

CITY OF WHITE SALMON, WASHINGTON
WATER REVENUE BOND, 2015 (USDA LOAN)
\$405,000

ORDINANCE NO. 2015-04-964

AN ORDINANCE of the City of White Salmon, Washington, authorizing the issuance of a water revenue bond of the City in the principal amount of \$405,000 to finance the cost of improvements to water supply and distribution facilities of the City; authorizing the form and covenants for the bond; reserving the City's right to issue future revenue obligations on a parity with the bond upon compliance with certain conditions; and providing for sale of the bond to the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service.

Passed April 1, 2015

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AN ORDINANCE of the City of White Salmon, Washington, authorizing the issuance of a water revenue bond of the City in the principal amount of \$405,000 to finance the cost of improvements to water supply and distribution facilities of the City; authorizing the form and covenants for the bond; reserving the City's right to issue future revenue obligations on a parity with the bond upon compliance with certain conditions; and providing for sale of the bond to the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service.

WHEREAS, the City of White Salmon, Washington (the "City"), operates water supply and distribution facilities as part of its water utility (the "Water System"); and

WHEREAS, the City is undertaking the reconstruction of several City streets and replacements and upgrades to below grade utilities in those streets, including certain improvements to facilities of the Water System (the "Project"); and

WHEREAS, a Transportation Improvement Board grant will pay for a portion of the cost of the street and storm water improvements, and the City has received an offer of financing for costs of the Project from the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service ("Rural Utilities Service"), until graduation in accordance with Rural Utilities Service regulations; and

WHEREAS, Rural Utilities Service has agreed that its loan may be provided on a draw-down basis to pay for costs of the Project as they are incurred; and

WHEREAS, in accordance with the Letter of Conditions dated June 2, 2014 (the "Letter of Conditions"), the City wishes to authorize the issuance to Rural Utilities Service of a first lien water revenue bond in the principal amount of \$405,000 (the "Bond") to secure the loan; and

WHEREAS, the following obligations of the City were issued with a first lien on revenues of the Water System and the City's wastewater utility:

<u>Date of Bonds</u>	<u>Principal Amount Outstanding</u>	<u>Authorizing Ordinance</u>	<u>Final Maturity</u>
10/30/1981 ("1981 Bonds")	\$ 235,800	Ordinance 1981-16-374 (passed 10/21/81)	10/1/2021

; and

WHEREAS, by Ordinance No. 2012-05-888 (codified in Chapter 3.24 of the White Salmon Municipal Code ("WSMC")), passed by the City Council on May 2, 2012, the City

restructured a number of funds, including the bond fund and reserve account therein from which the 1981 Bonds were paid and by which the 1981 Bonds were secured; and

WHEREAS, in accordance with the restructuring of funds pursuant to Ordinance No. 2012-05-888, the 1981 Bonds were allocated (on a pro rata basis) 2/3 to the Water System and 1/3 to the City's wastewater utility, and separate bond redemption funds and reserve funds were established for the water and wastewater portions of the 1981 Bonds and any additional bonds issued on a parity with those bonds; and

WHEREAS, the holder of the 1981 Bonds, the United States Department of Agriculture, acting through its Farmers Home Administration (now known as Rural Utilities Service), has acquiesced in the restructuring of the funds that provide for the payment of the 1981 Bonds; and

WHEREAS, the ordinance authorizing the 1981 Bonds permits the City to issue additional revenue bonds on a parity of lien with the 1981 Bonds upon compliance with certain conditions or a waiver thereof, and those conditions having been fully complied with or waived as provided herein, the Bond may be issued with a lien on revenues of the Water System equal to the lien thereon of the portion of the 1981 Bonds allocated to the Water System, as provided in this ordinance;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WHITE SALMON, WASHINGTON, DO ORDAIN, as follows:

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

Annual Debt Service for any calendar year means the sum of:

- (a) the interest due in such year on all outstanding Parity Bonds excluding, however, interest to be paid from the proceeds of sale of any Parity Bonds,
- (b) the principal of all outstanding Serial Bonds due in such year, and
- (c) the Sinking Fund Requirement, if any, for such year.

Average Annual Debt Service means for any Parity Bonds the amount determined by dividing (a) the sum of all interest and principal to be paid on such Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of fiscal years or calendar years from and including the fiscal year or calendar year in which the determination is made to the last fiscal year or calendar year in which any of such Parity Bonds will be outstanding.

Bond means the City's Water Revenue Bond, 2015 (USDA Loan), authorized to be issued to Rural Utilities Service in the principal amount of \$405,000 under this ordinance.

Bond Fund means the special fund of the City designated as the "Water Bond Redemption Fund" established by Ordinance No. 2012-05-888 and codified at Section 3.24.151 WSMC to pay and secure the payment of all Parity Bonds.

Bond Register means the registration records for the Bond maintained by the Bond Registrar.

Bond Registrar means the Clerk/Treasurer, for the purposes of registering and authenticating the Bond, maintaining the Bond Register, transferring ownership of the Bond, and paying the principal of and interest on the Bond.

City means the City of White Salmon, Washington, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington.

Clerk/Treasurer means the Clerk/Treasurer of the City, or any successor to the duties of that office.

Costs of Maintenance and Operation means all normal operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance and administrative expense as pro rata budget charges for City departments where such charges represent a reasonable distribution or share of actual cost, but exclude depreciation, payments for debt service or into reserve accounts, costs of capital additions to or replacements of the Water System, municipal taxes, or payments to the City in lieu of taxes.

