

CITY OF HOMER, ALASKA

ORDINANCE NO. 87-18

AN ORDINANCE OF CITY OF HOMER, ALASKA,
AUTHORIZING THE ISSUANCE OF MUNICIPAL UTILI-
TY SEWER REVENUE BONDS IN THE PRINCIPAL AMOUNT
OF \$1,030,000 FOR THE PURPOSE OF PROVIDING
FUNDS NECESSARY TO ACQUIRE AND CONSTRUCT
IMPROVEMENTS TO THE MUNICIPAL UTILITY SEWER
SYSTEM; PROVIDING FOR THE ESTABLISHMENT OF
CERTAIN FUNDS AND ACCOUNTS; MAKING OTHER
COVENANTS AND AGREEMENTS IN CONNECTION WITH
THE FOREGOING; AND PROVIDING FOR AN EFFECTIVE
DATE.

Passed 8/10, 1987

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ORDINANCE NO. 97-18

AN ORDINANCE OF CITY OF HOMER, ALASKA, AUTHORIZING THE ISSUANCE OF MUNICIPAL UTILITY, SEWER REVENUE BONDS IN THE PRINCIPAL AMOUNT OF \$1,030,000 FOR THE PURPOSE OF PROVIDING FUNDS NECESSARY TO ACQUIRE AND CONSTRUCT IMPROVEMENTS TO THE MUNICIPAL UTILITY SEWER SYSTEM; PROVIDING FOR THE ESTABLISHMENT OF CERTAIN FUNDS AND ACCOUNTS; MAKING OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the City of Homer, Alaska (hereinafter called the "City"), a municipal corporation of the State of Alaska, owns and operates a municipal utility sewer system (hereinafter called the system); and

WHEREAS, the City has determined that it is in the best interest of the public to acquire and construct certain additions and improvements to the System, and to authorize the issuance at this time for said purpose \$1,030,000 principal amount of revenue bonds.

NOW, THEREFORE, THE CITY OF HOMER, ORDAINS:

ARTICLE I
DEFINITIONS

SECTION 1.1. Definitions.

As used in this Ordinance, the following words and phrases shall have the meanings herein set forth unless the context shall clearly indicate that another meaning is intended.

(1) "Additional Bonds" means any Bonds issued on a parity with the 1987 Bonds pursuant to Article IV of this Ordinance.

(2) "Adjusted Net Revenues" means Net Revenues as calculated pursuant to Section 4.2.G.

(3) "Annual Debt Service" for any Fiscal Year shall mean the sum of:

(a) the interest due in such Fiscal Year on all outstanding Bonds, excluding interest to be paid from the proceeds of the sale of the Bonds,

(b) the principal of all outstanding Serial Bonds due in such Fiscal Year, and

(c) the Sinking Fund Requirement, if any, for such Fiscal Year.

If the interest rate on any such Bonds is other than a fixed rate, the rate applicable at the time of computation shall be used.

For the purpose of calculating the principal and interest on Demand Bonds in any Fiscal Year, (a) if the City is obligated under any type of reimbursement agreement executed in connection with a commitment to pay principal and interest on such Demand Bonds or to pay the purchase price of or to purchase such Demand Bonds, the amount of principal and interest coming due in any Fiscal Year shall be considered to be the greater of (i) the maximum amount of principal and interest due in any Fiscal Year under the terms of the reimbursement agreement if the credit facility securing such Demand Bonds is drawn upon to its maximum amount, or (ii) the maximum scheduled principal and interest coming due in any Fiscal Year upon the Demand Bonds (assuming no demand for payment or purchase is made thereon), and such reimbursement agreement shall not otherwise be considered a separate obligation of the City, and (b) if the City is not obligated under such reimbursement agreement, the maximum amount of principal and interest coming due in any Fiscal Year shall be considered to be the maximum amount of principal and interest or purchase price which may become due upon demand in any Fiscal Year upon such Demand Bonds. Any portion of the principal of or interest on Demand Bonds or any payment required under a reimbursement agreement in connection with a letter of credit, insurance or other credit facility which is not secured on a parity of lien with the Bonds shall be excluded from Annual Debt Service.

(4) "1987 Bonds" means the \$1,030,000 of Bonds authorized to be issued by this Ordinance.

(5) "Bond Fund" means the 1987 Revenue Bond Fund established pursuant to Section 7.2 of this Ordinance. An Interest Account, Principal Account, Bond Retirement Account and Reserve Account are all accounts contained and established within the Bond Fund pursuant to Section 7.2 of this Ordinance.

(6) "Bond Register" means the books or records maintained by the Registrar for the purpose of registration of the Bonds.

(7) "Bonds" means the 1987 Bonds and any Additional Bonds. "Bonds" may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

(8) "City" means the City of Homer, Alaska, a municipal corporation of the State of Alaska.

(9) "Construction Fund" means the Construction Fund of the City established for the System.

(10) "Council" means the legislative body of the City as the same shall be duly and regularly constituted from time to time.

(11) "Demand Bonds" means Bonds upon which the owner or holder thereof may at its option demand payment of the principal and accrued interest thereof or the purchase of such Bonds by or on behalf of the City in advance of the otherwise scheduled dates for the payment of principal and interest thereon.

(12) "Fiscal Year" means the Fiscal Year used by the City at any time. At the time of the adoption of this Ordinance, the Fiscal Year is the twelve-month period beginning January 1 of each year.

(13) "Government Obligations" means direct obligations of,

or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

(14) "Net Revenues" means, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, or resulting from the early extinguishment of debt; (b) insurance and condemnation proceeds; (c) income from investment of monies on hand in the Construction Fund and other investment income restricted to a particular purpose inconsistent with its use for the payment of debt service; and (d) any other extraordinary, nonrecurring income or contribution.

(15) "Operating Expenses" means (i) the City's expenses for operation and maintenance of the System, and ordinary repairs, renewals, replacements and reconstruction of the System, including all payments (other than payments out of Bond proceeds) into reasonable reserves in the Revenue Fund for items of Operating Expenses and other costs the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, all costs of purchased power, rents, costs of transmission, operation and maintenance expenses, administrative and general expenses, engineering expenses, legal and financial advisory expenses, costs of any letter of credit or other credit enhancement device, required payments to pension, retirement, health and hospitalization funds, and insurance premiums and (ii) the fees and expenses of any remarketing agent, trustee or paying agent. Operating Expenses shall not include any costs or expenses for new construction, debt service, any allowance for depreciation or amortization, disbursement to the City from surplus money or municipal levies or payments to the City in lieu of taxes.

(16) "Ordinance" means this Ordinance, including any amendment or supplements thereto.

(17) "Paying Agent" means the bank or banks designated as Paying Agent by the City from time to time.

(18) "Permitted Investments" means the following, to the extent that the same are legal for investment of funds of the City: (a) any Government Obligations, including obligations of any of the federal agencies set forth in clause (b) below to the extent unconditionally guaranteed by the United States; (b) obligations of the Export-Import Bank of the United States, the United States Postal Service, the Government National Mortgage Association, the Federal National Mortgage Association to the extent guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, the Federal Banks for Cooperatives, the Federal Home Loan Bank, the Federal Land Banks, the Farmers Home Administration and the Federal Home Loan Mortgage Association, or any agency or instrumentality of the Federal Government which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; (c) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contribution under an annual contributions contract or contracts with the United States; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement

with the United States; (d) direct and general obligations of any State within the United States, or any political subdivision thereof, to the payment of the principal of and interest on which the full faith and credit of such State or political subdivision is pledged, provided, that at the time of their purchase, such obligations are rated in one of the two highest rating categories by either Moody's Investors Service, Inc. or Standard & Poor's Corporation; (e) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any State of the United States of America or any national banking association (including the Bond Fund Registrar, if any), provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation, or are (ii) continuously and fully secured by such securities as are described above in clauses (a) or (b), which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit; (f) repurchase agreements with any bank or trust company organized under the laws of any State of the United States or any national banking association, which is secured by such securities as described in clauses (a) or (b) above in the possession or custody of the City or its agent and in which the City has a first perfected security interest and which are free and clear of all rights of third parties, and which have an aggregate market value determined weekly of not less than 103% of the face amount of the repurchase agreement.

(19) "Qualified Letter of Credit" means any irrevocable letter of credit issued by a bank for the account of the City on behalf of the owners of the Bonds provided that such bank maintains an office, agency, or branch in the United States and provided further that, as of the time of issuance of such letter of credit, such bank is currently rated in one of the two highest rating categories in either Moody's Investors Service, Inc. or Standard & Poor's Corporation.

(20) "Professional Utility Consultant" means the independent person(s) or firm(s) selected by the City having a favorable reputation for skill and experience with facilities of comparable size and character to the System in such of the following as are relevant to the purposes for which they are retained: (a) engineering and operations and (b) the design of rates.

(21) "Qualified Insurance" means any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies; provided that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policyholder's surplus in excess of \$500,000,000.

(22) "Revenue Fund" means the fund of that name described in Section 7.1 of this Ordinance.

(23) "Reserve Account Requirement" means the maximum Annual Debt Service in any Fiscal Year following the date of computation.

(24) "Revenues" means all income (including investment income), receipts and revenues derived by the City through the ownership or operation of the System and all commodities, services and facilities, sold, furnished or supplied by the City through the ownership or operation of the System, together with the

proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the System, and together with the investment income earned on moneys held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the System (but exclusive of income derived from investments irrevocably pledged to the payment of any specific revenue bonds of the City, such as bonds heretofore or hereafter refunded, or any Bonds defeased pursuant to Section 13.2 hereof or other bonds defeased, or the payment of which is provided for, under any similar provision of any other bond ordinance of the City), and any contributions from other funds of the City or other sources, including without limitation, individual and government agencies, for purposes of the System, but shall not include any income derived by the City through the ownership and operation of any facilities that may hereafter be purchased, constructed or otherwise acquired by the City as a separate utility system.

(25) "Serial Bonds" means Bonds other than Term Bonds.

(26) "Sinking Fund Requirement" means, for any Fiscal Year, the principal amount of Term Bonds required to be purchased, redeemed or paid at maturity in such Fiscal Year as established by the ordinance of the City authorizing the issuance of such Term Bonds.

(27) "Sinking Fund Requirement Date" means, for any Fiscal Year, the date by which the Sinking Fund Requirement for such Fiscal Year must be met.

(28) "Supplemental Ordinance" means any ordinance amending, modifying or supplementing the provisions of this Ordinance, including any ordinance providing for the issuance of Additional Bonds.

