodity or utility service. The revenue of that Separate Utility System, and any utility local improvement district assessments payable solely with respect to improvements to a Separate Utility System, shall not be included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the Separate Utility System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a Separate Utility System except that the Net Revenue may be pledged on a basis subordinate to the lien of the Parity Bonds.

Section 18. Sale and Delivery of the Bonds; Parity Certificate.

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

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

(c) *Procedure for Competitive Sale.* If the Designated Representative determines that a Series of the Bonds is to be sold by competitive sale, the Designated Representative shall cause the preparation of an official notice of bond sale setting forth parameters for the Final Terms and any other bid parameters that the Designated Representative deems appropriate consistent with this ordinance. Bids for the purchase of each Series of the Bonds shall be received at such time or place and by such means as the Designated Representative directs. On the date and time established for the receipt of bids, the Designated Representative (or the designee of the Designated Representative) shall open bids and shall cause the bids to be mathematically verified. The Designated Representative is authorized to award, on behalf of the City, the winning bid and accept the winning bidder's offer to purchase that Series of the Bonds, with such adjustments to the aggregate principal amount and principal amount per maturity as the Designated Representative deems appropriate, consistent with the terms of this ordinance. The Designated Representative may reject any or all bids submitted and may waive any formality or irregularity in any bid or in the bidding process if the Designated Representative deems it to be in the City's best interest to do so. If all bids are rejected, that Series of the Bonds may be sold pursuant to negotiated sale or in any manner provided by law as the Designated Representative determines is in the best interest of the City, within the parameters set forth in this ordinance.

(d) *Parity Certificate.* At the time of issuance of the Bonds, the Designated Representative shall cause to be executed and have on file a certificate of coverage as required for the issuance of Future Parity Bonds under Section 20 of the 2011 Bond Ordinance.

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

Section 19. Parity Conditions. The City reserves the right to issue Future Parity Bonds which will constitute a charge and lien upon the Net Revenue and ULID Assessments on a parity with the Bonds and the Outstanding Parity Bonds if the Parity Conditions are met and complied

with at the time of the issuance of those Future Parity Bonds. Nothing contained in the Parity Conditions shall prevent the City from issuing revenue obligations having a lien on the Net Revenue that is junior to the lien thereon that secures the Parity Bonds, or from pledging to pay into a bond redemption fund or account for such junior lien obligations assessments (including interest and penalties thereon) in any utility local improvement district that are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such junior lien obligations. Neither shall anything contained in this ordinance prevent the City from issuing revenue obligations to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Section 20. Tax Matters.

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

(b) *Post-Issuance Compliance.* The Finance Director is authorized and directed to review and update the City's written procedures to facilitate compliance by the City with the covenants in this ordinance and the applicable requirements of the Code that must be satisfied after the Issue Date to prevent interest on the Tax-Exempt Bonds from being included in gross income for federal tax purposes.

(c) *Designation of Bonds as "Qualified Tax-Exempt Obligations."* The Tax-Exempt Bonds may be designated as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code, if the following conditions are met:

(1) the Tax-Exempt Bonds are not "private activity bonds" within the meaning of Section 141 of the Code;

(2) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) that the City and any entity subordinate to the City (including any entity that the City controls, that derives its authority to issue tax-exempt obligations from the City, or that issues tax-exempt obligations on behalf of the City) will issue during the calendar year in which the Tax-Exempt Bonds are issued will not exceed $10,000,000; and

(3) the amount of tax-exempt obligations, including the Tax-Exempt Bonds, designated by the City as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bonds are issued does not exceed $10,000,000.

Section 21. Official Statement; Continuing Disclosure.

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

(b) *Approval of Official Statement.* The City approves the preparation of a final official statement for each Series of the Bonds to be sold to the public in the form of the preliminary official statement, with such modifications and amendments as the Designated Representative deems necessary or desirable, and further authorizes the Designated Representative to execute and deliver such final official statement to the Purchaser. The City authorizes and approves the distribution by the Purchaser of that final official statement to purchasers and potential purchasers of the Bonds.

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

Section 22. Amendatory Ordinances.

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

(b) The City, from time to time, and at any time, without the consent of or notice to the Owners of the Bonds, may pass amendatory ordinances as follows:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owner of any Parity Bonds;

(2) To impose upon the Bond Registrar (with its consent) for the benefit of the registered owners of the Parity Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as theretofore in effect;

(3) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as theretofore in effect;

(4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(6) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the registered owners of the Parity Bonds and which does not involve a change described in subsection (c) of this section; and

(7) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Bonds from federal income taxation.