Council means the duly constituted City Council as the general legislative body of the City.

Future Parity Bonds means any revenue obligations of the City issued after the date of issuance of the Bond that are payable from the Bond Fund and the payment of which, both principal and interest, will constitute a lien and charge upon Net Revenue of the Water System and upon all ULID Assessments equal in rank to the lien and charge thereon for the payments required to pay and secure the payment of the Bond.

Government Obligations means those obligations now or hereafter defined as such in chapter 39.53 RCW, as such chapter may be amended or restated.

Gross Revenue means all earnings and revenue, except ULID Assessments, received by the City from the operation of the Water System, including proceeds from the sale, lease or other disposition of any of the properties or facilities of the Water System, and the income from investments of money in the Water Fund and any bond fund or from any other investment thereof except the income from investments irrevocably pledged to the payment of revenue bonds pursuant to a plan of retirement or refunding. The term "Gross Revenue" does not include grants or bond proceeds, but does include federal or state reimbursements of operating expenses to the extent that such expenses are included as "Costs of Maintenance and Operation" of the Water System.

Letter of Conditions means USDA's Letter of Conditions dated June 2, 2014, and as it may be amended and supplemented.

Loan Resolution means that certain resolution adopted by the City Council on August 6, 2014, in the form required and provided by Rural Utilities Service pursuant to RUS Bulletin 1780-27.

Net Revenue means the Gross Revenue less the Costs of Maintenance and Operation of the Water System.

Parity Bonds means the portion of the 1981 Bonds allocated to the Water System, the Bond, and any Future Parity Bonds.

Permitted Investments means any investments of City funds permitted under the laws of the State of Washington as amended from time to time.

Professional Utility Consultant means the independent person(s) or firm(s) selected by the City having a favorable reputation for skill and experience with utility systems of comparable size and character to the Water System in such areas as are relevant to the purposes for which they are retained.

Project means the improvements to water supply and distribution facilities of the City specified and adopted in Section 2 of this ordinance.

Registered Owner means the person in whose name a Bond is registered on the Bond Register.

Reserve Fund means the Water Bond Reserve Fund established by Ordinance No. 2012-05-888 and codified at Section 3.24.152 WSMC to secure the payment of all Parity Bonds.

Reserve Requirement means during any calendar year an amount equal to the Annual Debt Service payable during the following calendar.

Rural Utilities Service means the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service.

Serial Bonds means Parity Bonds other than Term Bonds.

Short-Lived Asset Reserve Fund means the Fund of that name established pursuant to Section 8 of this ordinance.

Sinking Fund Requirement means, for any fiscal year or calendar year, the principal amount of Term Bonds required to be purchased, redeemed or paid at maturity in such year as established by the ordinance of the City authorizing the issuance of such Term Bonds.

Term Bonds means any Parity Bonds identified as Term Bonds in the ordinance or resolution authorizing the issuance thereof, the payment of the principal of which is provided for by a mandatory schedule of deposits of money equal (in the aggregate) to the full principal amount of such Term Bonds, into the Bond Fund, and by a mandatory redemption schedule corresponding (as to time and amounts) to such mandatory schedule of deposits.

ULID means any utility local improvement district of the City.

ULID Assessments means the assessments (including installments thereof and interest and any penalties thereon) levied in any ULID hereafter created under State law, if such assessments are to be paid into the Bond Fund for the payment of any Parity Bonds.

Water Fund means the City of White Salmon Water Fund heretofore established in the office of the Clerk/Treasurer, into which all Gross Revenue is deposited as collected.

Water System means the existing water supply and distribution system and all additions and betterments thereto and extensions thereof for as long as any Parity Bonds remain outstanding.

WSMC means the White Salmon Municipal Code, as it may be amended from time to time.

1981 Bonds means the City's Water and Sewer Revenue Bonds, 1981, issued pursuant to Ordinance No. 1981-16-374, passed on October 21, 1981, and subsequently allocated 2/3 to the Water System and 1/3 to the City's wastewater utility.

Section 2. Authorization of Project. the City hereby specifies and adopts a system or plan for making additions to and betterments and extensions of the Water System, which shall consist of the following improvements (collectively, the "Project"): installing approximately 1900 feet 8" PVC water distribution main, 360 feet 6" PVC water distribution main, four fire hydrants and a fire truck filling station.

This plan of additions to and betterments and extensions of the Water System (the "Project") is described with particularity in the plans and specifications prepared by Pioneer Surveying and Engineering, consulting engineers for the Project, and those plans and specifications are now on file with the City and available for public inspection.

The Project will be constructed and installed with all necessary equipment and appurtenances. The City may make such changes in the Project as may be necessary or desirable, either prior to or during the course of acquisition and construction. The City is authorized to acquire by purchase, lease or condemnation all property, both real and personal, or any interest therein, or rights of way and easements necessary to carry out the Project.

The estimated cost of the acquisition, construction and installation of the Project is hereby declared to be as near as may be the sum of \$1,176,035, including costs of issuing the Bond, a portion of which will be financed from the Rural Utilities Service loan evidenced by the Bond and from a Rural Utilities Service grant, and the balance of the Project will be paid from other funds available to the City.

Section 3. Compliance with Parity Conditions. The City has reserved the right in Section 16 of Ordinance No. 1981-16-374, which is the ordinance that authorized issuance of the 1981 Bonds, to issue Future Parity Bonds upon compliance with the conditions set forth therein.