(29) "System" means the municipal sewer utility properties and assets, real and personal, tangible and intangible, heretofore and hereafter purchased, constructed or otherwise acquired by the City, out of the proceeds of the sale of Bonds, or from moneys derived from the System and any additions or improvements to or extensions of said facilities acquired by the city or any other utility or utilities specifically included in the System by action of the City Council including such interest as the City may acquire jointly with another entity or entities in any facility, but shall not include any utility facilities that may be hereafter purchased, constructed or otherwise acquired by the City as a separate utility system, the revenues of which are not deposited in the Revenue Fund but are used for the operation and maintenance of such separate utility system and may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

(30) "Term Bonds" means Bonds of any principal maturity which are subject to mandatory redemption and for which mandatory sinking fund payments are required.

(31) "Finance Director" means the City Finance Director of the City.

SECTION 1.2. Interpretation.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders.

Words imparting the singular number shall include the plural numbers and vice versa unless the context shall otherwise indicate. Reference to Articles, Sections and other subdivisions of this Ordinance are to the Articles, Sections and other subdivisions of this Ordinance as originally adopted unless expressly stated to the contrary. The headings or titles of the Articles and Sections hereof, and the Table of Contents appended hereto, are for convenience of reference only and shall not define or limit the provisions hereof.

ARTICLE II
FINDINGS AND DETERMINATIONS

SECTION 2.1. Best Interests of the City.

The Council hereby finds and determines that it is in the best interests of the City and the users of the System that the City issue the 1987 Bonds for the purpose of providing funds to acquire and construct improvements and additions to the System.

SECTION 2.3. Revenues Sufficient.

The Council hereby further finds and determines that the Revenues to be derived by the City from the operation of the System at the rates to be charged for the services furnished thereby will be sufficient in the judgment of the Council to meet all expenses of operation and maintenance, and to make all necessary repairs, replacements and renewals thereof, and to permit the setting aside out of such Revenues into the Bond Fund of such amounts as may be required to pay the principal of and interest on the 1987 Bonds as the same become due and payable.

ARTICLE III
AUTHORIZATION AND ISSUANCE OF BONDS

SECTION 3.1. Authorization of Bonds.

There are hereby authorized to be issued Bonds of the City, unlimited in amount, to be known as "City of Homer, Alaska, Municipal Utility System Sewer Revenue Bonds", consisting of the 1987 Bonds and any Additional Bonds hereafter issued pursuant to Article IV of this Ordinance.

SECTION 3.2. Authorization of 1987 Bonds.

For the purpose of financing the acquisition and construction of additions and improvements to the System there is hereby authorized to be issued \$1,030,000 aggregate principal amount of Municipal Utility System Sewer Revenue Bonds, 1987 Series A (the "1987 Bonds") which shall bear interest from their date at such rates per annum and shall mature on June 1 of such years and in such amounts (and in such aggregate principal amount) as shall be fixed by resolution of the Council adopted after final passage of this Ordinance.

SECTION 3.3. Additional Provisions of 1987 Bonds.

The 1987 Bonds shall be dated August 1, 1987, shall be fully registered as to both principal and interest, shall be in denominations of \$5,000 or any integral multiple thereof, provided that no 1987 Bond shall represent more than one maturity, and shall be numbered separately in such manner and with any additional designation as the Registrar deems necessary for purposes of identification.

Both principal of and interest on the 1987 Bonds shall be payable in lawful money of the United States of America. Interest shall be paid by check or draft on the date such interest is due to the registered owner of record who is as of the fifteenth day of the calendar month next preceding the applicable interest payment date, recorded as the owner on the books of registration kept by the Registrar. Principal of the 1987 Bonds, at maturity or when otherwise due, shall be payable upon due presentment and surrender of the Bonds at the office of the Registrar. The principal of and interest on the 1987 Bonds shall be payable from the Bond Fund.

The 1987 Bonds shall bear interest from their dated date or from the most recent date to which interest has been paid or duly provided for.

Interest on the 1987 Bonds shall be payable semiannually on June 1 and December 1 of each year, beginning June 1, 1988.

The Bond Register shall be maintained by the Registrar, and shall contain the name and mailing address of the registered owner or owners of each 1987 Bond or nominee of such registered owner or owners and the principal amount and number of 1987 Bonds held by each registered owner or nominee.

SECTION 3.4. Reservation of Right to Purchase.

The City reserves the right to use moneys in the Revenue Fund or any other funds legally available therefor at any time to purchase any of the Bonds in the open market if such purchase shall be found by the City to be economically advantageous and in the best interest of the City.

Any purchases of Bonds may be made with or without tenders of Bonds and at either public or private sale.

SECTION 3.5. Redemption of 1987 Bonds.

The 1987 Bonds shall be subject to mandatory or optional redemption, at such time or times and upon such terms as shall hereafter be fixed by resolution of the City after final passage of this Ordinance.

ARTICLE IV
ISSUANCE OF ADDITIONAL BONDS

SECTION 4.1. Authorization of Series of Additional Bonds.

Before any series of Additional Bonds shall be issued under the provisions of this Article, the City shall adopt an ordinance or ordinances authorizing the issuance of such bonds, fixing the amount and the details thereof, describing in brief and general terms the purpose or purposes for which such bonds are to be issued and specifying the amount, if any, of the proceeds of such bonds to be deposited to the credit of the Construction Fund or to another fund for the payment of capitalized interest on such bonds and to the Reserve Account; provided, however, that deposits to the Reserve Account shall be provided for as required under Section 7.2.D. The bonds of each series issued under the provisions of this Section shall be designated "Municipal Utilities System Sewer Revenue Bonds, _____ Series _____",

shall be in such denominations, shall be dated, shall bear interest at a rate or rates (including variable rates) not exceeding the maximum rate then permitted by law, shall be payable, both as to principal and interest, at such place or places, shall mature in such year or years, shall be made redeemable at such times and prices (subject to the provisions of this Ordinance), shall be numbered, shall have such Paying Agents, and any Term Bonds of such series shall have such amortization requirements, all as may be provided by ordinance or ordinances adopted by the City prior to the issuance of such bonds.

SECTION 4.2. Additional Bonds.

A. Additional Bonds may be issued payable from the Bond Fund on a parity with the 1987 Bonds and any Additional Bonds theretofore issued, and secured by an equal charge and lien on the Revenues and other monies securing the Bonds, for any lawful purpose of the City related to the System; provided that, (i) except as to Bonds issued pursuant to Section 4.2.D at the time of the issuance of such Additional Bonds, there is no deficiency in the Bond Fund, and no Event of Default has occurred and is continuing, and (ii) the requirements of the applicable provisions of this Section 4.2 are complied with.

B. Additional Bonds may be issued for any lawful purpose of the City related to the System if the following requirements are met. A certificate signed by the Finance Director of the City, corroborated by an independent certified public accountant shall set forth:

(i) one-half of the amount of the Net Revenues for any consecutive twenty-four months of the thirty-six months prior to the date of the issuance of such Bonds;

(ii) the amount of the maximum Annual Debt Service of the time immediately following the issuance of such Additional Bonds; and

(iii) the percentage derived by dividing the amount shown in (i) above by the amount shown in (ii) above, and shall state that such percentage is not less than one hundred thirty-five per cent (135%);

C. Additional Bonds may also be issued for any lawful purpose of the City if the following requirements are met. A certificate signed by a Professional Utility Consultant and filed with the Finance Director of the City shall set forth:

(i) one-half of the amount of the Adjusted Net Revenues computed as provided in Section 4.2.G;

(ii) the amount of the maximum Annual Debt Service as of the time immediately following the issuance of such Additional Bonds; and

(iii) the percentage derived by dividing the amount shown in (i) above by the amount shown in (ii) above, and shall state that such percentage is not less than one hundred thirty-five percent (135%);

D. Additional Bonds may also be issued from time to time for the purpose of providing funds, with any other available funds, for retiring at or prior to their maturity or maturities any or all of the outstanding Bonds of any series, including the

payment of any redemption premium thereon, and, if deemed necessary by the City, for paying the interest to accrue thereon to the date fixed for their retirement and any expenses incident to the issuance of such Additional Bonds.

E. Additional Bonds issued under subsection D above shall not be delivered unless the proceeds (excluding any accrued interest but including any premium) of such Additional Bonds, together with any other moneys which have been made available for such purposes, and the principal of and the interest on the investment of such proceeds or any such moneys, shall be sufficient to pay the principal of and the redemption premium, if any, on the Bonds to be refunded and the interest which will become due and payable on or prior to the date of their payment or redemption, and the expenses incident to the issuance of such Additional Bonds.

If such Additional Bonds are to be issued pursuant to Section 4.2.D above,

(1) there shall be filed with the City a certificate signed by the Finance Director of the City, showing that the maximum Annual Debt Service in any Fiscal Year thereafter shall not be increased by reason of the issuance of the Additional Bonds, or

(2) There shall be filed with the City a certificate signed by a Professional Utility Consultant setting forth:

(a) one-half of the amount of the Adjusted Net Revenues computed as provided in 4.2.G;

(b) the amount of the maximum Annual Debt Service as of the time immediately following the issuance of such Additional Bonds; and

(c) the percentage derived by dividing the amount shown in (a) above by the amount shown in (b) above and stating that such percentage is not less than one hundred thirty-five percent (135%).

F. In rendering any certificate under this Section, the Professional Utility Consultant may rely upon, and such certificate shall have attached thereto, financial statements of the System, certified by the Finance Director, showing income and expenses for the period upon which the same are based and a balance sheet as of the end of such period, and similar certified statements by an independent certified public accountant, for as much of said period as any examination by them has been made and completed.

In connection with the issuance of any Bonds pursuant to subsections 4.2.C, 4.2.D, and 4.2.E of this Section, the certificate of the Professional Utility Consultant hereinabove referred to shall be conclusive and the only evidence required to show compliance with the provisions and requirements of said subsection.

G. For the purposes of the certificates required by Sections 4.2.C and 4.2.E of this Ordinance, Adjusted Net Revenues shall be computed by the Professional Utility Consultant as follows:

(a) The Net Revenues for any twenty-four consecutive months (selected by the City) out of the thirty-six months prior to the date of issuance of the Additional Bonds (such twenty-four month period being herein called the "Base Period") may be adjusted:

(i) to reflect any changes in Net Revenues for the Base Period which would have occurred if the schedule of rates and charges in effect at the time of the computation (or approved by the Council as of the time of such computation and to become effective within six months thereof) had been in effect during the portion of the Base Period in which such schedule was not in effect.

(ii) to reflect any changes in Net Revenues estimated to be received as a result of, acquiring existing facilities or the completion of construction or installation of facilities to service existing customers or customers who have applied for services;

(iii) the additional Net Revenue which would have been received by the City if any customers added to the System during such twenty-four month period were customers for the entire period;

(iv) 50% of the additional Net Revenue which will be received by the City from the new customers which the Professional Utility Consultant estimates will be added to the System during the five year period following delivery of the Additional Bonds to be issued.

