

CITY OF RUSTON, WASHINGTON

SEWER REVENUE BOND, 2013

\$4,120,178.21

ORDINANCE NO. 1399

AN ORDINANCE of the City of Ruston, Washington, authorizing the issuance of a sewer revenue bond of the City in the principal amount of \$4,120,178.21 to finance the cost of certain improvements to facilities of the City's sewer utility; 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 Department of Agriculture, Rural Utilities Service.

Passed March 19, 2013

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CITY OF RUSTON, WASHINGTON

ORDINANCE NO. 1399

AN ORDINANCE of the City of Ruston, Washington, authorizing the issuance of a sewer revenue bond of the City in the principal amount of \$4,120,178.21 to finance the cost of certain improvements to facilities of the City's sewer utility; 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 Department of Agriculture, Rural Utilities Service.

WHEREAS, the City of Ruston, Washington (the "City"), operates a sewer utility, including sewage collection and treatment facilities (the "System"); and

WHEREAS, the City Council (the "Council") determined that the System was in need of certain additions and betterments and extensions thereof (as described more fully herein, the "Project") and received an offer of long-term financing from the United State Department of Agriculture, Rural Utilities Service ("USDA") for costs of the Project; and

WHEREAS, pursuant to Ordinance No. 1329 of the City, passed on February 22, 2011 (the "Note Ordinance"), the City issued its Sewer Revenue Bond Anticipation Note, 2011, in the principal amount of \$4,900,000 (the "Note") to establish a line of credit with U.S. Bank to provide interim financing for costs of the Project; and

WHEREAS, the Project has been completed, and the City has satisfied the conditions for USDA's loan for the Project and wishes now to authorize the issuance to USDA of the City's sewer revenue bond in the principal amount of \$4,120,178.21 (the "Bond") to secure the loan, the proceeds of which will be used to pay and redeem the Note and pay costs of issuance of the Bond; and

WHEREAS, other than the Note, the City has no outstanding obligations secured by a senior lien pledge of revenues of the System; and

WHEREAS, the City wishes to establish conditions for the issuance of additional obligations of the System on a parity with the Bond, as provided in this ordinance and consistent with the requirements of USDA;

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

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

Annual Debt Service for any fiscal year or 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 the amount determined by dividing (a) the sum of all interest and principal to be paid on all 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 Sewer Revenue Bond, 2013, authorized to be issued to USDA in the principal amount of \$4,120,178.21 pursuant to this ordinance.

Bond Fund means the "2013 Sewer Revenue Bond Redemption Fund" created pursuant to Section 6 of this ordinance 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.

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

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations promulgated thereunder.

Costs of Maintenance and Operation means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, and insurance and administrative expenses of the System, but excludes depreciation, payments for debt service or into reserve accounts and costs of capital additions to or replacements of the System, taxation by the City or payments in lieu of such taxes.

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

Future Parity Bonds means any and all revenue obligations of the City issued after the date of the 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 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 System, including proceeds from the sale, lease or other disposition of any of the properties or facilities of the System, and the income from investments of money in the Revenue 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."

Letter of Conditions means USDA's Letter of Conditions dated September 13, 2009, and as it may be amended and supplemented.

Loan Resolution means that certain resolution adopted by the Council on March 19, 2013, in the form required and provided by USDA pursuant to RUS Bulletin 1780-27.

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

Note means the City's Sewer Revenue Bond Anticipation Note, 2011, issued in the principal amount of \$4,900,000, pursuant to the Note Ordinance.

Note Fund means the City's Sewer Revenue Bond Anticipation Note Redemption Fund, 2011, established pursuant to the Note Ordinance to provide for payment of principal of and interest on the Note.

Note Ordinance means Ordinance No. 1329 of the City, passed by the Council on February 22, 2011, authorizing issuance of the Note.

Parity Bonds means 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.

Principal and Interest Account means the account of that name created in the Bond Fund for the purpose of paying the principal of and interest on all Parity Bonds.

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 System in such areas as are relevant to the purposes for which they are retained.

Project means the plan or system of additions and betterments to and extensions to the System specified and adopted in Section 2 of the Note Ordinance.

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

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 all Parity Bonds.