The City therefore finds and determines as required by the provisions of Ordinance No. 1981-16-374, as follows:

First, that the Bonds are being issued for the purpose of acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary

equipment for, or making necessary replacements of or repairs or capital improvements to the Water System, as described in Section 2 of this ordinance; and

Second, that at the time of passage of this ordinance and at the time of issuance of the Bond, there is not, nor will there be, any deficiency in the Bond Fund or the Reserve Fund; and

Third, that by Section 9(b) of this ordinance, the City has covenanted and provided that it will pay into and maintain in the Reserve Fund the amounts required by the Letter of Conditions in lieu of the otherwise applicable requirement of Section 10 of Ordinance No. 1981-16-374; and

Fourth, that the City has been assured that at the time of the issuance of the Bond, the City will have on file a report from the Clerk/Treasurer showing sufficient Net Revenue of the Water System for 2013 to satisfy the requirement of Section 16.B.2 of Ordinance No. 1981-16-374.

The parity conditions having been complied with or assured, the lien and charge on the Gross Revenue for the payment of the principal of and interest on the Bond shall be equal to the lien and charge on Gross Revenue for the payment of that portion of the principal of and interest on the 1981 Bonds allocated to the Water System.

Section 4. Authorization and Description of Bond. To provide long-term financing for costs of the Project (until the City can obtain a loan from a responsible cooperative or private credit source at reasonable rate and terms for loans for similar purposes and periods of time) and to pay the costs of issuing the Bond, the City shall issue to Rural Utilities Service the City's water revenue bond in the principal amount of \$405,000. The Bond shall be designated as the "City of White Salmon, Washington, Water Revenue Bond, 2015," shall be dated as of the date of its delivery to Rural Utilities Service, shall be in the denomination of \$405,000, shall be fully registered as to principal and interest, shall be numbered in such manner and with any additional identification as the Bond Registrar deems necessary for identification, and shall bear interest from its date on the unpaid principal balance thereof at the rate of 3.00% per annum and shall be amortized over a 40-year period. Installments of principal of and interest on the Bond in the amount of \$17,525 shall be paid annually, commencing on the day that is twelve months following the date of its delivery and annually thereafter, until all principal installments of the Bond have been paid; provided, however, that the final payment of all principal of and interest on the Bond shall nevertheless be due on the day that is 40 years after the date of its delivery and may be in an amount more or less than \$17,525, as required to retire the entire indebtedness plus accrued interest. Payments will be applied first to interest and then to principal, and interest will accrue on the basis of a 365-day year.

Both principal of and interest on the Bond are payable in lawful money of the United States of America to the owner thereof at the address appearing on the registration books maintained by the Bond Registrar; provided, however, that as long as Rural Utilities Service is the owner and holder of the Bond, the City will make payments directly to the financial office of Rural Utilities Service serving the City by establishing a preauthorized debit payment process whereby funds are authorized to be withdrawn electronically from the City's bank account on each day that payment is due.

The Bond is payable solely from the Bond Fund and is not a general obligation of the City. Gross Revenue shall be deposited in the Bond Fund as pledged pursuant to the provisions of Section 9 of this ordinance in accordance with the priority of payments set forth in Section 7 of this ordinance.

Section 5. Registration, Transfer and Exchange.

(a) *Bond Registrar/Bond Register.* The Clerk/Treasurer will act as registrar, authenticating agent, paying agent and transfer agent for the Bond (collectively, the “Bond Registrar”). The Bond Registrar shall keep sufficient records for the registration and transfer of the Bond (the “Bond Register”). The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the Bond transferred or exchanged in accordance with the provisions of the Bond and this ordinance and to carry out all of the Bond Registrar’s powers and duties under this ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bond.

(b) *Registered Ownership.* The City and the Bond Registrar may deem and treat the Registered Owner of the Bond as the absolute owner for all purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of the Bond shall be made as described in Section 2 hereof, but such registration may be transferred as herein provided. All such payments made as described in Section 2 shall be valid and shall satisfy the liability of the City upon the Bond to the extent of the amount or amounts so paid.

(c) *Transfer or Exchange of Registered Ownership; Change in Denominations.* The registered ownership of the Bond may be transferred or exchanged, but no transfer of the Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on the Bond duly executed by the Registered Owner or such Registered Owner’s duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond of the same date, maturity and interest rate and for the same principal amount, naming as Registered Owner the person listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. The Bond Registrar shall not be obligated to transfer or exchange the Bond during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on such interest payment date.

Section 6. Prepayment. The City hereby reserves the right to prepay principal installments of the Bond remaining unpaid at the price of par plus accrued interest, in whole, or in part in inverse order, at any time. No advance notice of intended prepayment or redemption is required.

Section 7. Water Fund. A special fund of the City designated as the City of White Salmon Water Fund (the “Water Fund”) has been established in the office of the Clerk/Treasurer. All of the Gross Revenue shall be deposited in the Water Fund as collected. The Water Fund must be held separate and apart from all other funds and accounts of the City, and the Gross Revenue deposited in the Water Fund may be used only for the following purposes and in the following order of priority:

First, to pay the Costs of Maintenance and Operation;

Second, to make all payments required to be made into the Bond Fund to pay principal of and interest on any Parity Bonds;

Third, to make all payments required to be made into the Reserve Fund;

Fourth, to make all payments required by subsequent ordinances of the City to be made out of Gross Revenue into any revenue bond redemption fund or revenue warrant redemption fund and debt service account or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or revenue warrants of the City having a lien upon the Gross Revenue junior and inferior to the lien thereon of the Parity Bonds; and

Fifth, to make all payments required to be made into the Short-Lived Asset Reserve Fund; and

Sixth, to retire by redemption or purchase in the open market any outstanding revenue bonds or revenue warrants of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the Water System, or for any other lawful City purpose.