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

(1) Registered owners of not less than 50% in aggregate principal amount of the Parity Bonds then outstanding shall have the right from time to time to consent to the passage of any amendatory ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance. However, consent by the registered owners of all the Bonds then outstanding is required for any amendatory ordinance authorizing: (i) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount of redemption price of any outstanding Bond or a change in the redemption price of any outstanding Bond or a change in the method of determining the rate of interest thereon; (ii) a preference of priority of any Bond or Bonds or any other bond or bonds; or (iii) a reduction in the aggregate principal amount of Bonds.

(2) Any amendatory ordinance passed for any of the purposes of this subsection (c), shall not become effective except in accordance with this subsection (c)(2). Upon passage of any such amendatory ordinance, the City shall cause notice of the proposed ordinance to be given by first class United States mail to all registered owners of the then outstanding Parity Bonds and to the Rating Agency. Such notice shall briefly describe the proposed ordinance and shall state that a copy is available from the Finance Director for inspection. The amendatory ordinance shall become effective in substantially the form described in the notice only if within two years after mailing of such notice, the City has received (i) the required consents, in writing, of the registered owners of the Parity Bonds (or of the Bonds, as applicable) and (ii) an opinion of Bond Counsel stating that such amendatory ordinance is permitted by this ordinance; that upon the effective date thereof, it will be valid and binding upon the City in accordance with its terms;

and its passage will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(3) If registered owners of not less than the percentage of Parity Bonds (or Bonds, as applicable) required by this subsection (c) have consented, no owner of the Parity Bonds shall have any right to object to the passage of the ordinance (or to any of the terms and provisions contained therein or the operation thereof), or in any manner to question the propriety of the passage thereof, or to enjoin or restrain the City from passing, or from taking any action pursuant to, the same.

(d) Upon the effective date of any amendatory ordinance passed pursuant to the provisions of this Section 22, this ordinance shall be amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all Registered Owners of Bonds then outstanding, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such amendments.

Section 23. General Authorization and Ratification. The Designated Representative and other appropriate officers of the City are severally authorized to take such actions and to execute such documents as in their judgment may be necessary or desirable to carry out the transactions contemplated in connection with this ordinance, and to do everything necessary for the prompt delivery of the Bonds to the Purchaser and for the proper application, use and investment of the proceeds of the Bonds. All actions taken prior to the effective date of this ordinance in furtherance of the purposes described in this ordinance and not inconsistent with the terms of this ordinance are ratified and confirmed in all respects.

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

Section 25. Effective Date of Ordinance. This ordinance shall take effect and be in force from and after its passage and five days following its publication as required by law and is not subject to referendum.

PASSED by the City Council and APPROVED by the Mayor of the City of Edmonds, Washington, at an open public meeting thereof, this 16th day of July, 2013.

Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:

FOSTER PEPPER PLLC
Bond Counsel

Filed with the City Clerk:	07-12-2013
Passed by the City Council:	07-16-2013
Published:	07-21-2013
Effective Date:	07-26-2013

51294014.5

PARAMETERS FOR FINAL TERMS OF THE BONDS

(i)	Principal Amount.	The Bonds may be issued in one or more Series and shall not exceed the aggregate principal amount of $16,200,000, and may be issued as either taxable or tax-exempt obligations.
(ii)	Date or Dates.	Each Bond shall be dated the Issue Date, which date may not be later than December 31, 2014.
(iii)	Denominations, Name, etc.	The Bonds shall be issued in Authorized Denominations and shall be numbered separately in the manner and shall bear any name and additional designation as deemed necessary or appropriate by the Designated Representative.
(iv)	Interest Rate(s).	Each Bond shall bear interest at a fixed rate per annum (computed on the basis of a 360-day year of twelve 30-day months) from the Issue Date or from the most recent date for which interest has been paid or duly provided for, whichever is later. One or more rates of interest may be fixed for the Bonds. No rate of interest for any Bond may exceed 5.5%, and the true interest cost to the City for each Series of the Bonds may not exceed 5.5%.
(v)	Payment Dates.	Interest shall be payable at fixed rates semiannually on dates acceptable to the Designated Representative, commencing no later than one year following the Issue Date. Principal payments shall commence on a date acceptable to the Designated Representative and shall be payable at maturity or in mandatory redemption installments on dates acceptable to the Designated Representative.
(vi)	Final Maturity.	The Bonds shall mature no later than December 1, 2039.
(vii)	Redemption Rights.	The Designated Representative may approve in the Bond Purchase Contract provisions for the optional and mandatory redemption of Bonds, subject to the following:

(1) Optional Redemption. Any Bond may be designated as being (A) subject to redemption at the option of the City prior to its maturity date on the dates and at the prices set forth in the Bond Purchase Contract; or (B) not subject to redemption prior to its maturity date. If a Bond is subject to optional redemption

prior to its maturity, it must be subject to such redemption on one or more dates occurring not more than 10½ years after the Issue Date.