The Professional Utility Consultant may rely upon, and his certificate shall have attached thereto, financial statements of the System, certified by the Finance Director, showing income and expenses for the period upon which the same is based and similar certified statements by an independent certified accountant, for as much of such period as any examination by them have been made and completed.

H. Nothing contained herein shall prevent the City from refunding at one time all of the Bonds then outstanding. Nothing contained herein shall prevent the City from issuing obligations payable from a lien on the Revenue which is junior and inferior to the Bonds.

I. Additional Bonds may be issued from time to time without complying with the requirements set forth above if, in the opinion of the Professional Utility Consultant, as evidenced by a certificate filed with the City, it is necessary to repair any damage or loss to the System or if any utility comprising a portion of the System has been destroyed or damaged by disaster or unanticipated event to such an extent that it cannot be operated; provided, however, that the proceeds of any Additional Bonds issued for such purpose may only be used to return the System to, or to maintain the System at substantially its former or then operating capacity; and provided further, that in the case of repair, such Additional Bonds may be issued only to the extent that insurance proceeds from such damage or loss are insufficient for the accomplishment of such purpose.

J. In calculating Annual Debt Service for purposes of this Section, if the interest rate on any Bonds is other than a fixed rate, the rate applicable at the time of computation shall be used, unless such rate is less than the most recently published

Bond Buyer Revenue Bonds Index for municipal revenue bonds, in which case the rate stated by such index shall be used. If such index is no longer published, another nationally recognized index for municipal revenue bonds maturing in 20 to 30 years may be used. Annual Debt Service on Demand Bonds shall otherwise be calculated as set forth in Section.

SECTION 4.3 Reimbursement Obligations.

In the event that the City elects to meet the requirements of 7.2 hereof with respect to the Reserve Account as to any issue of Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility, the City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with Bonds with respect to the Revenues, and all other monies securing the Bonds.

In the event that the City elects to additionally secure any issue of Demand Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility, the City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with Bonds with respect to the Revenues, and all other monies securing the Bonds.

ARTICLE V
GENERAL TERMS AND PROVISIONS OF BONDS

SECTION 5.1. Execution, Payment of Bonds.

The 1987 Bonds and, except as otherwise provided in the Supplemental Ordinance providing for the issuance thereof, Additional Bonds shall be executed on behalf of the City with the manual or facsimile signature of the Mayor and attested with the manual or facsimile signature of the City Clerk; and the seal of the City shall be impressed or imprinted on each of the Bonds. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer before such Bonds have been actually issued and delivered, such Bonds 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 Bonds had not ceased to be such officers. The Bonds of each series shall be payable as to principal, premium, if any, and interest in lawful money of the United States of America and, except as otherwise provided in Section 5.7 in respect of the payment of interest, shall be payable at the principal office of the Paying Agent of the City for such series of Bonds.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form set forth in Section 12.2 of this Ordinance, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Ordinance.

SECTION 5.2. Ownership of Bonds.

The City, the Registrar, the Paying Agent and any other person may treat the registered owner of any Bond as the absolute

owner of such Bond for the purpose of paying the principal thereof, and premiums, if any, and interest thereon and for all other purposes, and neither the City, the Registrar nor any Paying Agent shall be bound by any notice or knowledge to the contrary, whether such Bond or the interest thereon shall be overdue or not. All payments of or on account of interest to any registered owner (or to his registered assigns), and all payments of or on account of principal to any registered owner of any Bond, shall be valid and effectual and shall be a discharge of the City, Registrar and Paying Agent, in respect of the liability upon the Bonds or claims for principal or interest, as the case may be, to the extent of the sum or sums paid.

SECTION 5.3. Registration Books.

The City will cause books for the registration and transfer of the Bonds to be kept with the Registrar as provided in this Ordinance and any Supplemental Ordinance authorizing such Bonds at all times while any of such Bonds shall be outstanding and unpaid, and shall provide for the keeping of books for the registration and transfer of such Bonds at such office, or at such place or places, and by such persons, firms or corporations as the City shall determine.

SECTION 5.4. Transfer of Registered Bonds.

Any Bond may be transferred pursuant to its provisions at the principal office of the Registrar in accordance with the systems adopted by such Registrar and by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent in writing, and thereupon the City will execute and the Registrar will authenticate and send to the transferee a new Bond of the same series, form, interest rate, principal amount and maturity, dated so that there shall be no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Ordinance or the Supplemental Ordinance providing for the issuance thereof, one such Bond may be transferred for several such Bonds of the same series, form, interest rate and maturity, and for a like aggregate principal amount, and several such Bonds of the same series may be transferred for one or several such Bonds, respectively, of the same series, form, interest rate and maturity and for a like aggregate principal amount.

SECTION 5.5. Exchange of Bonds.

The registered owner of any Bond may, unless and except as is otherwise provided in the Supplemental Ordinance providing for the issuance thereof, at any time, surrender the same at the office of the Registrar, with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same series, interest rate and maturity, and of any one or more of the forms the issuance of which have been herein provided for; and the City will execute and the Registrar will authenticate and deliver at its office (or send to the transferee thereof) the Bonds necessary to make such exchange.

Bonds shall be issued in the denomination of \$5,000, or any integral multiple of \$5,000, unless and except as otherwise provided with respect to any series of Additional Bonds in the Supplemental Ordinance authorizing the issuance thereof.

SECTION 5.6. Disposition of Bonds Surrendered on Exchange or Transfer; Charges for Exchange and Transfer.

In every case of an exchange of Bonds, and of a transfer of any Bond, the surrendered Bonds shall be held by the Registrar. All Bonds surrendered for exchange or transfer shall be cancelled. As a condition of any such exchange or of any registration or transfer, the City at its option may require the payment by the registered owner of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so surrendered shall be valid obligations of the City evidencing the same debt as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Ordinance to the same extent as the Bonds in exchange for, or upon transfer for, which they were executed and delivered.

SECTION 5.7. Payment of Bonds and Interest.

The Bonds of each series may be presented for payment at the principal office of the Registrar or any of the Paying Agents for such series of Bonds.

The principal of all Bonds of a series shall be payable at the principal office of the Registrar or any one of the Paying Agents for such series of Bonds. Payment of the interest on each Bond shall be made on each interest payment date by check or draft drawn upon the Registrar or Paying Agent therefor and mailed by first class mail to the registered owner at his address as it appears on the Bond Register as of the fifteenth day of the month preceding the interest payment date.

All Bonds upon the payment thereof shall be cancelled and destroyed by the Registrar. A certificate evidencing such payment, cancellation and destruction shall be promptly transmitted to the City.

SECTION 5.8. Lost, Stolen, Destroyed or Mutilated Bonds.

In case any Bond shall at any time become mutilated or be lost, stolen or destroyed, the City in the case of such mutilated Bond shall, and in the case of such a lost, stolen or destroyed Bond, in its discretion may, execute and deliver a new Bond of the same series, interest rate and maturity and of like tenor and effect in exchange or substitution for and upon the surrender or cancellation of such mutilated Bond, or in lieu of or in substitution for such destroyed, stolen or lost Bond or if such stolen, destroyed or lost Bond shall be matured, instead of issuing a substitute therefor, the City may at its option pay the same without the surrender thereof. Any such exchange or substitution shall be accomplished in accordance with the laws of the state of Alaska, as the same shall be amended from time to time. Except in the case where a mutilated Bond is surrendered, the applicant for the issuance of a substitute Bond shall furnish to the City evidence satisfactory to it of the theft, destruction or loss of the original Bond, and of the ownership thereof, and also such security and indemnity as may be required by the City, and no such substitute Bond shall be issued unless the applicant for the issuance thereof shall reimburse the City for the expenses incurred by the City in connection with the preparation (including printing), execution, issuance and delivery of the substitute Bond. Any such substitute Bond shall be equally and proportionately entitled to the security of this Ordinance with all other Bonds issued hereunder, whether or not the Bond alleged to have

been lost, stolen or destroyed shall be found at any time or enforceable by anyone. The City shall advise the Registrar and Paying Agents of the issuance of substitute Bonds. All mutilated Bonds so surrendered to the City shall be cancelled by it.

SECTION 5.9. Limitations on Duty of City to Register, Exchange or Transfer Bonds.

The City shall not be required to register, discharge from registration, transfer or exchange any Bonds which have been designated for redemption within a period of thirty (30) days next preceding the date fixed for redemption.

SECTION 5.10. Paid or Surrendered Bonds Not to be Reissued.

No Bonds shall be issued in lieu of Bonds surrendered upon exchange or transfer, except as expressly provided by this Ordinance; provided that the City reserves the right to account for any Bonds redeemed at the option of the registered owner thereof prior to maturity pursuant to the Supplemental Ordinance authorizing the issuance of such Bonds as having been purchased by the City and eligible for resale or reissuance (including the issuance of substitute Bonds).

SECTION 5.11. CUSIP Identification Numbers.

At the sole option of the City, CUSIP identification numbers may be printed on the Bonds of any series of Bonds, but no such number shall be deemed to be a part of any Bond or a part of the contract evidenced thereby, and no liability shall hereafter attach to the City or any officer or agent thereof (including the Paying Agents) because of or on account of said CUSIP identification numbers or any use made thereof.

SECTION 5.12. Issuance of Coupon or Bearer Bonds.

The City reserves the right to amend and modify the provisions of this Ordinance and to include in any Supplemental Ordinance authorizing the issuance of Additional Bonds provisions relating to the issuance of bonds in bearer or coupon form; provided always that no changes can be made which would impair the obligation of the City to carry out its other promises, covenants, warranties and representations hereunder nor in any way impair its obligation to pay the principal of, premium, if any, or interest on any 1987 Bonds or any Additional Bonds.

SECTION 5.13. Temporary Bonds.

Any Bonds of any series may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this Ordinance as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered for cancellation at the office of the Registrar and the Registrar shall deliver in exchange for such temporary Bonds so surrendered an equal aggregate principal amount of definitive Bonds of like principal amount and in authorized denominations of the same series, maturity or maturities, interest rate or rates. Until so exchanged, the temporary Bonds shall be entitled to the

same benefits under this Ordinance as definitive Bonds delivered under this Ordinance.

ARTICLE VI
REDEMPTION OF BONDS

SECTION 6.1. Notice of Redemption.