Reserve Requirement means (a) for the Bond cash and investments equal to the average annual installment payment amount for the Bond, as provided in Section 6(b) of this ordinance, and (b) for any Future Parity Bonds an amount equal to or greater than 5.5% of the principal amount of those Future Parity Bonds (which amount shall be established in the ordinance authorizing the issuance of the Future Parity Bonds), but in no event shall the aggregate balance in the Reserve Account exceed an amount equal to the least of (a) 125% of Average Annual Debt Service, (b) 10% of the net proceeds of all Parity Bonds, or (c) maximum Annual Debt Service.

Revenue Fund means the City of Ruston Sewer Revenue Fund heretofore established in the office of the Clerk-Treasurer, into which all Gross Revenue is deposited as collected.

Serial Bonds means Parity Bonds other than Term Bonds.

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.

System means the City's sewer utility and such improvements or additions as may be made to facilities of the utility for as long as any Parity Bonds are outstanding. The "System" would also include any other utility of the City, if the Council hereafter determines by ordinance to combine that utility with the System.

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.

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

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.

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

Section 2. Authorization and Description of Bond. To provide long-term financing for costs of the Project and to pay the costs of issuing the Bond, the City shall issue to USDA the City's sewer revenue bond in the principal amount of \$4,120,178.21 (the "Bond"). The Bond shall be designated as the "City of Ruston, Washington, Sewer Revenue Bond, 2013," shall be dated as of the date of its delivery to USDA, shall be in the denomination of \$4,120,178.21, 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 3.13% per annum and shall be amortized over a 40-year period. Installments of principal of and interest on the Bond in the amount of \$90,603.00 shall be paid semiannually, commencing on the day that is six months following the date of its delivery and semiannually thereafter, until all principal installments of the Bond have been paid or such payment has been duly provided for; 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 \$90,603.00, 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.

The Bond is payable solely from the Bond Fund and is payable and secured as provided herein. The Bond is not a general obligation of the City and does not constitute an indebtedness of the City within the meaning of the constitutional provisions and limitations of the State of Washington.

Section 3. Registration, Exchange and Payments. The Clerk-Treasurer will act as authenticating agent, paying agent and registrar for the Bond (the "Bond Registrar"). The Registrar shall maintain books for the registration and transfer of the Bond. The Bond may be transferred by the registered owner thereof, provided that such transfer relates to the entire unpaid principal amount of the Bond, upon the written request of the registered owner or its duly authorized agent. No such transfer shall be valid unless noted by the Bond Registrar on the Bond Register.

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 Bond Register; provided, however, that as long as USDA is the owner and holder of the Bond, the City will make payments directly to the financial office of USDA 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 the day that payment is due.

Section 4. 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 5. Revenue Fund. A special fund of the City designated as the City of Ruston Sewer Revenue Fund (the "Revenue Fund") has been established in the office of the Clerk-Treasurer. All of the Gross Revenue shall be deposited in the Revenue Fund as collected.

The Revenue Fund must be held separate and apart from all other funds and accounts of the City, and the Gross Revenue deposited in the Revenue 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 the interest on the Bond and on any Future Parity Bonds;

Third, to make all payments required to be made into the Bond Fund to pay the maturing principal of any Serial Bonds and to make all payments required to be made into the Bond Fund to satisfy the Sinking Fund Requirement;

Fourth, to make all payments required to be made into the Reserve Account;

Fifth, to make all payments required to be made 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

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 System, or for any other lawful City purpose.

Section 6. Bond Fund. A special fund of the City designated as the “2013 Sewer Revenue Bond Redemption Fund” (the “Bond Fund”) is hereby authorized to be established in the office of the Clerk-Treasurer. The Bond Fund shall be drawn upon for the sole purpose of paying the principal of, premium, if any, and interest on the Bond and any Future Parity Bonds.

(a) *Principal and Interest Account.* A Principal and Interest Account is hereby authorized to be created in the Bond Fund for the purpose of paying the principal of, premium, if any, and interest on all Parity Bonds.

As long as the Bond remain outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Principal and Interest Account, 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 Principal and Interest Account 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 Revenue Fund shall be paid into the Bond Fund on or before the day on which such payment is due and payable.