Section 8. Short-Lived Asset Reserve Fund. A special fund of the City designated the "Water Short-Lived Asset Reserve Fund" (the "Short-Lived Asset Reserve Fund") is hereby authorized to be established in the office of the Clerk/Treasurer. Money in the Short-Lived Asset Reserve Fund may be used from time to time to replace short-lived assets of the Water System. So long as the Bond remains outstanding, subject to the priorities established in Section 7 of this ordinance, the City must deposit \$4,247.08 monthly into the Short-Lived Asset Reserve Fund. Payments into the short-lived Asset Reserve Fund are payable from Gross Revenue, and Gross Revenue is hereby pledged to make the payments out of the Water Fund into the Short-lived Asset Reserve Fund. As described in Section 7, the amounts so pledged are hereby declared to be a lien and charge upon Gross Revenue and the money in the Water Fund junior to the lien thereon for the Costs of Maintenance and Operation and to the lien and charge thereon to pay and secure the payment of the principal of and interest on the Bond and any future Parity Bonds and junior lien bonds, and superior to all other charges of any kind or nature.

Section 9. Bond Fund and Reserve Fund.

(a) *Bond Fund.* A special fund of the City designated as the "Water Bond Redemption Fund" (the "Bond Fund") has been established in the office of the Clerk/Treasurer by Ordinance No. 2012-05-888 (codified as Section 5.24.151 WSMC) to pay principal of and interest on all Parity Bonds. The Bond Fund shall be drawn upon for the sole purpose of paying the principal of, premium, if any, and interest on the Parity Bonds.

As long as the Bond remains outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay from the Water Fund into the Bond Fund, in addition to amounts required to be paid therein on account of any other issue of Parity Bonds, those amounts necessary, after taking into consideration other funds on hand in the Bond Fund and available for the payment of principal and interest on the Bond, to pay the interest or principal and interest next coming due on

the Bond. Such amounts from the Water Fund shall be paid into the Bond Fund on or before the day on which such payment is due and payable.

(b) *Reserve Fund.* A special fund of the City designated as the Water Bond Reserve Fund (the "Reserve Fund") has been established in the office of the Clerk/Treasurer by Ordinance No. 212-05-888 (codified as Section 5.24.152 WSMC) to secure the payment of the principal of and interest on all Parity Bonds. The City covenants and agrees that it will pay into the Reserve Fund out of Gross Revenue or any other funds on hand legally available for such purposes not less than approximately equal monthly deposits of \$151.98 sufficient with other money in the Reserve Fund to have on deposit therein within ten years (as permitted by the Letter of Conditions) from the date of delivery of the Bond, a total amount equal to the greater of \$17,525 or the Reserve Requirement.

The City hereby covenants and agrees that if it issues any Future Parity Bonds, it will provide in the ordinance authorizing the issuance of the same that it will pay into the Reserve Fund out of proceeds of such Future Parity Bonds, Gross Revenue, or any other funds on hand legally available for such purpose, approximately equal annual payments so that within not less than five years from the date of issuance of such Future Parity Bonds there will have been paid into the Reserve Fund an amount that, with the money already on deposit therein, will be equal to the then-applicable Reserve Requirement.

The City further covenants and agrees that when the required deposits have been made into the Reserve Fund, it will at all times maintain therein an amount at least equal to the Reserve Requirement, as it may be adjusted from time to time. Amounts in the Reserve Fund in excess of the Reserve Requirement may from time to time be transferred to the Water Fund. Whenever there is a sufficient amount in the Bond Fund and the Reserve Fund to pay the principal of, premium if any, and interest on all outstanding Parity Bonds, the money in the Reserve Fund may be used to pay such principal, premium, if any, and interest. Money in the Reserve Fund may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on any outstanding Parity Bonds, as long as the money left remaining on deposit in the Reserve Fund is equal to the Reserve Requirement.

If there is a deficiency in the Bond Fund to make a payment of interest on or principal of any outstanding Parity Bonds, the deficiency will be made up from the Reserve Fund by the withdrawal of money therefrom. Any deficiency created in the Reserve Fund by reason of any such withdrawal will then be made up out of Gross Revenue after making necessary provision for the payments required to be made prior thereto by Section 5 of this ordinance.

(c) *Lien of Bond Fund and Reserve Fund.* Principal of and interest on the Bond are payable from Gross Revenue, and Gross Revenue is hereby pledged to make the payments out of the Water Fund into the Bond Fund and the Reserve Fund as provided in Section 9(a) and 9(b) of this ordinance. The amounts so pledged are hereby declared to be a lien and charge upon Gross Revenue and the money in the Water Fund junior to the lien thereon for the Costs of Maintenance and Operation, equal to the lien and charge thereon to pay and secure the payment of the principal of and interest on the portion of the 1981 Bond allocated to the Water System and any Future Parity Bonds, and superior to all other charges of any kind or nature.