Written notice of any redemption of Bonds shall be given by the City, which notice shall specify the title, series, maturities, letters and numbers or other distinguishing marks of the Bonds to be redeemed, the redemption date and the place or places where the amount due upon such redemption will be payable and, in the case of registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that upon the date fixed for redemption there shall become due and payable upon each Bond to be redeemed the principal amount thereof plus the premium, if any, due thereon upon the said redemption date, together with interest accrued to the redemption date, and that from and after the redemption date interest thereon, or on the portion of any Bond to be redeemed in part (unless the City shall default in the payment of the Bonds, or of the portion of any Bond so to be redeemed in part) shall cease to accrue and become payable. Such notice shall also further state the CUSIP numbers of all the Bonds being redeemed, the date of issue of the Bonds as originally issued, the rate of interest borne on each Bond being redeemed, the maturity date of each Bond being redeemed, and any other descriptive information needed to identify accurately the Bonds being redeemed. Such notice shall be mailed by first class mail, postage prepaid, at least thirty-five (35) days before the redemption date to the registered owners of Bonds which are to be redeemed in whole or in part at their last addresses, if any, appearing upon the Bond Register, to the Paying Agents, to all registered securities depositories then in the business of holding amounts of obligations of types comprising the Bonds, to one or more national information services that disseminate notices of redemption of obligations such as the Bonds, to Moody's Investors Service, Inc., and to Standard & Poor's Corporation, but any defect with respect to the redemption of any Bond shall not invalidate the redemption of any other Bond. The City shall transfer to the Registrar for the Bonds so to be redeemed amounts in cash which, in addition to other moneys, if any, held by such Registrar for such purpose, will be sufficient to redeem, on the redemption date, all the Bonds so to be redeemed.

Each notice shall also be published one time in the Bond Buyer of New York, New York or, if such publication is impractical or unlikely to reach a substantial number of owners of the Bonds, in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the Bonds, such publication to be made at least thirty (30) days prior to the date fixed for redemption.

SECTION 6.2. Payment of Redeemed Bonds; When Interest on Bonds Called for Redemption Ceases to Accrue.

Notice having been given by mailing in the manner provided in Section 6.1 hereof, the Bonds or portions thereof so called for redemption, together with accrued interest to the date fixed for redemption, shall become due and payable on the redemption date designated in said notice, and the Registrar and Paying Agents shall make payments thereof upon presentation and

surrender thereof at the offices of the Registrar or Paying Agents specified in such notice together with, in the case of Bonds for which payment is requested by a person other than the registered owner, a written instrument of transfer in form satisfactory to the Paying Agent, duly executed by the registered owner or his duly authorized attorney. In the event there shall be selected for redemption less than all of the Bonds represented by a Bond, the City shall execute and the Registrar shall authenticate and deliver upon the surrender of such Bond without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond or Bonds of the same series, interest rate and maturity, in either the denomination of such unredeemed balance or in any of the authorized denominations as shall be requested by the registered owner of the Bond so surrendered.

Upon the payment of the redemption price of the Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

If moneys for the redemption of all the Bonds, or portions thereof, to be redeemed on any redemption date, together with the interest to the redemption date, shall be held by the City so as to be available therefor on the date fixed for the redemption thereof, and if notice of redemption of said Bonds shall have been mailed as provided in this Article, then from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable, and all Bonds or portions thereof so called for redemption shall be payable solely from the moneys set aside for the payment thereof with the City, and said Bonds or portions thereof shall no longer be secured by the lien on and pledge of the Revenues herein created for the security and payment thereof; provided, however, that such lien and pledge shall continue in full force and effect as to the portion of any Bond not called for redemption.

ARTICLE VII
CREATION OF SPECIAL FUNDS AND ACCOUNTS
AND PAYMENTS THEREFROM

SECTION 7.1. Revenue Fund.

A. A special fund of the City is hereby created and designated the "City of Homer, Alaska, Municipal Utility Sewer Revenue Fund". Said Revenue Fund shall be maintained and continued in existence, and shall be held and administered by the City. The City covenants and agrees that it will pay or cause to be paid all Revenues into the Revenue Fund as promptly as practicable after receipt thereof.

There are hereby created in the Revenue Fund two accounts to be known as (i) the General Account, and (ii) the Contingency and Replacement Account, which accounts shall be held and used for the purposes hereinafter described. All moneys now on hand in the Revenue Fund shall be credited to the General Account, except as provided in this section.

B. The Revenues of the City shall be used only for the following purposes and in the following order of priority:

(1) All revenues paid into the Revenue Fund shall first be credited to the General Account therein and applied as follows:

(i) to make all payments required to be made into the Interest Account in the Bond Fund for the payment of accrued interest on the next interest payment date;

(ii) to make all payments required to be made into the Principal Account in the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and into the Bond Retirement Account in the Bond Fund for the mandatory redemption of Term Bonds;

(iii) to make all payments required to be made pursuant to a reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility;

(iv) to make all payments required to be made into the Reserve Account in the Bond Fund created to secure the payment of the Bonds; and

(v) to pay Operating Expenses and to maintain a balance in the Contingency and Replacement Fund sufficient in amount to enable the City to continuously meet Operating Expenses on a current basis.

(v) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any revenue bonds, warrants or other revenue obligations of the City having a lien upon Revenues and moneys in the Revenue Fund and accounts therein junior and inferior to the lien thereon for the payment of the principal of and interest on the Bonds.

(2) Subject to the provisions of Section 8.1.A, after all of the above payments and credits have been made, amounts remaining in the General Account may be used for any other lawful purpose of the City related to the System.

(3) Moneys in the Contingency and Replacement Account shall be used from time to time to make up any deficiencies in the Reserve Account, and such moneys in the Contingency and Replacement Account are hereby pledged as additional payments to the Bond Fund to the extent required for any such deficiencies. Moneys in the Contingency and Replacement Account may be used to make additions, betterments, extensions, renewals, replacements and other capital improvements to the System, to retire Bonds, or may be used by the City for any other lawful purpose of the City related to the System. There shall be maintained in the Contingency and Replacement Account a reserve sufficient to enable the City to meet operating expenses on a current basis.

Nothing contained in this Section 7.1 shall be construed to require the deposit into the Revenue Fund of any of the revenues, income, receipts or other moneys of the City derived by the City through the ownership or operation of any separate utility system heretofore or hereafter created or established from funds other than the proceeds of Bonds.

SECTION 7.2. Bond Fund.

A special fund of the City is hereby created and designated the "1987 Revenue Bond Fund" (hereinafter referred to as the "Bond Fund"). The Bond Fund shall be held in trust and administered by the City and shall be used solely for the purposes of paying the principal of, premium, if any, and interest on the Bonds, and retiring the Bonds prior to maturity in the manner herein provided. The City may designate one or more banks to serve as depository for moneys deposited in the Bond Fund provided that all moneys held by any such depository bank shall be held for the account of the City.

The Bond Fund shall contain four accounts: the Interest Account, the Principal Account, the Reserve Account and the Bond Retirement Account. The City hereby obligates and binds itself irrevocably to set aside and to pay (to the extent not otherwise provided) from moneys in the Revenue Fund into the Bond Fund, prior to the payment of any other charge or obligation against such Revenues, amounts sufficient to pay the principal of, premium, if any, and interest on all the Bonds from time to time outstanding as the same respectively become due and payable, either at the maturity thereof or in accordance with the terms of any Sinking Fund Requirement established for the retirement of Term Bonds. The fixed amounts to be paid into the Bond Fund, to the extent that such payments are not made from Bond proceeds or from other moneys which may legally be available therefor, shall be as follows and in the following order of priority, to-wit:

A. No later than the last day of the month in which any Bonds are delivered to the initial purchasers thereof and on or before the 25th day of each month thereafter, the City shall from the Revenue Fund deposit into the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 25th day of each of the months preceding the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid and credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds then outstanding.

B. No later than the 25th day of the twelfth month prior to each Serial Bond maturity, or if there are less than twelve months preceding such maturity then no later than the last day of the month immediately succeeding the month in which the Bonds are delivered to the initial purchaser(s) thereof, and on or before the 25th day of each month thereafter, the City shall deposit into the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 25th day of each succeeding month thereafter and prior to such Serial Bond maturity date, the aggregate of the amounts so paid and credited to the Principal Account would on such date be equal to the principal amount of Serial Bonds then falling due.

C. No later than the 25th day of the twelfth month prior to the date of each Sinking Fund Requirement, or if there are less than twelve months preceding such Sinking Fund Requirement Date, then on the last day of the month immediately succeeding the month in which the Bonds are delivered to the initial purchaser(s) thereof, and on or before the 25th day of each succeeding month thereafter, the City shall deposit into the Bond Retirement Account an amount such that, if the same amount were so set aside in the Bond Fund and credited to the Bond Retirement Account on the 25th day of each succeeding month thereafter and prior to such Sinking Fund Requirement Date, the aggregate of the

amounts so paid and credited to the Bond Retirement Account would be equal to the Sinking Fund Requirement for such date.

The City shall apply all the moneys paid into the Bond Fund for credit to the Bond Retirement Account to the redemption of Term Bonds on the next ensuing Sinking Fund Requirement Date (or may so apply such moneys prior to such Sinking Fund Requirement Date), pursuant to the terms of this Ordinance or of the Supplemental Ordinance authorizing the issuance thereof. The City may also apply the moneys paid into the Bond Fund for credit to the Bond Retirement Account for the purpose of retiring Term Bonds by the purchase of such Bonds at a purchase price (including accrued interest and any brokerage charge) not in excess of the principal amount thereof, in which event the principal amount of such Bonds so purchased shall be credited against the next ensuing Sinking Fund Requirement. If as of any January 1 the principal amount of the Term Bonds retired by purchase or redemption exceeds the cumulative amount required to have been redeemed by sinking fund installments on or before such January 1, then such excess may be credited against the Sinking Fund Requirement for the Term Bonds for the following Fiscal Year. Any such purchase of Bonds by the City may be made with or without tenders of Bonds in such manner as the City shall, in its discretion, deem to be in its best interest.

D. Upon the issuance of the 1987 Bonds, the City shall provide for approximately equal monthly deposits into the Bond Fund for credit to the Reserve Account from the moneys in the Revenue Fund, in such amounts and at such times so that by no later than five years from the date of issuance of such 1987 Bonds there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement; provided, however, that proceedings authorizing the issuance of Additional Bonds may provide for deposit into the Bond Fund for credit to the Reserve Account from the proceeds of such additional bonds or from any other moneys lawfully available therefor, in which event, in providing for deposits and credits required by the foregoing provisions of this paragraph, allowance shall be made for any such amounts so paid into such account. In the event of the issuance of any Additional Bonds, the Supplemental Ordinance authorizing the issuance of such Additional Bonds shall provide for further and additional approximately equal monthly deposits into the Bond Fund for credit to the Reserve Account from the moneys in the Revenue Fund, in such amounts and at such times so that by no later than five years from the date of issuance of such Additional Bonds or by the final maturity established for such series of Additional Bonds, whichever occurs first, there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement; provided, however, that the proceedings authorizing the issuance of Additional Bonds may provide for payments to the Registrar for deposit into the Bond Fund for credit to the Reserve Account from the proceeds of such Additional Bonds or from any other moneys lawfully available therefor, in which event, in providing for deposits and credits required by the foregoing provisions of this paragraph, allowance shall be made for any such amounts so paid into such Account.