(b) *Reserve Account.* A Reserve Account is hereby authorized to be created in the Bond Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds. The City covenants and agrees that it will pay into the Reserve Account out of

Gross Revenue or any other funds on hand legally available for such purposes not less than approximately equal annual deposits sufficient with other money in the Reserve Account to have on deposit therein within ten years from the date of delivery of the Bond, a total amount of \$[383,914] allocable to the Bond.

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 Account 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 Account an amount that, with the money already on deposit therein, will be equal to the Reserve Requirement.

The City further covenants and agrees that when the required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Requirement. Amounts in the Reserve Account in excess of the Reserve Requirement may from time to time be transferred to the Revenue Fund. Whenever there is a sufficient amount in the Bond Fund, including the Reserve Account and the Principal and Interest Account, to pay the principal of, premium if any, and interest on all outstanding Parity Bonds, the money in the Reserve Account may be used to pay such principal, premium, if any, and interest. Money in the Reserve Account 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 Account is equal to the Reserve Requirement. For purposes of the preceding sentence, the share of the Reserve Account allocable to the Bond shall be equal to the Reserve Requirement for the Bond.

If there is a deficiency in the Principal and Interest Account to make a payment of interest on or principal of any outstanding Parity Bonds, the deficiency will be made up from the Reserve Account by the withdrawal of money therefrom. Any deficiency created in the Reserve Account 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.* 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 Revenue Fund into the Bond Fund and the accounts therein as provided in Section 6(a) and 6(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 Revenue 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 any Future Parity Bonds, and superior to all other charges of any kind or nature.

(d) *Investment of Money in Bond Fund.* All money in the Principal and Interest Account or Reserve Account 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 Revenue Fund.

Section 7. Sufficiency of Revenues. The Council hereby declares that in fixing the amounts to be paid into the Bond Fund and the Reserve Account 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 said Fund and Account a greater amount of the Gross Revenue than in its judgment will be available over and above such Costs of Maintenance and Operation.

Section 8. General Covenants. So long as the Bond remain 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 maintain and keep the System in good repair, working order and condition, will at all times operate the 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 establish and collect lawful rates and charges for service rendered by the System that will be fair and nondiscriminatory, 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 (a) to pay the Costs of Maintenance and Operation, (b) to pay the principal of and interest on the Parity Bonds, including any Sinking Fund Requirements, as and when the same become due and payable, (c) to make when due any required payments into the Reserve Account and all other payments required to be made by the City under this ordinance, (d) to pay all taxes, assessments or other governmental charges lawfully imposed on the 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 together with ULID Assessments collected in each calendar year will be at least equal to 1.10 times Annual Debt Service for such year (after deducting from "Annual Debt Service" the amount of ULID Assessments actually collected for such year).

(c) *Books and Records.* The City will maintain proper books of account in accordance with applicable rules and regulations prescribed by the State of Washington and will cause such books to be audited periodically in accordance with the laws of the State of Washington.

(d) *Insurance.* The City will carry fire and extended coverage insurance in an amount at least equal to the depreciated replacement value for all above-ground structures of the System, including equipment and machinery. 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 USDA, institute or continue a self-insurance program with respect to any or all of the risks described in this Section 8(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 USDA is the registered owner of the Bond. A certified copy of such bond will be delivered to USDA.

(h) *Disposition of Facilities.* The City will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or disposition, provision is made 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, nor will it sell or otherwise dispose of any part of the useful operating properties of the 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 System sold or disposed of for the preceding year bears to the total Gross Revenue for such 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 System sold or disposed of for the preceding year bears to the total Net Revenue for such 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 System (to the extent required above) shall be paid into the Bond Fund.

Notwithstanding any other provision of this subsection to the contrary, the City may sell or otherwise dispose of any of the works, plant, properties and facilities of the 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 System or which shall have become unserviceable, inadequate, obsolete or unfit to be

used in the operation of the 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 USDA of any such requirements.

Section 9. 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 Code.

Section 10. 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 will not issue any bonds hereafter with a lien on Gross Revenue superior to the lien on Gross Revenue of the Bond and that it will issue Future Parity Bonds 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 or repairs and capital improvements to the System; or

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

and to pledge that payments be made into the Bond Fund for the payment of the principal thereof and interest thereon out of the Revenue Fund sufficient to pay the principal of and interest on such Future Parity Bonds and to maintain the Reserve Requirement therefor, which such payments may rank equally with the payments out of such Revenue Fund into the Bond Fund and the Reserve Account to pay and secure the payment of the principal of and interest on the Bond and any other Parity Bonds then outstanding, upon compliance with the following conditions:

(1) That at the time of the issuance of such Future Parity Bonds there is no deficiency in the Bond Fund and the Reserve Account.