(d) *Investment of Money in Bond Fund and Reserve Fund.* All money in the Bond Fund or Reserve Fund may be kept in cash or invested in Permitted Investments maturing not later than the last maturity of the Parity Bonds outstanding at the time of such purchase. Interest earned on or profits made from the sale of such investments shall be deposited in and become a part of the Water Fund.

Section 10. Sufficiency of Revenues. The Council hereby declares that in fixing the amounts to be paid into the Bond Fund, Reserve Fund, and Short-Lived Asset Reserve Fund as aforesaid it has exercised due regard to the Costs of Maintenance and Operation and the charges necessary to pay and secure the payment of the principal of and interest on the Bond and has not obligated the City to set aside and pay into the Bond Fund, Reserve Fund, and Short-Lived Asset Reserve Fund a greater amount of the Gross Revenue than in its judgment will be available over and above such Costs of Maintenance and Operation.

Section 11. General Covenants. So long as the Bond remains unpaid, the City hereby covenants and agrees with the owner of the Bond from time to time, as follows:

(a) *Maintenance and Operations.* The City will at all times keep and maintain the Water System in good repair, working order and condition, will at all times operate the Water System and the business in connection therewith in an efficient manner and at a reasonable cost, and will comply with all applicable laws of the State of Washington.

(b) *Rates.* The City will impose and collect rates and charges for service rendered by the Water System that are fair and nondiscriminatory (within the limits provided by law) and will adjust those rates and charges from time to time so that

(1) Gross Revenue, together with ULID Assessments collected, will at all times be sufficient (1) to provide for the payment of the Costs of Maintenance and Operation, (2) to pay the principal of and interest on the Bond and all other Parity Bonds, including any Sinking Fund Requirements, as and when the same become due and payable, (3) to make when due any required payments into the Bond Fund and the accounts therein, and (4) to pay all taxes, assessments or other governmental charges lawfully imposed on the Water System or on the Gross Revenue, or payments in lieu thereof, and (e) to pay all other amounts that the City may now or hereafter be obligated to pay from Gross Revenue by law or contract; and

(2) Net Revenue in each calendar year will be equal to at least 1.20 times Annual Debt Service for that year (after deducting from "Annual Debt Service" the amount of ULID Assessments actually collected for that year).

(c) *Books and Records.* The City will maintain complete books and records relating to the operation of the Water System and its financial affairs in accordance with applicable rules and regulations prescribed by the State of Washington and will cause those books and records to be audited periodically in accordance with the laws of the State of Washington. At all reasonable times, representatives of Rural Utilities Service have the right to inspect the Water System and the books, records, accounts and data of the City relating to the Water System.

If the City expends in any fiscal year \$500,000 or more in federal financial assistance, the City's audit must be performed in accordance with the requirements of OMB circular A-133. If

the City expends in any fiscal year less than \$500,000 in federal financial assistance and has debt owing to the United States, including the Bond, in an amount greater than or equal to \$1,000,000, the City must, within 150 days of the end of the fiscal year, submit an audit performed in accordance with Water and Waste audit requirements (i.e. a GAGAS audit). If the City expends in any fiscal year less than \$500,000 in federal financial assistance and has debt owing to the United States, including the Bond, in an amount less than \$1,000,000, the City must, within 60 days of the end of the fiscal year, submit a management report in lieu of an audit report, unless otherwise notified by Rural Utilities Service.

At least 30 days prior to the beginning of the City's fiscal year, the City must submit to Rural Utilities Service an annual budget and cash flow projections using Form RD-442-2, "Statement of Budget, Income and Equity."

(d) *Insurance.* The City will carry fire and extended coverage insurance for all above-ground structures of the Water System, including equipment and machinery, as is ordinarily carried on the property of similar municipal utilities, in an amount at least equal to the depreciated replacement value. The City will also carry adequate public liability insurance, workers' compensation insurance and other kinds of insurance as under good practice are ordinarily carried on such properties by similar municipal utilities. The premiums paid for all such insurance shall be regarded and paid as Costs of Maintenance and Operation. The City may, if deemed necessary and advisable by the Council and with the prior written consent of Rural Utilities Service, institute or continue a self-insurance program with respect to any or all of the risks described in this Section 11(d).

(e) *ULID Assessments.* All ULID Assessments shall be paid into the Bond Fund as collected.

(f) *Delinquencies.* The City covenants that it will promptly collect all rates, charges and ULID Assessments, determine in a timely manner all delinquencies, and take all necessary legal action to enforce collection of such delinquencies.

(g) *Fidelity Bond.* The City will maintain an officer's fidelity bond for its Clerk/Treasurer for as long as Rural Utilities Service is the registered owner of the Bond. A certified copy of the bond will be delivered to Rural Utilities Service.

(h) *Disposition of Facilities.* The City will not sell or otherwise dispose of the Water System in its entirety unless simultaneously with such sale or disposition, provision is made (i) for the payment into the Bond Fund of cash or Government Obligations sufficient together with interest to be earned thereon to pay the principal of and interest on all then outstanding Parity Bonds and (ii) for the prompt defeasance or redemption of all such Parity Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the Water System unless such facilities are replaced or provision is made for payment into the Bond Fund of the greatest of the following:

(1) An amount that will be in the same proportion to the net amount of Parity Bonds then outstanding (defined as the total amount of the Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Gross Revenue from the

portion of the Water System sold or disposed of for the preceding year bears to the total Gross Revenue for that period; or

(2) An amount that will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined in paragraph (1) above) that the Net Revenue from the portion of the Water System sold or disposed of for the preceding year bears to the total Net Revenue for that period; or

(3) An amount that will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined in paragraph (1) above) that the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire System immediately prior to such sale or disposition.