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

(viii) Price. The purchase price for each Series of the Bonds may not be less than 96% or more than 125% of the stated principal amount of that Series.

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

PARITY CONDITIONS FOR ISSUANCE OF FUTURE PARITY BONDS

The City may issue Future Parity Bonds on a parity with the Bonds if and only if the following conditions are met and complied with at the time of issuance of those proposed Future Parity Bonds:

(a) At the time of issuance of such Future Parity Bonds, there may not be any deficiency in the Principal and Interest Account or the Reserve Account of the Bond Fund.

(b) The Future Parity Bond Authorizing Ordinance must require that all ULID Assessments levied in connection with those Future Parity Bonds will be paid directly into the Bond Fund.

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

(d) The Future Parity Bond Authorizing Ordinance must provide for the deposit into the Reserve Account of amounts necessary to comply with the Reserve Requirement and Section 12 of this ordinance.

(e) At the time of the issuance of such Future Parity Bonds, the City shall have on file, either:

(1) A certificate from an Independent Utility Consultant showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 consecutive months shall be used, and the following adjustments may be made to the historical net operating revenue:

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

(ii) Revenue may be added from customers actually added to the Water and Sewer Utility subsequent to the 12-month base period;

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

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

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

(2) A certificate of the Finance Director showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Finance Director shall assume that (A) the proposed Future Parity Bonds will remain outstanding to their scheduled maturities, and (B) any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding. The Finance Director shall not make any of the adjustments referred to above.

However, if the Future Parity Bonds are being issued for the sole purpose of refunding then-outstanding Parity Bonds (including paying costs of issuance and providing for the Reserve Requirement), no coverage certification is required if, as result of the issuance of those Future Parity Bonds, (a) the Annual Debt Service on the Future Parity Bonds to be issued is not increased by more than $5,000 over the Annual Debt Service for that year of the bonds being refunded, and (b) the various annual maturities of the refunding Future Parity Bonds will not extend more than one year longer than the Parity Bonds being refunded. Furthermore, no certificate shall be required in connection with the issuance of Future Parity Bonds if the amount of such bonds proposed to be issued does not exceed the ULID Assessments levied in support of such Future Parity Bond issue by more than $5,000 plus any amount of the proceeds of such Future Parity Bonds deposited in the Reserve Account as capitalized reserve.

DESCRIPTION OF PLAN OF ADDITIONS

Water System Plan of Additions:

A summary of the planned additions and betterments to the water utility is as follows:

Water System Plan of Additions. The existing water system was analyzed in 2010 to determine its ability to meet current regulations and the City's own policies and design criteria. Several analyses were performed to evaluate all components of the water system under both existing and future water demand conditions. The results of the analyses were used to identify and size improvements for the water system. The City will use proceeds of the Bonds to fund a portion of these improvements. A summary of the planned improvements are as follows:

- Recoating and related improvements to the Five Corners 3.0 MG Reservoir and 1.5 MG Reservoir.
- Pressure relief improvements needed to protect the water system from potentially high pressure that could occur during certain events.
- Replacement of several pressure reducing valve stations and improvements to other stations to ensure long term operation and reliability.
- Repair and replacement of water mains due to age and undesirable pipe material and a need to improve flows.

Sewer System Plan of Additions:

A summary of the planned additions and betterments to the sewer utility are as follows:

Sewer System Capital Improvements. The existing sewer system was analyzed in 2006 to determine its ability to meet current regulations and the City's own policies and design criteria. Several analyses were performed to evaluate all components of the system under both existing and future demand conditions. The results of the analyses were used to identify and size improvements and upgrades for the sewer system. The City will use proceeds of the Bonds to fund a portion of these improvements. A summary of the planned improvements are as follows:

- Improvements to lift stations 3, 4, 5, 9, 10, 11, 12, 14, & 15.
- Repair and replacement of sewer pipe sections needed due to age and undesirable pipe material and a need to improve flows.
- Rehabilitation of existing pipe with "cured in place pipe" to address pipe integrity problems in the sewer pipe system.
- Wastewater Treatment Plant Project, including:
    - Switchgear replacement project;
    - Incinerator regulatory compliance improvements;

- Control system equipment upgrades;
- Facility repair and improvements;
- Clarifier coating;
- Offsite flow telemetry improvements;
- In-plant equipment replacement program;
- Solids processing equipment replacement; and
- Variable frequency drive installation/replacement.