(2) If there are special assessments levied in any ULID in which additions and improvements to and extensions of the 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 System.

(3) If there are special assessments 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.

(4) 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 Account to satisfy the Reserve Requirement, all as required by Section 6(b) of this ordinance.

(5) Prior to the delivery of any Future Parity Bonds, the City must have on file in the records of the Council either:

(i) a certificate of the Clerk-Treasurer showing that the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds will equal at least 1.10 times the 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 each such calendar or fiscal year for all Parity Bonds plus the Future Parity Bonds proposed to be issued; or

(ii) a certificate of a Professional Utility Consultant showing that the Net Revenue, which shall be determined and may be adjusted as hereafter provided, for each calendar or fiscal year after the issuance of such Future Parity Bonds (the "Adjusted Net Revenue") will equal at least 1.10 times the 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 each such calendar or fiscal year 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 such proposed Future Parity Bonds and may be adjusted by the Professional Utility Consultant to take into consideration changes in Net Revenue estimated to occur under 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, shall 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 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 estimated by the Professional Utility Consultant to be received from potential customers of the System with existing homes or other

buildings that will be required by law or contract to connect to any additions, betterments and improvements to and extensions of any facilities of the System that are (a) under construction at the time of such certificate or (b) will be constructed from the proceeds of the Future Parity Bonds to be issued;

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

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

(F) The additional Net Revenue estimated to be received from any person, firm, association, private or municipal corporation under any executed service contract, which net revenue is not included in any of the sources of Net Revenue heretofore described in this subsection (5)(ii); and

(G) The estimated change in Net Revenue as a result of any actual or reasonably anticipated changes in the Costs of Maintenance and Operation after such 12-month period.

The Professional Utility Consultant may rely upon, and his or her certificate shall have attached thereto, financial statements of the System certified by the Clerk-Treasurer showing income and expenses for the period upon which the same is based.

The certificate of the Professional Utility Consultant shall be conclusive and the only evidence required to show compliance with the provisions and requirements of this subsection (5)(ii).

(6) Notwithstanding the provisions of subsection (5), 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 such 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 (5) shall not be required.

(7) Prior to the delivery of any Future Parity Bonds, the City must have received the written consent of USDA 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 11. 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 upon money in the Revenue Fund junior or inferior to the payments required to be made out of such money into the Bond Fund for the credit of the Principal and Interest Account for the

payment of the Bond or any Future Parity Bonds, 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 USDA 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 12. Form of Bond. The Bond shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. R-1

\$4,120,178.21

STATE OF WASHINGTON

CITY OF RUSTON
SEWER REVENUE BOND, 2013

INTEREST RATE: 3.13%

The City of Ruston, 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, USDA Utilities Program (herein sometimes called the "Payee"), or its registered assigns (herein sometimes called the "Alternate Payee"), the principal sum of

FOUR MILLION ONE HUNDRED TWENTY THOUSAND ONE HUNDRED SEVENTY-EIGHT AND 21/100 DOLLARS (\$4,120,178.21)

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 3.13% per annum, payable in semiannual installments of principal and interest of \$90,603.00, payable commencing on _____ 1, 20__, and semiannually on each _____ 1 and _____ 1 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 _____ 1, 20__.

Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest on this bond shall be paid by check or draft of the City mailed on the date such interest is due or by electronic funds transfer made on the date such interest is due to the Registered Owner at the address appearing on the Bond Register. Payment of principal of this bond shall be made upon surrender of this bond to the Bond Registrar at the office designated by the Bond Registrar.

This bond is issued pursuant to Ordinance No. 1399 of the City (the "Bond Ordinance"), for the purpose of financing certain additions and improvements to the City's sewer utility (the "System"). Reference is hereby made to the Bond Ordinance for the definitions of capitalized terms used herein.

Both principal of and interest on this bond are payable solely out of the special fund of the City known as the "2013 Sewer Revenue Bond Redemption Fund" (the "Bond Fund") created by the Bond Ordinance. This bond does not constitute a general obligation 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.