The proceeds of any such sale or disposition of a portion of the properties of the Water System (to the extent required above) shall be paid into the Bond Fund.

Notwithstanding any other provision of this subsection (h) to the contrary, however, the City may sell or otherwise dispose of any of the works, plant, properties and facilities of the Water System or any real or personal property comprising a part of the same with a value less than 5% of the net utility plant of the Water System or that has become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Water System, or no longer necessary, material to or useful in such operation, without making any deposit into the Bond Fund to retire Parity Bonds.

(i) *Compliance with Loan Resolution.* The City will comply with the requirements of the Loan Resolution, unless the City obtains an express written waiver from Rural Utilities Service of any such requirements.

Section 12. Tax Status. The City has taken no action to provide for the excludability from income for federal tax purposes of interest on the Bond. The City has not designated the Bond as a “qualified tax-exempt obligation” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Section 13. Future Parity Bonds. The City hereby covenants and agrees with the owner from time to time of the Bond for so long as any of the same remains unpaid that it (i) will not issue any bonds hereafter with a lien on Gross Revenue superior to the lien on Gross Revenue of the Bond and (ii) will issue Future Parity Bonds and pledge that payments be made into the Bond Fund out of the Water Fund sufficient to pay the principal of and interest on such Future Parity Bonds and maintain the Reserve Requirement therefor (which payments may rank equally with the payments out of the Water Fund into the Bond Fund to pay and secure the payment of the principal of and interest on the Bond and any other Parity Bonds then outstanding), only as follows:

First, to provide funds for acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for, or making necessary replacements of or repairs and capital improvements to the Water System; or

Second, to provide funds for refunding by exchange or purchasing and retiring at or prior to their maturity any outstanding revenue bonds or other obligations payable out of Gross Revenue;

upon compliance with the following conditions:

(a) That at the time of the issuance of the Future Parity Bonds there is no deficiency in the Bond Fund or the Reserve Fund.

(b) If there are special assessments levied in any ULID in which additions and improvements to and extensions of the Water System will be constructed from the proceeds of such Future Parity Bonds, the ordinance authorizing those Future Parity Bonds must require that those special assessments be paid into the Bond Fund, except for prepaid assessments, which may be paid into a construction fund or account to pay costs of such additions and improvements to and extensions of the Water System.

(c) If there are special assessments levied in any ULID pledged to be paid into a warrant or bond redemption fund for revenue bonds or warrants being refunded by Future Parity Bonds, the ordinance authorizing those Future Parity Bonds must require that those special assessments be used for the refunding or paid into the Bond Fund.

(d) The principal of and interest on the Future Parity Bonds will be payable out of the Bond Fund, and the ordinance authorizing their issuance will further provide for payments into the Bond Fund to satisfy the Sinking Fund Requirement and payments into the Reserve Fund to satisfy the Reserve Requirement, all as required by Section 9(b) of this ordinance.

(e) At the time of the issuance of any Future Parity Bonds, the City must have on file one of the following:

(1) a statement or report from the Clerk/Treasurer or from an independent accountant showing that the Net Revenue for the fiscal year preceding the year in which such Future Parity Bonds are proposed to be issued was equal to at least 1.20 times the Average Annual Debt Service (after deducting ULID Assessments from "Annual Debt Service," with ULID Assessments allocated to the years in which they would be received if the unpaid balance of each assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the assessment roll) for all Parity Bonds plus the Future Parity Bonds proposed to be issued; or

(2) from and after the 1981 Bond is no longer outstanding, a certificate of a Professional Utility Consultant showing that the Net Revenue, which shall be determined and may be adjusted as hereafter provided (the "Adjusted Net Revenue"), is equal to at least 1.20 times the Average Annual Debt Service (after deducting ULID Assessments from "Annual Debt Service," with ULID Assessments allocated to the years in which they would be received if the unpaid balance of each assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the assessment roll) for all Parity Bonds plus the Future Parity Bonds proposed to be issued.

The Adjusted Net Revenue shall be the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of the proposed Future Parity Bonds and may be adjusted by such Professional Utility Consultant to take into consideration changes in Net Revenue estimated to occur under any or all of the following

conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, will be outstanding:

(A) the additional Net Revenue that would have been received if any change in rates and charges adopted by the City prior to the date of such certificate and subsequent to the beginning of such 12-month period had been in force during the full 12-month period;

(B) the additional Net Revenue that would have been received if any facility of the Water System that became fully operational after the beginning of such 12-month period had been so operating for the entire period;

(C) the additional Net Revenue that would have been received if those customers added to the Water System subsequent to the beginning of such 12-month period had been customers for the entire period;

(D) the additional Net Revenue estimated to be received from any potential customers of the Water System with existing homes or other buildings who paid any required connection charge subsequent to the beginning of such 12-month period;

(E) The additional Net Revenue estimated to be received from any person, firm, association, private or municipal corporation under any executed service contract, which additional revenue is not included in any of the sources of Net Revenue heretofore described in this subsection (e)(2); and

The Professional Utility Consultant may rely upon, and his or her certificate must have attached to it, financial statements of the Water System certified by the Finance Director showing income and expenses for the period upon which the certification is based.