Stormwater System Plan of Additions:

A summary of the planned additions and betterments to the stormwater management utility are as follows:

Stormwater System Capital Improvements. The stormwater system capital improvement program includes the design, permitting, and construction of flood control and water quality improvement projects. These include projects that will replace pipes, catch basins, and other infrastructure in undersized systems or in those that have reached their useful life; adding stormwater management systems to areas that were annexed from the County in the late 1990s that either had no systems or substandard systems; and City capital projects to build or expand treatment, waste management, and other facilities to meet the water quality requirements of the Western Washington Phase II Municipal Stormwater Permit administered by the State Department of Ecology. The City will use proceeds of the Bonds to fund a portion of these improvements. A summary of the planned improvements are as follows:

- SW Edmonds Basin Study Project #3 – Storm drainage improvements and connect sumps on 238th Street SW to Hickman Park Infiltration System.
- Edmonds Marsh Willow Creek Daylighting Pre-design.
- Dayton Street & State Route 104 Drainage Improvement Pre-design and Permitting.
- Perrinville Creek Stormwater Flow Reduction Retrofit Study and Pre-design.
- Drainage improvements for:
- Lake Ballinger Associated Projects.
- Dayton Street between 6th and 8th Avenues
- 88th Avenue W & 194th Street SW
- Additional City-wide Drainage Improvements
- Low Impact Development Retrofit Projects.
- Rehabilitation of Northstream Pipe Under Puget Drive
- Goodhope Pond Basin Study
- Storm System Video Assessment
- Stormwater Fund Contribution to Transportation Projects for Drainage Infrastructure.

Form of

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

City of Edmonds, Washington
Water and Sewer Revenue Bonds, 2013

The City of Edmonds, Washington (the "City") makes the following written Undertaking for the benefit of the holders of the above-referenced bonds (the "Bonds"), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance No. 3933.

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

(i) Annual financial information and operating data of the type included in the final official statement for the Bonds and described in subsection (2) 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 paragraph (b).

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

(i) Shall consist of (1) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to State local governmental units such as the City, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (2) [references to the specific sections of the Official Statement to be inserted upon publication of the Official Statement];

(ii) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2013; and

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

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

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

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

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated

person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take action to compel the City or other obligated person to comply with this Undertaking, including seeking an order of specific performance from an appropriate court.

(g) Designation of Official Responsible to Administer Undertaking. The Finance Director of the City or his or her designee is authorized to take such further actions as may be necessary, appropriate or convenient to carry out this Undertaking in accordance with Rule 15c2-12, including, without limitation, the following actions:

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

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

(iii) Determining whether any person other than the City is an "obligated person" within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person in accordance with Rule 15c2-12;

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

(v) Effecting any necessary amendment of the Undertaking.

CERTIFICATION

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

1. The attached copy of Ordinance No. 3933 (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a regular meeting of the City Council of the City held at the regular meeting place thereof on July 16, 2013, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect five days after publication in the City's official newspaper; and

2. A quorum of the members of the City Council was present throughout the meeting and a majority of its members voted in the proper manner for the passage of the Ordinance.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th day of July, 2013.

CITY OF EDMONDS, WASHINGTON

Sandra S. Chase

City Clerk

Affidavit of Publication

STATE OF WASHINGTON,
COUNTY OF SNOHOMISH } **S.S.**

SUMMARY OF ORDINANCE NO. 3933
of the City of Edmonds, Washington

On the 16th day of July, 2013, the City Council of the City of Edmonds, passed Ordinance No. 3933. A summary of the content of said ordinance, consisting of the title, provides as follows:

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of one or more series of water and sewer revenue bonds in an aggregate amount not to exceed $16,200,000 for the purpose of providing the funds necessary: (a) to pay all or a portion of the costs of carrying out that plan of additions, (b) to make a deposit to the debt service reserve account, and (c) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; appointing the City's designated representative to approve the final terms of the sale of the bonds; and providing for other related matters.

The full text of this Ordinance will be mailed upon request.

DATED this 17th day of July, 2013.

CITY CLERK, SANDRA S. CHASE

Published: July 21, 2013.

The undersigned, being first duly sworn on oath deposes and says that she is Principal Clerk of THE HERALD, a daily newspaper printed and published in the City of Everett, County of Snohomish, and State of Washington; that said newspaper is a newspaper of general circulation in said County and State; that said newspaper has been approved as a legal newspaper by order of the Superior Court of Snohomish County and that the notice

Summary of Ordinance No. 3933

a printed copy of which is hereunto attached, was published in said newspaper proper and not in supplement form, in the regular and entire edition of said paper on the following days and times, namely:

July 21, 2013

and that said newspaper was regularly distributed to its subscribers during all of said period.

Karen E. Zieman

Principal Clerk

Subscribed and sworn to before me this **22nd**

day of **July, 2013**

Diana L Hendrix

Notary Public in and for the State of Washington, residing at Everett, Snohomish County.

DIANA L. HENDRIX
COMMISSION EXPIRES
NOTARY
PUBLIC
2-17-2016
STATE OF WASHINGTON

Account Name: City of Edmonds Account Number: 101416 Order Number: 0001827582