Subject to the two preceding sentences, the moneys and value of Permitted Investments in the Reserve Account shall be determined as of the last business day of each Fiscal Year and maintained at an amount at least equal to the Reserve Account Requirement, except where it is necessary for the City to make a transfer therefrom to the Interest Account, Principal Account or Bond Retirement Account because of an insufficiency of money

therein to make any required payment of principal of or interest on any Bonds when due.

If at any time the moneys and value of Permitted Investments in the Reserve Account shall exceed the amount of moneys and value of Permitted Investments then required to be maintained therein by ten percent (10%), such excess may be transferred to the City for deposit in the General Account in the Revenue Fund.

For the purpose of determining the amount credited to the Reserve Account, obligations in which moneys in the Reserve Account shall have been invested shall be valued at the market value thereof. The term "market value" shall mean, in the case of securities which are not then currently redeemable at the option of the holder, the current bid quotation for such securities, as reported in any nationally circulated financial journal, and the current redemption value in the case of securities which are then redeemable at the option of the holder. For obligations which mature within six months, the market value shall be the par value thereof. The valuation of the amount in the Reserve Account shall be made by the City as of the close of business on each December 31 (or on the next preceding business day if December 31 does not fall on a business day) and may be made on each June 30 (or on the next preceding business day if June 30 does not fall on a business day). If the valuation of the amount in the Reserve Account shall be less than the Reserve Account Requirement, the City shall transfer from the Contingency and Replacement Account for credit to the Reserve Account on or before the twenty-fifth day of each of the six succeeding calendar months one-sixth of the amount necessary to make the valuation of the amount in the Reserve Account equal to 100% of the Reserve Account Requirement.

In making the payments and credits to the Principal Account, Interest Account, Bond Retirement Account and Reserve Account required by this Section 7.2, to the extent that such payments are made from Bond proceeds, from moneys in any capitalized interest account, or from other moneys which may legally be available; such payments are not required to be made from the Revenue Fund.

In making the payments and credits to the Reserve Account required by this Section 7.2, to the extent that the City has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the Reserve Account, such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account by Section 7.2 hereof to the extent that the Bonds for which such payments and credits are to be made are insured by an insurance company, or guaranteed by a letter of credit from a bank. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than five years notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the first paragraph of this subsection D, as if the Bonds so insured which remain outstanding had been issued on the date of such notice of cancellation.

E. In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account in the Bond Fund, the City shall promptly make up such deficiency from the Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will

provide cash in the Reserve Account sufficient to make up any such deficiency and if a deficiency still exists immediately prior to an interest payment date and after withdrawal of cash, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or Qualified Insurance shall provide. The City covenants and agrees that any deficiency created in the Reserve Account by reason of any withdrawal therefrom for payment into the Interest Account, Principal Account or Bond Retirement Account shall be made up from moneys in the Revenue Fund first available and then for the required payments into such Interest, Principal and Bond Retirement Accounts.

Moneys in the Bond Fund shall be transmitted to the Registrar and Paying Agents in amounts sufficient to meet the maturing installments of principal of, premium, if any, and interest on the Bonds when due. All moneys remaining in the Bond Fund after provision for the payment in full of the principal of, premium, if any, and interest on the Bonds shall be returned to the Revenue Fund.

The City shall have complete authority and responsibility to draw upon any Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility in the priority listed above and in an amount sufficient to provide for payments from the Interest Account, Principal Account or Bond Retirement Account.

The Bond Fund shall be drawn upon solely for the purpose of paying the principal of, premium, if any, and interest on the Bonds. Moneys set aside from time to time with the Paying Agents for such payment shall be held in trust for the owners of the Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the owners of all Bonds at the time outstanding equally and ratably.

SECTION 7.3. Construction Fund.

A special fund of the City is hereby created and designated as the "Construction Fund" which shall continue to be held in trust and administered by the City.

SECTION 7.4. Investment of Funds.

Moneys held for the credit of the Revenue Fund, Construction Fund, and Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the City solely in, and obligations deposited in such accounts shall consist of, investments described in clauses (a), (b), (c), (d), (e) and (f), inclusive of the definition of Permitted Investments which shall mature prior to the respective dates when the moneys held for the credit of such Accounts will be required for the purposes intended. Moneys in the Reserve Account in the Bond Fund not required for immediate disbursement for the purposes for which such Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the City solely in, and obligations deposited in the Reserve Account shall consist of, investments described in clauses (a), (b), (c), (d), (e) and (f), in the definition of Permitted Investments, maturing or subject to redemption at the option of the owner thereof within 20 years from the date of such

investment (but maturing prior to the final maturity date of the Bonds then outstanding).

Except to the extent there are deficiencies in any account in the Bond Fund, all income received from the investment of moneys in the Bond Fund shall be from time to time deposited in the Revenue Fund or credited against the monthly amount required to be deposited in such account.

ARTICLE VIII
COVENANTS TO SECURE BONDS

The City covenants and agrees with the purchasers and owners of all Bonds issued pursuant to this Ordinance, so long as any such Bonds are outstanding, as follows:

SECTION 8.1. Security for Bonds.

A. All Bonds are special limited obligations of the City payable from and secured solely by Revenues, and by other moneys and assets specifically pledged hereunder for the payment thereof. There are hereby pledged as security for the payment of the principal of, premium, if any, and interest on all Bonds in accordance with the provisions of this Ordinance, subject only to the provisions of this Ordinance restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in this Ordinance: (i) the Revenues, and (ii) the moneys and investments, if any, credited to the Revenue Fund, the Construction Fund, and the Bond Fund, and the income therefrom. The Revenues and other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City regardless of whether such parties have notice thereof.

All Bonds now or hereafter outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the ordinance providing for their issuance or by reason of their series, number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments and covenants made herein, except as otherwise expressly provided or permitted in this Ordinance and except as to insurance which may be obtained by the City to insure the repayment of one or more series or maturities within a series.

Except as provided by Section 4.3 hereof, the pledge of the Revenue and of the amounts to be paid into and maintained in the funds and accounts described above in this Section to pay and secure the payment of Bonds is hereby declared to be a prior lien and charge on the Revenues and the moneys and investments in such funds and accounts superior to all other liens and charges of any kind or nature.

B. No moneys may be removed from the Revenue Fund for transfer to any fund of the City not described in this Ordinance while any deficiency exists and is continuing in any payment required by this Ordinance into the Bond Fund or any account therein.

Bonds shall not in any manner or to any extent constitute general obligations of the City or of the State of Alaska, or any political subdivision of the State of Alaska, or a charge upon

any general fund or upon any moneys or other property of the City or of the State of Alaska, or of any political subdivision of the State of Alaska, not specifically pledged thereto by this Ordinance.

SECTION 8.2. Rate Covenant - General.

The City will establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the System which shall be fair and nondiscriminatory and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Bonds for which the payment has not otherwise been provided, for all payments which the City is obligated to make into the Bond Fund, and for the proper operation and maintenance of the System, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the System or the Revenues therefrom, or payments in lieu thereof, and the payment of all other amounts which the City may now or hereafter become obligated to pay from the Revenues by law or contract.

SECTION 8.3. Rate Covenant - Debt Service Coverage.

The City will also establish, maintain and collect rates and charges which shall be adequate to provide in each Fiscal Year Net Revenues in an amount equal to at least 1.35 times the maximum Annual Debt Service on the then outstanding Bonds in any succeeding Fiscal Year.

The calculation of the coverage requirement set forth above, and in Section 4.2 hereof, and the City's compliance therewith, may be made solely with reference to this Ordinance without regard to future changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then an event of default relating to this coverage requirement shall not be considered an Event of Default if the coverage requirement ratio would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this Ordinance.

SECTION 8.4. Restrictions on Contracting of Obligations Secured by Revenues.

A. The City will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other revenue obligations, or issue any bonds, warrants or other obligations or create any additional indebtedness which will rank prior to the charge and lien on the Revenues or properties of the System.

B. The City will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other revenue obligations, or issue any bonds, warrants or other obligations or create any additional indebtedness which will rank on a parity with the charge and lien on the Revenues or properties of the System for the payments into the Bond Fund, except as provided under Article 4.3 hereof.

C. The City may issue bonds, notes, warrants or other obligations payable from and secured by a lien on the Revenues of the System that is subordinate or inferior to the lien on such Revenues securing the Bonds and may create a special fund or funds for payment of such subordinate obligations.

SECTION 8.5. Covenant to Maintain System in Good Condition.

The City shall at all times maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the System and all additions and betterments thereto and extensions thereof and every part and parcel thereof, in good repair, working order and condition, and will from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted. The City will at all times operate such properties and the business in connection therewith or cause such properties and business to be operated in an efficient manner and at a reasonable cost.

SECTION 8.6. Covenants Concerning Disposal of Properties of System.

The City shall not sell, mortgage, lease or otherwise dispose of the properties of the System except as provided in this Section.

A. The City will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment, redemption or other retirement of all Bonds then outstanding.

B. Except as provided in C below, the City will not sell or otherwise dispose of any part of the System unless provision is made for the payment, redemption or other retirement of a principal amount of Bonds equal to the greater of the following amounts:

(1) An amount which will be in the same proportion to the net principal amount of Bonds then outstanding (defined as the total principal amount of Bonds outstanding less the amount of cash and investments in the Principal Account and Bond Retirement Account in the Bond Fund) that the Revenues attributable to the part of the System sold or disposed of for the twelve preceding months bears to the total Revenues for such period; or

(2) An amount which will be in the same proportion to the net principal amount of Bonds then outstanding that the book value of the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

C. The City may sell or otherwise dispose of any part of the System 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. If the proceeds of any single sale or disposition pursuant to the foregoing proviso, exceed 0.15% of Net Revenue for the preceding Fiscal Year, such proceeds shall be paid into the Reserve Account to the extent necessary to make up any deficiency in said Reserve Account and the balance, if any, shall be used for renewals, re-

placements or capital additions to the System, or be added to the Reserve Account.