(3) It is hereby provided, however, that the limitations or conditions described in this subsection (e) may be waived or modified by the written consent of Rural Utilities Service.

(f) Notwithstanding the provisions of subsection (e), if Future Parity Bonds are to be issued to provide funds for refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of those refunding Future Parity Bonds will result in a debt service savings and will not require an increase of more than \$5,000 in any fiscal or calendar year for principal of and interest on such refunding Future Parity Bonds over and above the amount required in such year for the principal of and interest on the bonds being refunded thereby, a certificate described in subsection (e) is not required.

(g) Prior to the delivery of any Future Parity Bonds, the City must have received the written consent of Rural Utilities Service to the issuance of such Future Parity Bonds, if required by the Letter of Conditions or the Loan Resolution; provided, however, that such consent is not required if proceeds of the Future Parity Bonds will be used to pay and redeem the Bond in full.

Section 14. Junior Lien Bonds. Nothing herein contained shall prevent the City from issuing revenue bonds or like obligations the payment of the principal of and interest on which is a charge on money in the Water Fund junior or inferior to the payments required to be made from such money into the Bond Fund and the Reserve Fund, or from pledging the payment of special assessments into a fund or account created to pay and secure the payment of the principal of and interest on such junior lien bonds or obligations as long as such assessments are levied in a ULID or ULIDs created in connection with carrying out the improvements to be constructed from the proceeds of the sale of such junior lien bonds or obligations; provided, however, that the City must have received the written consent of Rural Utilities Service if required by the Letter of Conditions or the Loan Resolution. Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing revenue bonds of the City for the payment of which money is not otherwise available.

Section 15. Form of Bond. The Bond shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. R-1

\$405,000

STATE OF WASHINGTON

CITY OF WHITE SALMON
WATER REVENUE BOND, 2015

INTEREST RATE: 3.00%

The City of White Salmon, Washington (the "City"), a municipal corporation of the State of Washington, for value received hereby promises to pay but solely from the Bond Fund hereinafter identified, to the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service, or its registered assigns, the principal sum of

FOUR HUNDRED FIVE THOUSAND AND NO/100 DOLLARS (\$405,000)

in lawful money of the United States of America, and to pay interest, from the date hereof, on the balance of principal from time to time remaining unpaid at the rate of 3.00% per annum, payable in annual installments of principal and interest of \$17,525, payable commencing on _____, 2015, and annually on each _____ and _____ thereafter, until all of such installments have been paid or such payment has been duly provided for, provided that the final payment of all principal of and interest on this bond shall nevertheless be due on _____, 2055.

Both principal of and interest on this bond are payable in lawful money of the United States of America to the owner thereof at the address appearing on the registration books maintained by the City's Clerk/Treasurer as Bond Registrar; provided, however, that as long as Rural Utilities Service is the owner and holder of the Bond, the City will make payments directly to the financial office of Rural Utilities Service serving the City by establishing a preauthorized debit payment process whereby funds are authorized to be withdrawn electronically from the City's bank account on each day that payment is due.

Both principal of and interest on this bond are payable solely out of the special fund of the City known as the "Water Bond Redemption Fund" (the "Bond Fund") established in the office of the Clerk/Treasurer of the City.

In addition to the installments of principal required to be paid by the City as hereinabove set forth, the City, at its option, shall have the right to prepay any or all unpaid principal installments in inverse order of such installments at any time. No advance notice need be given of any prepayment hereunder.

This bond is issued pursuant to Ordinance No. 2015-04-964 of the City (the "Bond Ordinance"), for the purpose of financing certain additions and improvements to the water supply and distribution facilities of the City's water system (the "Water System"), is payable solely out of the earnings and revenue of the Water System, and does not constitute a general obligation of the City. Reference is hereby made to the Bond Ordinance for the definitions of capitalized terms used herein.

The City does hereby pledge and bind itself to set aside from Gross Revenue and to pay into the Bond Fund and Reserve Fund the various amounts required by the Bond Ordinance to be paid into and maintained in such funds, all within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid from Gross Revenue into the Bond Fund and Reserve Fund shall be a lien and charge thereon equal in rank to the lien and charge upon Gross Revenue of the amounts required to pay and secure the payment of the portion of the 1981 Bond allocated to the Water System and any Future Parity Bonds, and superior to all other liens and charges of any kind or nature, except the Costs of Maintenance and Operation of the Water System.

The City has further bound itself to maintain the Water System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges in each calendar year that will provide Net Revenue in an amount equal to at least 1.20 times the Annual Debt Service for that year (after deducting from "Annual Debt Service" the amount of ULID Assessments actually collected for that year).

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

Reference is made to the Bond Ordinance for a description of the Bond Fund, the Reserve Fund, and the covenants and declarations of the City and other terms and conditions upon which this bond has been issued and Future Parity Bonds may hereafter be issued.

This bond is a special limited obligation of the City and is not an obligation of the State of Washington or any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City or the State of Washington is pledged to the payment of this bond.

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

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this bond, together with all other obligations or indebtedness of the City, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, the City of White Salmon, Washington, has caused this bond to be signed by the manual or facsimile signature of the Mayor, attested by the manual or facsimile signature of the Clerk/Treasurer, all as of April 1, 2015.