The City does hereby pledge and bind itself to set aside from Gross Revenue and to pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in such fund and accounts, 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 accounts therein 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 any revenue bonds of the City hereafter issued on a parity with this bond, and superior to all other liens and charges of any kind or nature, except the Costs of Maintenance and Operation of the System.

The City has further bound itself to maintain the 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 make available, for the payment of the principal of and interest on Parity Bonds outstanding as the same shall become due, Net Revenue together with ULID Assessments actually collected for such year in an amount that will be equal to at least 1.10 times Annual Debt Service for such 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 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 and the covenants and declarations of the City and other terms and conditions upon which this bond has been issued and other bonds ranking on a parity therewith may hereafter be issued and outstanding.

This bond is a special limited obligations 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 (as hereinafter defined) until the Certificate of Authentication hereon shall have 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 Ruston, Washington, has caused this bond to be signed by the manual or facsimile signature of its Mayor, attested by the manual or facsimile signature of the Clerk-Treasurer, and the seal of the City to be impressed hereon, all as of _____, 2013.

CITY OF RUSTON, WASHINGTON

By _____ /s/ _____
Mayor

Attest:

/s/ _____
Clerk-Treasurer

CERTIFICATE OF AUTHENTICATION

This is the Sewer Revenue Bond, 2013 of the City of Ruston, Washington, dated _____, 2013, described in the Bond Ordinance.

Clerk-Treasurer, City of Ruston, as Bond Registrar

By _____

The Bond shall have endorsed thereon the following form of assignment:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner thereof hereby sells, assigns and transfers the within bond unto _____.
DATED _____

In the presence of

(Repeat this form of assignment)

Section 13. 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 and shall have the seal of the City impressed or imprinted thereon. In case either or both of the officers who have signed or attested any of the Bond cease to be such officer before such Bond have been actually issued and delivered, such Bond shall be valid nevertheless and may be issued by the City with the same effect as though the persons who had signed or attested such Bond had not ceased to be such officers, and any Bond may be signed or attested on behalf of the City by officers who at the date of actual execution of such Bond are the proper officers, although at the nominal date of execution of such Bond such officer was not an officer of the City.

Only a Bond that bear a Certificate of Authentication in the form set forth in Section 12, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bond so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this ordinance.

Section 14. 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 such 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 15. Sale of Bond. The Bond shall be sold to USDA at a price of par on the terms and conditions set forth herein and in the Letter of Conditions from USDA to the City.

Section 16. Use of Bond Proceeds. Upon the date of issuance of the Bond, proceeds of the Bond shall be deposited in the Note Fund in an amount sufficient, with other funds in the

Note Fund legally available for such purpose, to pay and redeem the Note in full. The balance of the proceeds of the Bond shall be used to pay costs of the Project and the costs of issuing the Bond.

Section 17. 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 18. 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, which 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 such provisions for the purpose of curing any ambiguities or of curing, correcting, or supplementing any defective provision contained in this ordinance or any supplemental ordinance in regard to matters or questions arising under such ordinances as the City may deem necessary or desirable and not inconsistent with such ordinances and which shall 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 USDA owns the Bond its consent must 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 Bonds 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 19. General Authorization. The Mayor, Clerk-Treasurer, 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.

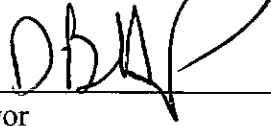
Section 20. Prior Acts. All acts taken pursuant to the authority of this ordinance but prior to its effective date are hereby ratified and confirmed.

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

Section 22. 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 Ruston, Washington, at a [regular/special] meeting thereof, held on March 19, 2013.

CITY OF RUSTON, WASHINGTON



Mayor

ATTEST:



Clerk-Treasurer

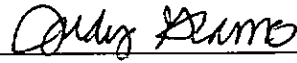
CERTIFICATE

I, the undersigned, Clerk-Treasurer of the City of Ruston, Washington (the "City"), DO HEREBY CERTIFY:

1. That the attached Ordinance 1399 (the "Ordinance") is a true and correct copy of a ordinance of the Council as passed at a [regular/special] meeting of the Council held on March 19, 2013, 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 bylaw, 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 19th day of March, 2013.



Clerk-Treasurer