D. The proceeds of sale of any part of the System under paragraphs B or C above shall be deposited in the Reserve Account, to the extent of any deficiency therein, and the balance deposited in the Revenue Fund.

E. No sale of any part of the System, for a price in excess of 10% of the book value of the System, shall be made if, in the opinion of a Professional Utility Consultant, based on financial statements of the System for the most recent Fiscal Year available, such sale would prevent the City from meeting the requirements of the first paragraph of Section 8.3.

SECTION 8.7. Insurance.

The City shall either self-insure or, as needed, and to the extent insurance coverage is available at reasonable cost with responsible insurers, keep, or cause to be kept, the System and the operation thereof insured, with policies payable to the City, against the risks of direct physical loss, damage to or destruction of the System, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by utilities operating like properties.

In the event of any loss or damage, the City will promptly repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy for that purpose; or in the event the City should determine not to repair or reconstruct such damaged portion of the properties of the System, the proceeds of such insurance shall be paid into the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in said Reserve Account and the balance, if any, shall at the option of the City, be used either for repairs, renewals, replacements, or capital additions to the System or for the purchase, payment or redemption of Bonds.

SECTION 8.8. Condemnation.

In the event of any loss or damage to the properties of the System by reason of condemnation, the City will (i) with respect to each such loss, promptly replace, repair and reconstruct to the extent necessary to the proper conduct of the operations of the System the condemned portion thereof and shall apply the proceeds of any condemnation award for that purpose to the extent required therefor, or (ii) if the City shall not use the entire proceeds of such condemnation award to repair, replace or reconstruct such lost or damaged property, such award not so used shall be paid into the Revenue Fund, and if appropriate in the opinion of the the City shall be used to purchase or redeem Bonds or to acquire or construct extensions, betterments and improvements to the System.

SECTION 8.9. Books of Account.

The City shall keep proper books of account in accordance with any applicable rules and regulations prescribed by the State of Alaska. The City shall cause its books of account to be audited annually by independent certified public accountants licensed, registered or entitled to practice, and practicing as such, under the laws of the State of Alaska. The City will furnish a copy of the most recent audit report to any owner of Bonds

upon written request therefor. Any owner of Bonds may also obtain at the offices of the City copies of the balance sheet and income and expense statements showing in reasonable detail the financial condition of the System as of the close of each Fiscal Year, including the transactions relating to the Revenue Fund, the Bond Fund, and all other funds and accounts created or maintained pursuant to the provisions of this Ordinance.

SECTION 8.10. Covenant Not to Render Service Free of Charge.

So long as any Bonds are outstanding, the City shall not furnish or supply or permit the furnishing or supplying of any commodity, service or facility furnished by or in connection with the operation of the System, free of charge to any person, firm or corporation, public or private, and the City will promptly enforce the payment of any and all accounts owing to the City and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit.

SECTION 8.11. Covenant to Make Only Economically Sound Improvements.

The City shall not expend any moneys in the Revenue Fund or the proceeds of Additional Bonds or other obligations for any renewals, replacements, extensions, betterments and improvements to the System which are not economically sound, and which will not properly and advantageously contribute to the conduct of the business of the System in an efficient and economical manner; provided that the foregoing shall not preclude the City from paying any legal or contractual obligations.

SECTION 8.12. Covenant to Pay Bond Principal and Interest Punctually.

The City shall duly and punctually pay or cause to be paid, but only from Revenues, and other moneys pledged therefor, under this Ordinance, the principal of, premium, if any, and interest on each and every Bond on the dates and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in this Ordinance and each Supplemental Ordinance authorizing Additional Bonds.

SECTION 8.13. Covenant to Pay Taxes, Assessments and Other Claims.

The City shall from time to time duly pay and discharge, or cause to be paid and discharged, when the same shall become due, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the System or the Revenues, and all claims for labor and materials and supplies which, if not paid, might become a lien or charge upon the System, or any part thereof, or upon the Revenues (prior to the lien thereon for the payment of the Bonds), or which might in any way impair the security of the Bonds, except taxes, assessments, charges or claims which the City shall in good faith contest by proper legal proceedings.

SECTION 8.14. Employees to be Bonded.

All employees or agents of the City, collecting or handling Revenue or money deposited in any fund or account hereby established, shall at all times be bonded by a responsible surety company, or companies, in amounts sufficient to protect the City adequately from loss.

SECTION 8.15. Rebate Requirement.

There is hereby authorized to be created in the Bond Fund a "Municipal Utility System Sewer Revenue Bonds, 1987 Series A, Excess Earnings Account" (the "Excess Earnings Account") to be held separate of other accounts of the City. The City shall make deposits into and withdrawals and payments from the Excess Earnings Account at such times and in such manner as provided herein.

In the event that the City shall invest moneys allocable to the 1987 Bonds within the bond Fund, Construction Fund (including all accounts therein) in any investments which generate income that must be rebated or paid to the United States of America pursuant to Section 148(f) of the Code, such income shall be deposited annually from such Fund earning said income (provided there is no deficiency in such Funds) into the Excess Earnings Account, or in the event of a deficiency in such Funds an amount equal to such income shall be deposited into the Excess Earnings Account from other moneys of the City legally available therefore. Moneys in the Excess Earnings Account shall be applied to pay such sums as are required to be paid to the United States of America pursuant to Section 148(f) of the Internal Revenue Code of 1986 and applicable regulations in order to maintain the exemption from federal income tax of the interest on the Bonds.

SECTION 8.16 Tax-Exemption.

The City hereby covenants that it will not make any use of the proceeds from the sale of the 1987 Bonds or any other monies or obligations of the City which may be deemed to be proceeds of such 1987 Bonds pursuant to Section 148(a) of the Code and the applicable regulations thereunder which, if such use has been reasonably expected on the date of delivery of the 1987 Bonds to the initial purchasers thereof, would have caused the 1987 Bonds or Bond to be "arbitrage bonds" within the meaning of said section of the Code and said regulations. The City will comply with the applicable requirements of Section 148(f) of the Code and the applicable regulations thereunder throughout the term of the 1987 Bonds. The City covenants that it will not act or fail to act in a manner which will cause the 1987 Bonds or other Bonds to be considered obligations not described in Section 103(a) of the Code.

The City will take no actions and will make no use of the proceeds of the 1987 Bonds or any Bonds or any other funds held under this Ordinance which would cause any 1987 Bonds or other Bonds to be treated as a "private activity bond" (as defined in Section 141(b) of the Code then in effect) subject to treatment under said Section 141(b) as an obligation not described in subsection (a) of said Section 103, unless the tax exemption thereof is not affected.

ARTICLE IX
SUPPLEMENTAL AND AMENDATORY ORDINANCES

SECTION 9.1. Amendments Without Consent of Bondowners.

The City may adopt at any time and from time to time without the consent of the owners of any Bonds an ordinance or ordinances supplemental to or amendatory of this Ordinance and any Supplemental Ordinance theretofore adopted for any one or more of the following purposes:

(1) To provide for the issuance of Additional Bonds pursuant to Article IV hereof, and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(2) To add additional covenants and agreements of the City for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the City contained in this Ordinance or any Supplemental Ordinance;

(3) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the City payable from the Revenues which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(4) To surrender any right, power or privilege reserved to or conferred upon the City by the terms of this Ordinance;

(5) To confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of this Ordinance of the Revenues or of any other moneys, securities or funds;

(6) To cure any ambiguity or defect or inconsistent provision of this Ordinance or any Supplemental Ordinance or to insert such provisions clarifying matters or questions arising under this Ordinance or any Supplemental Ordinance as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this Ordinance or any Supplemental Ordinance as theretofore in effect;

(7) To appoint a trustee and specify the qualifications, duties, rights and immunities of such trustee and to adopt additional provisions relating to the disbursement of moneys; or

(8) To modify any of the provisions of this Ordinance, or any Supplemental Ordinance in any other respect; provided that such modification shall not be effective until after the Bonds outstanding as of the date of adoption of such ordinance shall cease to be outstanding, and any Bonds issued under such ordinance shall contain a specific reference to the modifications contained in such subsequent ordinance.

SECTION 9.2. Amendments With Consent of Bondowners.

The provisions of this Ordinance and of any Supplemental Ordinance may be modified at any time or from time to time by a

Supplemental Ordinance, with the consent of bondowners in accordance with and subject to the provisions of Article XI hereof.

SECTION 9.3. Filing of Amendment.

No amendment of this Ordinance or any Supplemental Ordinance shall become effective until filed with the City Clerk together with an opinion of nationally recognized bond counsel that such amendment has been validly enacted and that it is effective in accordance with its terms.

ARTICLE X
EVENTS OF DEFAULT

SECTION 10.1. Events of Default.

The Council of the City hereby finds and determines that the continuous operation of the System and the collection, deposit and disbursement of the Revenues in the manner provided in this Ordinance and in any Supplemental Ordinance are essential to the payment and security of the Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Ordinance or any such Supplemental Ordinance will endanger the necessary continuous operation of the System and the application of the Revenues to the purposes set forth in this Ordinance. The Ordinance and each Supplemental Ordinance adopted pursuant to Article IX are hereinafter in this Article X and in Article XI referred to collectively as "the Ordinance".

The City hereby covenants and agrees with the purchasers and owners from time to time of the Bonds, in order to protect and safeguard the covenants and obligations undertaken by the City securing the Bonds, that the following shall constitute "Events of Default":

(1) If default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(2) If default shall be made in the due and punctual payment of any installment of interest on any Bond;

(3) If the City shall fail, by any Sinking Fund Requirement Date, to have purchased or redeemed Term Bonds in a cumulative principal amount at least equal to the cumulative Sinking Fund Requirements at such Sinking Fund Requirement Date;

(4) If the City shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in the Ordinance and such default or defaults shall have continued for a period of 90 days (or the City shall not have begun, with due diligence, to cure such default within 45 days) after the City shall have received from the owners of not less than 10% in principal amount of the Bonds outstanding, a written notice specifying and demanding the cure of such default;

(5) If an order, judgment or decree shall be entered by any court of competent jurisdiction: (a) appointing a receiver, trustee or liquidator for the City or the whole or any substantial part of the System; (b) approving a petition

filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State of Alaska; or (c) assuming custody or control of the City or of the whole or any substantial part of the System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or

(6) If the City shall: (a) admit in writing its inability to pay its debts generally as they become due; (b) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (c) make an assignment for the benefit of its creditors; (d) consent to the appointment of a receiver of the whole or any substantial part of the System; or (e) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any substantial part of the System.

ARTICLE XI
AMENDMENTS AND BONDOWNERS MEETINGS

SECTION 11.1. Call of Bondowners Meetings.