CITY OF WHITE SALMON, WASHINGTON

By _____
Mayor

Attest:

Clerk/Treasurer

CERTIFICATE OF AUTHENTICATION

This is the Water Revenue Bond, 2015, of the City of White Salmon, Washington, dated April 1, 2015, as described in the Bond Ordinance.

Clerk/Treasurer, as Bond Registrar

By _____

Section 16. Execution of the Bond. The Bond shall be executed on behalf of the City with the manual or facsimile signature of the Mayor, attested by the manual or facsimile signature of the Clerk/Treasurer. If any officer who has signed or attested the Bond ceases to be an officer of the City authorized to sign bonds before the Bond bearing his or her signature is authenticated or delivered by the Bond Registrar or issued 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. The 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 the date of issuance of the Bond.

Only a Bond that bears a Certificate of Authentication in the form set forth in Section 15, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. The executed 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 17. Lost or Destroyed Bond. In case the Bond is lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond of like amount, date and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the Bond Registrar and the City in connection therewith and upon his or her filing with the Bond Registrar and the City evidence satisfactory to both that the Bond was actually lost, stolen or destroyed and of his or her ownership thereof, and upon furnishing the City and the Bond Registrar with indemnity satisfactory to both.

Section 18. Sale of Bond. The Bond shall be sold to Rural Utilities Service at a price of par on the terms and conditions set forth herein and in the Letter of Conditions from Rural Utilities Service to the City.

Section 19. Advances under the Bond. The City has been approved by Rural Utilities Service for multiple advances under the Bond to pay costs of the Project and costs of issuing the Bond. After bid opening and approval of the bid by Rural Utilities Service, Rural Utilities Service will advance funds needed for a 30-day period. The City's first draw will include reimbursement of expenses incurred prior to bid approval only for those items contained in the project budget submitted and approved by Rural Utilities Service. Upon award of the contract, the City may request additional funds for construction costs on a reimbursable basis every 30 days. The total amount of funds advanced under the Bond may not exceed the principal amount of the Bond.

Section 20. Ongoing Disclosure. The sale of the Bond is exempt from the ongoing disclosure requirements of Securities and Exchange Commission Rule 15c2-12 by reason of the exemption set forth in subsection (d)(i) of that rule with respect to the issuance of securities in authorized denominations of \$100,000 or more.

Section 21. Amendments.

(a) The City from time to time and at any time may adopt an ordinance or ordinances additional or supplemental hereto, which ordinance or ordinances thereafter will become a part of this ordinance, for any one or more or all of the following purposes:

(i) To add to the covenants and agreements of the City contained in this ordinance other covenants and agreements thereafter to be observed that shall not adversely affect the interests of the owners of any Parity Bond, or to surrender any right or power herein reserved to or conferred upon the City.

(ii) To make provisions for curing any ambiguities or of curing, correcting, or supplementing any defective provision contained in this ordinance or any

supplemental ordinance in regard to matters or questions arising under such ordinances that the City may deem necessary or desirable and not inconsistent with such ordinances and that do not adversely affect the interest of the owners of any Parity Bonds.

Any such additional or supplemental ordinances of the City may be adopted without the consent of the owners of any of the Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this section.

(b) With the consent of the owners of not less than a majority in aggregate principal amount of the Parity Bonds at the time outstanding (provided, however, that so long as Rural Utilities Service owns the Bond its consent must always be obtained), the City may adopt an amendatory ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance; provided, however, that no such amendatory ordinance shall:

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

(ii) Reduce the aforesaid percentage of Bondowners required to approve any such supplemental ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of Parity Bond owners under this subsection (b) to approve the particular form of any such proposed amendatory ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Upon the adoption of any supplemental ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this ordinance and all Registered Owners of the Parity Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental ordinance shall be deemed to be a part of the terms and conditions of this ordinance for any and all purposes.

(d) Parity Bonds executed and delivered after the execution of any supplemental ordinance adopted pursuant to the provisions of this section may have a notation as to any matter provided for in such supplemental ordinance, and if such supplemental ordinance shall so provide, new bonds so modified as to conform, in the opinion of the Council, to any modification of this ordinance contained in any such supplemental ordinance may be prepared by the City and delivered without cost to the Registered Owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such bonds, in equal aggregate principal amounts.

Section 22. General Authorization. The Mayor, Clerk/Treasurer, City Attorney, and all other appropriate staff, officers, agents and attorneys of the City are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be

necessary, appropriate or desirable to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance.


Section 23. Prior Acts. All acts taken pursuant to the authority of this ordinance but prior to its effective date are hereby ratified and confirmed.

Section 24. Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bond.

Section 25. Effective Date. This ordinance will become effective five days after its passage and publication, as required by law.

PASSED by the City Council of the City of White Salmon, Washington, at a regular meeting thereof, held on April 1, 2015.


CITY OF WHITE SALMON,
WASHINGTON


David Poucher, Mayor

ATTEST:


Leana Johnson, Clerk/Treasurer

APPROVED AS TO FORM:


Kenneth B. Woodrich, City Attorney

CERTIFICATE

I, the undersigned, Clerk/Treasurer of the City of White Salmon, Washington (the "City"), DO HEREBY CERTIFY:

1. That the attached Ordinance No. 2015-04-964 (the "Ordinance") is a true and correct copy of an ordinance of the Council as passed at a regular meeting of the Council held on April 1, 2015, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of the Ordinance; that all other requirements and proceedings incident to the proper passage of the Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 1st day of April, 2015.



Clerk/Treasurer