The City or the owners of not less than twenty percent (20%) in principal amount of the Bonds then outstanding may at any time call a meeting of the owners of the Bonds. Every such meeting shall be held at such place in the City of New York, State of New York, or Homer, Alaska, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be transacted, shall be mailed to the bondowners by the City, the bondowners calling such meeting not less than thirty (30) nor more than sixty (60) days before such meeting, and shall be published at least once a week for four (4) successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) nor more than sixty (60) days preceding the meeting; provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. The expenses of publication of such notice shall be paid or reimbursed by the City. Any meeting of bondowners shall, however, be valid without notice if the owners of all Bonds then outstanding are present in person or by proxy or if notice is waived before or within thirty (30) days after the meeting by those not so present.

SECTION 11.2. Notice to Bondowners.

Except as otherwise provided in this Ordinance, any provision in this Ordinance for the mailing of a notice or other paper to bondowners shall be fully complied with if it is mailed by first class mail, postage prepaid, to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the Bond Register; and any provision in this Ordinance contained for publication of a notice or other matter shall require the publication thereof in "The Daily Bond Buyer" in the City of New York, State of New York (or in lieu of publication in

"The Daily Bond Buyer", in a daily newspaper printed in the English language and customarily published on each business day of general circulation in the Borough of Manhattan, the City of New York, State of New York).

SECTION 11.3. Proxies; Proof of Ownership of Bonds.

Attendance and voting by bondowners at such meetings may be in person or by proxy. Owners of Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power and substitution, as their proxy to vote at any meeting for them. Officers or nominees of the City may be present or represented at such meeting and take part therein but shall not be entitled to vote thereat, except as such officers or nominees are bondowners or proxies for bondowners.

Any registered owner of Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Bonds registered in his name without producing such Bonds, and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspectors of Votes and filed with the Secretary of the meeting.

The vote at any such meeting of the owner of any Bond entitled to vote thereat shall be binding upon such owner and upon every such subsequent owner of such Bond (whether or not such subsequent owner has notice thereof).

SECTION 11.4. Execution of Instruments by Bondowners.

Any request, direction, consent or other instrument in writing required or permitted by this Ordinance to be signed or executed by bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such bondowners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this Ordinance if made in the following manner: (1) The fact and date of the execution by any person of any such instrument may be proved by either (a) an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or (b) an affidavit of a witness to such execution sworn to before such a notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

The foregoing shall not be construed as limiting the City to such proof, it being intended that the City may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the owner of any Bond shall bind every future owner of the same Bond in respect of anything done by the City in pursuance of such request, direction or consent.

The right of a proxy for a bondowner to act may be proved (subject to the City's right to require additional proof) by a written proxy executed by such bondowner as aforesaid.

SECTION 11.5. Appointment of Officers at Bondowners Meetings.

Persons named by the City or elected by the owners of a majority in principal amount of the Bonds represented at the meeting in person or by proxy in the event the City is not represented at such meeting, shall act as temporary Chairman and temporary Secretary of any meeting of bondowners. A permanent Chairman and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent Chairman of the meeting shall appoint two (2) Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairman and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting and with the City their verified report of all such votes cast at the meeting.

SECTION 11.6. Quorum at Bondowners Meetings.

The owners of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting; provided, however, that, if such meeting is adjourned by less than a quorum for more than ten (10) days, notice thereof shall be published by the City at least five (5) days prior to the adjourned date of the meeting.

SECTION 11.7. Vote Required to Amend Ordinance.

Any amendment to the provisions of the Ordinance, in any particular except the percentage of bondowners the approval of which is required to approve such amendment, may be made by a Supplemental Ordinance of the City and a resolution duly adopted by the affirmative vote at a meeting of bondowners duly convened and held, or with written consent as hereinafter provided in Section 11.9 hereof, of the owners of not less than fifty per cent (50%) in principal amount of the Bonds outstanding when such meeting is held or such consent is given; provided, however, that no such amendment shall (a) extend the date of payment of the principal of any Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (b) give to any Bond or Bonds any preference over any other Bond or Bonds secured equally and ratably therewith; (c) reduce the aforesaid percentage of Bonds, the owners of which are required to consent to any such ordinance amending the provisions of this Ordinance; or (d) authorize the creation of any pledge prior to or, except as provided in Article IV hereof for the issuance of Additional Bonds, on a parity with the pledge afforded by this Ordinance, without the consent of the owner of each such Bond affected thereby.

SECTION 11.8. Obtaining Approval of Amendments at Bondowners Meeting.

The City may at any time adopt an ordinance amending the provisions of the Ordinance to the extent that such amendment is permitted by the provisions of Section 11.7 hereof, to take effect when and as provided in this Section. At any time thereafter such ordinance may be submitted by the City for approval to a

meeting of the bondowners duly convened and held in accordance with the provisions of the Ordinance. A record in duplicate of the proceedings of each meeting of the bondowners shall be prepared by the permanent Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of the Ordinance. Such a record shall be signed and verified by the affidavits of the permanent Chairman and the permanent Secretary of the meeting, and one duplicate thereof shall be delivered to the City. Any record so signed and verified shall be proof of the matters therein stated. If the ordinance of the City making such amendment shall be approved by a ordinance duly adopted at such meeting of bondowners by the affirmative vote of the owners of the required percentages of Bonds, a notice stating that a ordinance approving such amendment has been so adopted shall be mailed by the City to each bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such ordinance) and shall be published at least once in the manner provided in Section 11.2 hereof. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the City. Such ordinance of the City making such amendment shall be deemed conclusively to be binding upon the City, Registrar, the Paying Agents, and the owners of all Bonds at the expiration of thirty (30) days after the publication of the notice provided for in this Section, except in the event of a final decree of court of competent jurisdiction setting aside such ordinance or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the City, Registrar, and any Paying Agents during such thirty (30) day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such ordinance as they may deem expedient. Nothing in the Ordinance contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of bondowners or of any right conferred hereunder to make such a call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Paying Agents or the bondowners under any of the provisions of the Ordinance.

SECTION 11.9. Alternate Method of Obtaining Approval of Amendments.

The City may at any time adopt a ordinance amending the provisions of the Ordinance, or of any Bonds, to the extent that such amendment is permitted by the provisions of this Article, to take effect when and as provided in this Section. Upon adoption of such ordinance, a request that bondowners consent thereto shall be mailed by the City to the bondowners and notice that the City is requesting bondowners to consent to such amendment shall be published at least once in the manner provided in Section 11.2 hereof. Such ordinance shall not be effective unless and until there shall have been filed with the City the written consents of the percentages of owners of outstanding Bonds specified in Section 11.7 hereof and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 11.3 hereof. A certificate or certificates of the City Clerk or the Registrar he has examined such proof and

that such proof is sufficient shall be conclusive that the consents have been given by the owners of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of the Bonds giving such consent and on every subsequent owner of such Bonds (whether or not such subsequent owner has notice thereof). A notice stating that the ordinance has been consented to by the owners of the required percentages of bonds and will be effective as provided in this Section, may be given to the bondowners by mailing such notice to the bondowners, and shall be given by publishing the same at least once in the manner provided in Section 11.2 hereof. A record, consisting of the papers required by this Section to be filed with the City shall be proof of the matters therein stated, and the ordinance shall be deemed conclusively to be binding upon the City and the owners of all Bonds at the expiration of thirty (30) days after the notice last provided for in this Section, except in the event of a final decree of a court of competent jurisdiction setting aside such consent or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period.

SECTION 11.10. Amendment of Ordinance In Any Respect by Approval of All Bondowners.

Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the City and of the owners of the Bonds and the terms and provisions of the Bonds and of the Ordinance, may be amended in any respect with the consent of the City, by the affirmative vote of the owners of all said Bonds then outstanding at a meeting of bondowners called and held as hereinabove provided, or upon the adoption of an ordinance by the City and the consent of the owners of all the Bonds then outstanding, such consent to be given as provided in Section 11.9 except that no notice to bondowners either by mailing or publication shall be required, and the amendment shall be effective immediately upon such unanimous vote or written consent of all of the bondowners.

SECTION 11.11. Bonds Owned by City.

Bonds owned or held by or for the account of the City shall not be deemed outstanding for the purpose of any vote or consent or other action or any calculation of outstanding Bonds in this Ordinance provided for, and shall not be entitled to vote or consent or take any other action in this Ordinance provided for.

SECTION 11.12. Endorsement of Amendment on Bonds.

Bonds delivered after the effective date of any action amending this Ordinance taken as hereinabove provided may bear a notation by endorsement or otherwise as to such action, and in that case, upon demand of the owner of any Bond outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Registrar, suitable notation shall be made on such Bond by the Registrar as to any such action. If the City shall so determine, new Bonds so modified as in the opinion of the City and its counsel to conform to such action shall be prepared, delivered and upon demand of the owner of any Bond then outstanding shall be exchanged without cost to such bondowner for Bonds then outstanding hereunder, upon surrender of such Bonds.

ARTICLE XII
FORM OF BONDS

SECTION 12.1. Form of Bonds.

The 1987 Bonds shall be in substantially the form provided in Section 12.2 of this Ordinance. The bonds of each series of Additional Bonds shall, unless or except as is otherwise provided in the Supplemental Ordinance or Ordinances authorizing their issuance, be in substantially the form provided in Section 12.2, with such modifications, additions or deletions as may be necessary or advisable to reflect the details and provisions of the issuance of such Bonds and the provisions of this Ordinance authorizing the same or as otherwise required or permitted by the provisions of this Ordinance.

SECTION 12.2. Form of 1987 Bonds.

The 1987 Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

STATE OF ALASKA

\$ _____

CITY OF HOMER

MUNICIPAL UTILITY SYSTEM

SEWER REVENUE BOND

1987 SERIES A

Interest Rate: Maturity Date: CUSIP No.:

Registered Owner:

Principal Amount:

The City of Homer, Alaska, a municipal corporation of the State of Alaska (hereinafter called the "City"), for value received, hereby promises to pay to the Registered Owner stated above, or registered assigns, the Principal Amount stated above on the Maturity Date stated above and to pay interest on such principal sum from the date hereof or the most recent date to which interest has been paid or duly provided for, at the rate of interest stated above, payable semiannually on the first day of June and the first day of December in each year until the payment in full of such principal sum.

Payments of principal of and interest and premium, if any, on this bond are payable solely out of the revenue of the System and moneys pledged therefor under the Ordinance. Such payments are made out of the special fund of the City known as the "1987 Revenue Bond Fund" created and established by Ordinance No. 87-18, adopted by the City Council of the City on 8/10/87, 1987 (hereinafter referred to as the "Bond Fund"). Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid by mailing a check or draft to the registered owner or assigns at the address shown on the Bond Register as of the 15th day of the month prior to the interest payment date. Principal shall be paid to the registered owner or assigns upon presentation and surrender of this bond at the principal office of Registrar.

Reference is hereby made to additional provisions of this bond set forth on the reverse side hereof and such additional provisions shall for all purposes have the same effect as if set forth on this space.

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 Registrar.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Alaska to exist, to have happened and to have been performed precedent to and in the issuance of this Bond to 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.

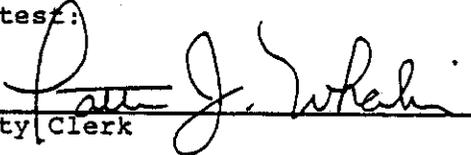
IN WITNESS WHEREOF, the City of Homer, Alaska, by its City Council, has caused this Bond to be executed in its name with the manual or facsimile signature of its Mayor, and attested by the manual or facsimile signature of the City Clerk, and the seal of said City to be impressed or imprinted hereon, all as of the ___ day of ___, 1987.

CITY OF HOMER, ALASKA



Mayor

(SEAL)

Attest:


City Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Ordinance and is one of the Municipal Utility System Sewer Revenue Bonds, 1987 Series A of City of Homer, Alaska, dated _____, 1987.

By _____
Registrar

By _____
Authorized Officer

ADDITIONAL BOND PROVISIONS

This bond is one of a duly authorized series of bonds aggregating \$ _____ in principal amount and designated as "Municipal

Utility System Sewer Revenue Bonds, 1987 Series A." This bond and the bonds of the series of which it is a part (hereinafter referred to as the "Bonds") are issued under and pursuant to the aforesaid Ordinance No. _____ (said ordinance hereinafter being referred to as the "Bond Ordinance"), and under the authority of and in full compliance with the Constitution and laws of the State of Alaska. The Bonds are issued for the purpose financing certain improvements and additions to the Municipal Sewer Utility System of the City. The Bond Ordinance permits the issuance of Additional Bonds payable from the Bond Fund ranking on a parity with the Bonds and secured by an equal charge and lien on the Revenues of the System (as such terms are defined in the Bond Ordinance).

Copies of the Bond Ordinance are on file at the office of the City and at the principal office of each paying agent for this Bond, and reference thereto, and to any and all modifications and amendments thereof, is hereby made for a more complete description of the Revenues available for the payment of the principal of, premium, if any, and interest on the Bonds and the rights and remedies of the owners of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and conditions upon which this Bond shall no longer be secured by the Bond Ordinance or deemed to be outstanding hereunder if moneys or certain specified securities sufficient for the payment of this Bond shall have been set aside in a special account and held in trust solely for the payment thereof.

Under the Bond Ordinance, the City is obligated to set aside and pay into the Bond Fund out of the Revenues of said System, certain fixed amounts sufficient to pay the principal of and interest and premium, if any, on all Bonds and any bonds at any time outstanding issued on a parity therewith payable from such Fund as the same become due and payable, all as is more fully provided in the Bond Ordinance. The Bonds and any bonds issued on a parity therewith payable from the Bond Fund and the interest thereon constitute the only charge against the Bond Fund and the Revenues or other monies so pledged to said Bond Fund.

In and by the Bond Ordinance, the City covenants to establish, maintain and collect rates or charges for services, facilities and commodities sold, furnished or supplied by the System of the City which shall be fair and nondiscriminatory and adequate to provide Revenues sufficient for the fixed amounts which the City is obligated to set aside in the Bond Fund to pay the principal of and interest and premium, if any, on this Bond and the series of Bonds of which this Bond is a part, and any other bonds payable from said Fund on a parity with the Bonds and for the proper operation and maintenance of the System, and all necessary repairs thereto and replacements and renewals thereof.

The Bonds maturing _____, and thereafter are subject to redemption prior to maturity, at the option of the City, on or after _____, in whole or in part on any interest payment date, upon written notice as provided hereinafter, at the redemption prices with respect to each Bond (expressed as a percentage of the principal amount of the Bond to be redeemed) set forth below, together with the interest accrued thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
-------------------------	-------------------------

If less than all of the Bonds subject to optional redemption are to be called for redemption, the City shall choose the maturities to be redeemed. In the event that less than all of the Bonds of any maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot by the Registrar.

The Bonds maturing on _____ (hereinafter referred to as the "Term Bonds") shall be redeemed prior to maturity by lot, not later than _____ in the years _____ through _____, inclusive, from amounts credited to the Bond Retirement Account in the Bond Fund as sinking fund installments therefor (to the extent such amounts have not been used to redeem or purchase such Bonds as provided below) and in the principal amounts as set forth below, upon written notice as provided hereinafter by payment of the principal amount thereof, together with the interest accrued thereon to the date fixed for redemption.

<u>Year</u>	<u>Amount</u>
-------------	---------------

The City may redeem the Term Bonds through the application of part or all of the respective sinking fund installments therefor on any such January 1. Any moneys not so used to redeem such Term Bonds shall be applied to the redemption of such bonds on such _____. If, as of any such _____, the principal amount of Term Bonds retired by purchase or redemption exceeds the cumulative requirement for sinking fund installments through such date, such excess may be credited against the sinking fund installment for the next fiscal year.

Written notice of redemption shall be given by first class mail, postage prepaid, at least thirty-five (35) days before the redemption date to the registered owners of the Bonds to be redeemed in whole or in part at their last addresses, if any, appearing on the Bond Register, but failure to mail or to receive any such notice shall not affect the validity of the proceedings for redemption of Bonds. Notice of redemption having been given by mailing, as aforesaid, the Bonds so called for redemption shall on the date specified in such notice become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption (unless the City shall default in the payment of the Bonds so called for redemption) interest on said Bonds so called for redemption shall cease to accrue.

Portions of the principal sum of this Bond in installments of \$5,000 or any integral multiple thereof may be redeemed, and if less than all of the principal sum hereof is to be redeemed, in such case upon the surrender of this Bond at the principal office of the Registrar, there shall be issued to the registered owner, without charge therefor, for the then unredeemed balance of the principal sum hereof, fully registered Bonds of like series, maturity and interest rate in any of the denominations authorized by the Bond Ordinance.

This Bond shall be transferable by the registered owner at the principal offices of the Registrar upon surrender and cancellation of this Bond, and thereupon a new registered Bond of the same principal amount and interest rate and maturity will be issued to the transferee as provided in the Bond Ordinance. The City, the Registrar and any other person may treat the person in

whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment hereof and for all purposes and shall not be affected by any notice to the contrary, whether this Bond be overdue or not.

ASSIGNMENT

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

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

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

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

DATED: _____, 19__.

SIGNATURE GUARANTEED:

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

ARTICLE XIII
MISCELLANEOUS, DEFEASANCE

SECTION 13.1. Ordinance and Laws a Contract With Bondowners.

This Ordinance is adopted under the authority of and in full compliance with the Constitution and laws of the State of Alaska, as amended and supplemented. In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of this Ordinance and of any Supplemental Ordinance authorizing the issuance of Additional Bonds, and of said laws shall constitute a contract with the owner or owners of each Bond and the obligations of the City and its Council under said acts and under this Ordinance shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the owners of any and all of said Bonds all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of said Bonds over any others thereof except as expressly provided herein.

SECTION 13.2. Bonds Deemed No Longer to be Outstanding Hereunder.

In the event that the City, in order to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, held in trust by the City, advance refunding bond proceeds or other money lawfully available or direct obligations of or obligations the principal of and the interest on which are unconditionally guaranteed by the United States Government ("Government Obligations"), or any combination of such proceeds, money and/or Government Obligations, in amounts which, together with known earned income from the investment thereof are sufficient to redeem, retire or pay such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such proceeds, money and/or Government Obligation are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond, and the owner of such Bond shall cease to be entitled to any lien, benefit or security of this Ordinance except the right to receive payment of principal, premium, if any, and interest from such special account, and such Bonds shall be deemed not to be outstanding hereunder.

SECTION 13.3. Sale of the 1987 Bonds.

The proper officials of the City are hereby authorized and directed to do all things necessary for the prompt execution and delivery of the 1987 Bonds and for the proper use and application of the proceeds of the sale thereof.

SECTION 13.4. Moneys Held by Paying Agents One Year After Due Date.

Moneys or Permitted Investments held by the Paying Agents in trust for the payment and discharge of any of the Bonds which remain unclaimed for one (1) year after the date when such Bonds shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by such Paying Agents at such date or for one year after the date of deposit of such moneys if deposited with the Paying

Agents after the said date when such Bonds become due and payable, shall at the written request of the City be repaid by the Paying Agents to the City as the City's property and free from the trust created by this Ordinance, and the Paying Agents shall thereupon be released and discharged with respect thereto, and the owners of the Bonds payable from such moneys shall look only to the City for the payment of such Bonds.

SECTION 13.5. Benefits of Ordinance Limited to City, Bondowners, and Paying Agents.

Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the City, the Paying Agents and the owners from time to time of the Bonds any rights, remedies or claims under or by reason of this Ordinance or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in this Ordinance contained by or on behalf of the City shall be for the sole and exclusive benefit of the City, the Paying Agents and the owners from time to time of the Bonds.

SECTION 13.6. Term "City" Includes Successors.

Whenever in this Ordinance the City is named or referred to, it shall be deemed to include its successors and assigns, including any successor by merger or consolidation, and all the covenants and agreements in this Ordinance contained by or on behalf of the City shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

SECTION 13.7. Severability.

If any one or more of the covenants or agreements provided in this Ordinance on the part of the City to be performed 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, and shall in no way affect the validity of the other provisions of this Ordinance or of the Bonds issued hereunder.

SECTION 13.8. General Authorization.

The Manager of the City, the Finance Director, the City Clerk and each of the other appropriate officers 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 in order to carry out the terms and provisions of, and complete the transactions contemplated by, this Ordinance.

SECTION 13.9. Prior Acts.

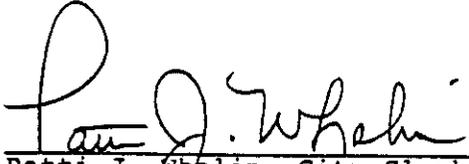
All acts taken pursuant to the authority of this Ordinance but prior to its effective date are hereby ratified and confirmed.

SECTION 13.10. Effective Date of Ordinance.

This Ordinance shall be in effect immediately upon its passage and publication as required by law.

PASSED by the City Council of the City of Homer, Alaska, at
a regular meeting thereof this 10 day of August, 1987.

CITY OF HOMER



Patti J. Whalin, City Clerk



John P. Calhoun, Mayor